HOULIHAN LOKEY, INC.
Form 10-K
May 25, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to ______________
Commission File Number: 001-37537

Houlihan Lokey, Inc.
(Exact name of registrant as specified in its charter)

Delaware	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	Name of each exchange on which registered
Class A Common Stock, par value $.001	New York Stock Exchange

Securities Registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

As of September 30, 2017, the aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately $874 million.

As of May 21, 2018, the registrant had 31,171,497 shares of Class A common stock, $0.001 par value per share, and 35,709,520 shares of Class B common stock, $0.001 par value per share, outstanding.

HOULIHAN LOKEY, INC.
TABLE OF CONTENTS

	PART I.	Page
Item 1.	Business	1
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	26
Item 2.	Properties	26
Item 3.	Legal Proceedings	26
Item 4.	Mine Safety Disclosures	26
	PART II.	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	27
Item 6.	Selected Financial Data	29
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	44
Item 8.	Financial Statements and Supplementary Data	45
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	82
Item 9A.	Controls and Procedures	82
Item 9B.	Other Information	82
	PART III.	
Item 10.	Directors, Executive Officers and Corporate Governance	82
Item 11.	Executive Compensation	83
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	83
Item 13.	Certain Relationships and Related Transactions, and Director Independence	83

Item 14.	Principal Accounting Fees and Services	83
	PART IV.	
Item 15.	Exhibits, Financial Statement Schedules	83
SIGNATURES		84

Table of Contents

PART I

Unless the context otherwise requires, as used in this Annual Report on Form 10-K ("Form 10-K"), the terms the "Company," "Houlihan Lokey, Inc.," "Houlihan Lokey," "HL," "we," "us" and "our" refer to (i) prior to the corporate reorgani described under "Organizational Structure," Houlihan Lokey, Inc., a California corporation ("HL CA"), and (ii) following such corporate reorganization, Houlihan Lokey, Inc., a Delaware corporation ("HL DE"), and, in each case, unless otherwise stated, all of its subsidiaries. We use the term "ORIX USA" to refer to ORIX USA Corporation, a Delaware corporation and a wholly owned subsidiary of ORIX Corporation, a Japanese corporation. References to ORIX USA as a holder of our shares mean ORIX USA acting through its indirect wholly owned subsidiary, ORIX HLHZ Holding LLC, a Delaware limited liability company. We use the term "HL Holders" to refer to our employees and members of our management who hold our Class B common stock through the Houlihan Lokey Voting Trust (the "HL Voting Trust"). We use the term "Fram" to refer to Fram Holdings, Inc., a Delaware corporation and formerly our indirect parent. References to the "IPO" mean our initial public offering in August 2015 of 12,075,000 shares of Houlihan Lokey, Inc. Class A common stock in connection with which HL CA reorganized its business. Our fiscal year ends on March 31st; references to fiscal 2018, fiscal 2017 and fiscal 2016 are to the fiscal years ended March 31, 2018, 2017 and 2016, respectively; references in this Form 10-K to years are to calendar years unless otherwise noted.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements. All statements other than statements of historical facts contained in this Form 10-K may be forward-looking statements. Statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "might," "will," "should," "expects," "plans," "anticipates," "could," "targets," "projects," "contemplates," "believes," "estimates," "int "potential" or "continue," or the negative of these terms or other similar expressions.

Forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We believe that these factors include, but are not limited to, the following:

- our ability to retain our Managing Directors and our other senior professionals;
- our ability to successfully identify, recruit and develop talent;
- changing market conditions;
- reputational risk;
- our highly volatile revenue and profits on a quarterly basis;
- risks associated with our acquisitions, joint ventures and strategic investments;
- strong competition from other financial advisory and investment banking firms;
- potential impairment of goodwill and other intangible assets, which represent a significant portion of our assets;
- our ability to execute on our growth initiatives, business strategies or operating plans;
- risks associated with the recent U.S. tax law changes;
- risks associated with our international operations;
- our management's limited experience managing a public company;
- fluctuations in foreign currency exchange rates;
- costs of compliance associated with international broker-dealer, employment, labor, benefits and tax regulations;
- our potential to offer new products within our existing lines of business or enter into new lines of business, which may result in additional risks and uncertainties in our business;
- operational risks;
- extensive and evolving regulation of our business and the business of our clients;
- substantial litigation risks;

•cybersecurity and other security risks;
•continuing contingent tax liabilities;
•our dependence on fee-paying clients;
•our clients' ability to pay us for our services;
•our ability to generate sufficient cash in the future to service our indebtedness; and
•other factors beyond our control.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. For information about other important factors that could adversely affect our future results, see “Risk Factors” in this Form 10-K.

These forward-looking statements speak only as of the date of this filing. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Form 10-K after we file this Form 10-K, whether as a result of any new information, future events or otherwise.

Item 1. Business

Established in 1972, Houlihan Lokey, Inc., is a leading global independent investment bank with expertise in mergers and acquisitions (M&A), financings, financial restructurings and financial advisory services. Through our offices in the United States, Europe, Asia, and Australia, we serve a diverse set of clients worldwide including corporations, financial sponsors and government agencies. We provide our financial professionals with an integrated platform that enables them to deliver meaningful and differentiated advice to our clients. We advise our clients on critical strategic and financial decisions, employing a rigorous analytical approach coupled with deep product and industry expertise. We market our services through our product areas, our industry groups and our Financial Sponsors group, serving our clients in three primary business practices: Corporate Finance (encompassing M&A and capital markets advisory), Financial Restructuring (both out-of-court and in formal bankruptcy or insolvency proceedings) and Financial Advisory Services (including financial opinions, and a variety of valuation and financial and strategic consulting services).

We are committed to a set of principles that serve as the backbone to our success. Independent advice and intellectual rigor, combined with consistent senior-level involvement, are hallmarks of our commitment to client service. Our entrepreneurial culture engenders our flexibility to collaborate across our business practices to provide world-class solutions for our clients. Our broad-based employee ownership serves to align the interests of employees and shareholders and further encourages a collaborative environment where our Corporate Finance, Financial Restructuring and Financial Advisory Services business practices work together productively and creatively to solve our clients’ most critical financial issues. We enter into businesses or offer services where we believe we can excel based on our expertise, analytical sophistication, industry focus and competitive dynamics. Finally, we remain independent and specialized, focusing on advisory products and market segments where our expertise is both differentiating and less subject to conflicts of interest arising from non-advisory services, and where we believe we can be a market leader in a particular segment. We do not lend or engage in any securities sales and trading operations or research which might conflict with our clients’ interests.

As of March 31, 2018, we had a team of 884 financial professionals across 21 offices globally and an additional office through our joint venture in Italy, serving more than 1,000 clients annually over the past several years, ranging from closely held companies to Fortune Global 500 corporations. Information on our segments is set forth in "Management’s Discussion and Analysis of Financial Condition and Results of Operations."

Our Advisory Services

We provide our financial professionals with an integrated platform that enables them to deliver meaningful and differentiated advice to our clients. We market our services through our three business practices described below, our industry groups and our Financial Sponsors group, who work collaboratively to deliver comprehensive solutions and seamless execution for our clients. This marketing effort is combined with an extensive network of referral relationships with law firms, consulting firms, accounting firms and other professional services firms that have been developed by our financial professionals who maintain those relationships as potential referral sources and direct clients across all of our business practices.

Corporate Finance

As of March 31, 2018, we had 92 Corporate Finance Managing Directors utilizing a collaborative, interdisciplinary approach in order to provide our clients with extensive industry and product expertise and global reach in a wide variety of M&A and financing transactions. We compete with boutique firms focused on particular industries or geographies as well as other international independent investment banks and bulge-bracket firms. A majority of our engagements represent mid-cap transactions, which we believe is an attractive segment that is underserved by bulge-bracket investment banks. We believe that our deep sector expertise, significant senior banker involvement and attention, strong financial sponsor relationships and global platform provide a compelling value for our clients, engendering long-term relationships and making it difficult for our peers to compete against us in this segment of the market.

We believe that through our industry groups we have a meaningful presence in every major industry segment, including: aerospace & defense; business services; consumer, food & retail; energy; financial institutions; healthcare; industrials; real estate, lodging & leisure; technology, media & telecommunications; transportation & logistics; and data & analytics. We continue to expand and deepen our specialized industry capabilities through a combination of internal promotion, external hires and acquisitions. While the majority of our engagements are in the United States, we continue to enhance our presence in other geographies, including Europe, Asia and Australia, and we believe there will be continued opportunities to grow in regions outside the United States.

Our Corporate Finance activities are comprised of two significant categories:
Mergers & Acquisitions: We have extensive expertise in mergers, acquisitions, divestitures, and other related advisory services for a broad range of United States and international clients. Our Corporate Finance professionals have relationships with thousands of companies and financial sponsors, providing us with valuable insights into a wide variety of relevant markets.
Our M&A business consists primarily of sell-side and buy-side engagements. In particular, we believe we have developed a reputation in the marketplace as one of the most prolific sell-side advisors, consistently selling more companies under $1 billion than any competitor. We offer our advice to a diverse set of parties, including public and private company executives, boards of directors, special committees and financial sponsors.

We believe our team of experienced and talented financial professionals is well positioned to provide advice across a wide range of M&A advisory services globally, including sell-side, buy-side, joint ventures, asset sales and divestitures that are less subject to conflicts of interest arising from non-advisory services. Our global industry group model with embedded M&A capabilities brings sector-specific knowledge, experience and relationships to our clients, allowing us to provide differentiated expert advice and connect buyers on a global basis.

Capital Markets Advisory: We provide global financing solutions and capital-raising advisory services for a broad range of corporate and private equity clients across most industry sectors, from large, publicly-held, multinational corporations to financial sponsors to privately-held companies founded and run by entrepreneurs.

Our Capital Markets Advisory professionals leverage a wide array of longstanding, senior-level lender and investor relationships, including with traditional and non-traditional direct capital providers (such as institutional credit funds, commercial finance companies, business development companies, insurance companies, pension funds, mutual funds, global asset managers, special situations investors and structured equity providers). As the traditional syndicated capital markets are becoming increasingly complex and more regulated, the private capital markets have developed to provide an alternative source of flexible capital that can be tailored to meet clients' needs.

We believe we excel in providing our clients with sophisticated and thoughtful advice and access to traditional and non-traditional capital providers in the private and public capital markets. Our objective is to create a capital structure that enables our clients to achieve their strategic priorities on the best terms available in the market, which often involves raising more than one type of capital.

Financial Restructuring
As of March 31, 2018, we had 42 Financial Restructuring Managing Directors working around the globe, which we believe constitutes one of the largest restructuring groups in the investment banking industry. Our Financial Restructuring group has earned a reputation for being the advisor of choice for many of the largest and most complex restructurings, offering knowledge, experience and creativity to address challenging situations. We operate in all major worldwide markets as debt issuances have increased around the world. Our Financial Restructuring professionals bring to bear deep expertise and experience in restructurings in the United States, Canada, Europe, Asia, Australia, the Middle East, Latin America and Africa. Given the depth and breadth of the team's expertise and the high barriers to entry for this expertise and experience, international and multi-jurisdictional restructurings represent an attractive opportunity for our Financial Restructuring group.

3

The group employs an interdisciplinary approach to engagements, calling upon the expertise of our industry groups, Capital Markets Advisory group and Financial Sponsors group, and drawing on the worldwide resources of the Financial Restructuring team as each situation may require. The Financial Restructuring group is deeply experienced in evaluating complex, highly leveraged situations. In addition to comprehensive financial restructurings, we work with distressed companies on engagements involving changes of control, asset sales and other M&A and capital markets activities, many times involving the sale of a company or its assets quickly, and in contested or litigious settings on expedited timeframes. We advise companies undergoing financial restructuring and creditor constituencies at all levels of the capital structure, in both out-of-court negotiations and in formal bankruptcy or insolvency proceedings. Our experience, geographic diversity and size allow us to provide the immediate attention and staffing required for time-sensitive and mission-critical restructuring assignments, making us a valued partner for our clients. Our dedicated team is active throughout business cycles. Our Financial Restructuring practice serves as a countercyclical hedge across macroeconomic cycles, with increasing levels of restructuring opportunities occurring during periods when demand for M&A and capital markets advisory services may be reduced. In robust macro-economic environments, demand for the services of our Financial Restructuring team generally continues due to opportunities arising from secular and cyclical disruptions in certain industries. Our geographic diversity and global market leadership allow us to maintain significant levels of activity even when the U.S. capital markets are vibrant. Our broad base of clients and our extensive experience allow us to understand the dynamics of each restructuring situation and strengthen our negotiating strategies by providing us insight into the needs, attitudes and positions of all parties-in-interest. Our clients include companies, bondholder groups, financial institutions, banks and other secured creditor groups, trade creditors, official Chapter 11 creditors' committees, equity holders, acquirers, equity sponsors and other parties-in-interest involved with financially challenged companies.

Our Financial Restructuring professionals work closely with our Corporate Finance and Financial Advisory Services professionals to provide holistic advice. In financial restructuring assignments, our team may represent the company, the creditors or other stakeholders.

Financial Advisory Services

As of March 31, 2018, we had 35 Managing Directors in this practice, and we believe we have one of the largest and most respected valuation and financial opinion practices in the United States. We believe we are a thought-leader in the field of valuation, and our professionals produce influential studies and publications, which are recognized and valued throughout the financial industry. We believe our extensive transaction expertise and leadership in these fields inspire confidence in the financial executives, boards of directors, special committees, retained counsel, investors and business owners that we serve. We believe that our reputation for delivering an outstanding analytical product that will withstand legal or regulatory scrutiny coupled with our independence makes us the advisor of choice for clients that seek to obtain a complex valuation or transaction opinion.

Our core competencies in our Financial Advisory Services practice are our ability to analyze and value companies, security interests, and different types of assets, including intellectual property and liabilities, as well as our ability to analyze the financial aspects of transactions. We are organized around different service areas as each area has different regulatory or compliance specializations, different valuation guidelines as well as different marketing channels.

Our People

Our goal is to attract, develop and retain the best talent in our industry across all levels. We believe our compensation programs are competitive, offering a portion of compensation in deferred cash and a portion in deferred stock awards to provide incentives for our employees to remain with us. In addition, we strive to foster a collaborative environment to attract and retain employees, and we seek individuals who fit our culture of entrepreneurship, integrity, creativity and commitment to our clients. For over 20 years, we have emphasized broad employee ownership as a way to align the incentives of our employees and shareholders. As of March 31, 2018, we had approximately 505 present and former employee shareholders that collectively owned approximately 39% of our equity with no single employee owning more than 3% of our equity. We believe that a strong emphasis on cultural fit during our recruiting process combined with broad employee ownership results in high retention rates.

Our Managing Directors (other than our executive officers) are compensated based on their ability to deliver profitable revenues on a consistent basis to the firm, the quality of advice and execution provided to our clients, and their collaboration with their colleagues across industries, products and regions. We do not compensate on a commission-based pay model. Our compensation structure for junior financial professionals is based on a system of meritocracy whereby bankers are rewarded for past performance and expectation of future development, and compensation levels are tested against prevailing market compensation for bankers at similar levels.

The primary sources of recruitment for our junior financial professionals are leading undergraduate and graduate programs around the world. Our consistent hiring practices year after year have created partnerships with these prestigious institutions and resulted in a steady and high-quality pipeline of junior financial professionals. To supplement this annual class of new hires, we opportunistically and strategically hire professionals with experience and backgrounds relevant to our various businesses. Regardless of title, we place a high degree of emphasis on cultural fit, technical capability and individual character. When we hire junior financial professionals, we hire them directly into one of our business practices to enable them to begin to develop their relevant skill set from day one. Across our firm, we devote significant time and resources to training and mentoring our employees to ensure every person achieves their highest possible potential. We strive to identify and cultivate future leaders within our firm and are committed to developing our brightest and most ambitious junior professionals into Managing Directors. This philosophy of investing in our people has been and will continue to be core to our culture and organization. As of March 31, 2018, 2017 and 2016, we employed 1,228, 1,171 and 1,171 people, respectively, worldwide.

Competition

Our competitors are other investment banking and financial advisory firms. We compete on both a global and a regional basis, and on the basis of a number of factors, including industry knowledge, transaction execution skills, strength of client relationships, reputation and price. We believe our primary competitors vary by product and industry expertise and would include the following: for our Corporate Finance practice, Jefferies LLC, Lazard Ltd, Evercore Partners, Moelis & Company, N M Rothschild & Sons Limited, Piper Jaffray Companies, Robert W. Baird & Co. Incorporated, William Blair & Company, L.L.C. and the bulge-bracket investment banking firms; for our Financial Restructuring practice, Lazard Ltd, PJT Partners, Moelis & Company and N M Rothschild & Sons Limited; and for our Financial Advisory Services practice, Duff & Phelps Corp., the “big four” accounting firms, and various consulting firms.

We compete with all of the above as well as with regional and industry-focused boutique firms to attract and retain qualified employees. Our ability to continue to compete effectively in our business will depend upon our ability to attract new employees and retain our existing employees. We may be at a competitive disadvantage in certain situations with regard to certain of our competitors who are able to, and regularly do, provide financing or market making services that are often instrumental in effecting transactions.

Regulation

United States

Our business, as well as the financial services industry generally, is subject to extensive regulation in the United States and across the globe. As a matter of public policy, regulatory bodies in the United States and the rest of the world are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets, not with protecting the interests of our stockholders or creditors. In the United States, the United States Securities and Exchange Commission (the "SEC") is the federal agency responsible for the administration of the federal securities laws. Houlihan Lokey Capital, Inc. (“Houlihan Lokey Capital”), our wholly owned subsidiary, through which we conduct our Corporate Finance, Financial Restructuring and transaction opinion businesses in the United States, is registered as a broker-dealer with the SEC. Houlihan Lokey Capital is subject to regulation and oversight by the SEC. In addition, the Financial Industry Regulatory Authority, Inc. ("FINRA"), a self-regulatory organization that is subject to oversight by the SEC, adopts and enforces rules governing the conduct, and examines the activities, of its broker-dealer member firms, including Houlihan Lokey Capital. State securities regulators also have regulatory or oversight authority over Houlihan Lokey Capital in those states in which it does business.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices, the financing of customers’ purchases, capital structure, record-keeping and the conduct and qualifications of directors, officers and employees. In particular, as a registered broker-dealer and member of a self-regulatory organization, we are subject to the SEC’s uniform net capital rule, Rule 15c3-1. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer’s assets be kept in relatively liquid form. The SEC and FINRA impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC’s uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

Houlihan Lokey Financial Advisors, Inc. (“HLFA”), our wholly owned subsidiary, provides valuation services and related financial analyses of various businesses and types of assets which are used by clients in connection with mergers and acquisitions, divestitures, recapitalizations, dispute analysis, and estate, gift and income tax support. In rendering such analyses, HLFA does not: (i) make recommendations or provide advice with respect to the merits of any security or transaction, the suitability of transacting in any security, or any investment decision with respect to any security, or (ii) manage or hold client accounts, securities or funds. In addition to valuation and financial consulting and analytic services, HLFA provides dispute resolution services and strategic consulting services.

The Financial Crimes Enforcement Network (“FinCEN’’), a part of the United States Department of the Treasury, is charged with protecting the financial system from illicit use, combating money laundering, and promoting national security through financial intelligence. As a final requirement of its Know Your Customer (“KYC”) rules related to Anti-Money Laundering (“AML”), FinCEN issued the customer due diligence rule (“CDD”) requiring certain financial institutions such as Houlihan Lokey Capital, to obtain and verify the identity of any individual person who directly or indirectly beneficially owns 25% or more of the equity interest in a legal entity client, and of a single individual who exercises control over the legal entity at the time of account opening or engagement. FinCEN also requires maintenance of appropriate books and records and maintenance of adequate internal controls to prevent and detect possible AML violations.

Certain parts of our business are subject to compliance with laws and regulations of United States federal and state governments, non-United States governments, their respective agencies and/or various self-regulatory organizations or exchanges relating to, among other things, the privacy of client information, and any failure to comply with these regulations could expose us to liability and/or reputational damage.

Europe

Our European advisory business is now conducted primarily through our subsidiary, Houlihan Lokey EMEA, LLP, a limited liability partnership organized under the laws of England and Wales, with its main office in the United Kingdom and branches in France, Germany and Spain.

Houlihan Lokey EMEA, LLP is authorized and regulated by the United Kingdom’s Financial Conduct Authority. The current UK regulatory regime is based upon the Financial Services and Markets Act 2000 (“FSMA”), together with secondary legislation and other rules made under FSMA. These rules govern our financial advisory business in the United Kingdom, including regulated activities, record keeping, approval standards for individuals, anti-money laundering and periodic reporting.

Houlihan Lokey EMEA, LLP has exercised the appropriate European financial services passport rights to provide cross-border services into all other members of the European Economic Area (the “EEA”) from the United Kingdom and to establish branches in France, Germany and Spain. These “passport” rights derive from the pan-European regime established by the EU Markets in Financial Instruments Directive, which regulates the provision of investment services and activities throughout the EEA.

On June 23, 2016, the United Kingdom voted to withdraw from the European Union (“Brexit”). The Article 50 European Union exit process was invoked by the UK government on March 29, 2017. This provides for a two year period at the end of which the United Kingdom is scheduled to leave the EU, and during which time period the parties can seek to negotiate the terms of separation. We are currently examining ways of reorganizing our European business in order to manage the effects of Brexit on such business. Brexit may impact our European business in ways that are unknown at this time and/or may result in costs that are indeterminate at this time.

Further to the acquisition of Quayle Munro Limited (now renamed "Houlihan Lokey (Corporate Finance) Limited"), its business is for the time being continuing to be run through such company. It is also authorized and regulated by the United Kingdom's Financial Conduct Authority and has exercised passport rights as referred to above to provide cross-border services into other EEA states where it provides services time to time. In addition to Houlihan Lokey (Corporate Finance) Limited, we provide corporate finance advisory services through other subsidiaries in Spain, Netherlands and Germany as well as holding a joint venture interest in an entity providing such services in Italy.

Hong Kong

In Hong Kong, the Securities and Futures Commission (the “SFC”) regulates our subsidiary, Houlihan Lokey (China) Limited. The compliance requirements of the SFC include, among other things, various codes of conduct and certain capital requirements. The SFC licenses the activities of the officers, directors, employees of Houlihan Lokey (China) Limited, and requires the registration of such individuals as licensed representatives.

Australia

In July 2017, the Company purchased the remaining interest of Houlihan Lokey (Australia) Pty Limited ("HL Australia") that we did not previous own, which was historically operated as our joint venture in Australia. HL Australia is licensed and subject to regulation by the Australian Securities & Investments Commission and must also comply with applicable provisions of the Corporations Act 2001 and other Australian legal and regulatory requirements, including capital adequacy rules, customer protection rules, and compliance with other applicable trading and investment banking regulations.

Singapore

On April 26, 2017, the Monetary Authority of Singapore (“MAS”) acknowledged receipt of the lodgment by our subsidiary, Houlihan Lokey (Singapore) Private Limited, on March 17, 2017 of the relevant form notifying MAS of its commencement of business as a person exempted from the requirement to hold a capital markets services license to carry on business in advising on corporate finance activities, with effect from March 6, 2017. As a result of such lodgment, Houlihan Lokey (Singapore) Private Limited is able to conduct business in Singapore as an “exempt corporate finance adviser,” subject to compliance with regulation governing such status as applicable from time to time in Singapore.

Dubai

Effective September 25, 2017, the Dubai Financial Services Authority ("DFSA") granted a license under Article 48 of the Regulatory Law 2004 to Houlihan Lokey (MEA Financial Advisory) Limited to carry on business on providing certain regulated financial services from its office in the Dubai International Financial Centre. Such entity is subject, inter alia, to DFSA administered law and regulation (most notably as provided in the DFSA Rulebook), and individuals within it carrying out "licensed functions" (essentially senior management roles) are required to be approved by DFSA to so act.

Other

The United States and non-United States government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct periodic examinations and initiate administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer or its directors, officers or employees.

The USA PATRIOT Act of 2001 and the Treasury Department’s implementing federal regulations require us, as a “financial institution,” to establish and maintain an anti-money-laundering program. In connection with its administration and enforcement of economic and trade sanctions based on United States foreign policy and national security goals, the Treasury Department’s Office of Foreign Assets Control (“OFAC”) publishes a list of individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries. It also lists individuals, groups and entities, such as terrorists and narcotics traffickers, designated under programs that are not country-specific. Collectively, such individuals and companies are called “Specially Designated Nationals” (“SDNs”). Assets of SDNs are blocked, and we are generally prohibited from dealing with them. In addition, OFAC administers a number of comprehensive sanctions and embargoes that target certain countries, governments and geographic regions. We are generally prohibited from engaging in transactions involving any country, region or government that is subject to such comprehensive sanctions.

The United States Foreign Corrupt Practices Act of 1977 (the “FCPA”), the UK 2010 Bribery Act and similar laws to which we may be subject prohibit the payment of bribes to foreign government officials and political figures. The FCPA has a broad reach, covering all United States companies and citizens doing business abroad, and defining a foreign official to include not only those holding public office but also local citizens acting in an official capacity for or on behalf of foreign government-run or -owned organizations or public international organizations. The FCPA also requires maintenance of appropriate books and records and maintenance of adequate internal controls to prevent and detect possible FCPA violations. Similarly, the UK 2010 Bribery Act prohibits us from bribing, being bribed or making other prohibited payments to government officials or other persons to obtain or retain business or gain some other business advantage.

Organizational Structure

Overview

Houlihan Lokey, Inc. is a holding company that operates our business through its subsidiaries, the primary subsidiaries being Houlihan Lokey Capital, HLFA and Houlihan Lokey EMEA LLP (whose business was recently transferred from Houlihan Lokey (Europe) Limited), each of which is described above under “Regulation.”

Follow-on Equity Offerings and Forward Equity Repurchase

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

On March 12, 2018, pursuant to a registered underwritten public offering, we issued and sold 2,000,000 shares of our Class A common stock and certain of our former and current employees and members of our management sold 2,000,000 shares of our Class A common stock, in each case, at a price to the public of $47.25 per share, and such transaction closed on March 15, 2018 (the "March Follow-on Offering").

In connection with, and prior to, the March 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 repurchase from ORIX USA on April 5, 2018 the number of shares of our Class B common stock equal to the number of shares of our Class A common stock sold by us in the March Follow-on Offering for a purchase price per share equal to the public offering price in the March Follow-on Offering, less underwriting discounts and commissions. The cash proceeds from the March 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, 14, and 17. 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 Follow-on Offering. In accordance with the terms of the January 2018 Forward Share Purchase Agreement, the purchase price per share was reduced by the per share amount of the dividend paid to ORIX USA on the shares of our Class B common stock subject to the January 2018 Forward Share Purchase Agreement prior to the settlement of such transaction. As the January 2018 Forward Share Purchase Agreement required physical settlement by purchase of a fixed number of shares in exchange for cash, the 2,000,000 shares that were purchased are excluded from our calculation of basic and diluted earnings per share in our financial statements for the years ended March 31, 2018 and 2017. In addition, as the agreement provides for the refund of any dividends paid during the period between the March Follow-on Offering and the settlement of the January 2018 Forward Share Purchase Agreement on the underlying Class A common stock, such shares are not classified as participating securities and we do not apply the two-class method for calculating earnings per share on our common stock.

The diagram below depicts our current organizational structure and the percentages are as of May 21, 2018:

HL Voting Trust Agreement

In connection with the corporate reorganization and the IPO, we entered into the Voting Trust Agreement (the "HL Voting Trust Agreement") dated as of August 18, 2015 with the HL Holders and the trustees of the HL Voting Trust. Pursuant to the HL Voting Trust Agreement, the trustees have the right to vote the shares of our common stock deposited by any HL Holder, together with any shares of Class B common stock acquired by such HL Holder, in their sole and absolute discretion on any matter, without fiduciary duties of any kind to the HL Holders. As of March 31, 2018, the HL Voting Trust controlled approximately 66.6% of the total voting power of the Company.

Lock-Up Agreements

In connection with the corporate reorganization and subsequent grants of Class B common stock, each HL Holder depositing shares of our common stock into the HL Voting Trust also entered into an individual lock-up agreement with the Company. Under these lock-up agreements, shares of our common stock deposited into the HL Voting Trust and beneficially owned by the HL Holders will generally be locked up for a period of three years following the effective date of the IPO, after which these shares will become transferable in three equal installments on each of the third, fourth and fifth anniversary of the IPO; provided that shares of our common stock held by managing directors and certain senior corporate officers of the Company whose employment with us or any of our subsidiaries terminates prior to the third anniversary of the IPO for reasons other than death or disability will be subject to transfer restrictions, and will be ineligible to participate in any follow-on offerings, in each case, through the seventh anniversary of the IPO. Notwithstanding the foregoing, the lock-up agreements provide that:

- up to 10% of each HL Holder's shares held through the HL Voting Trust may be transferred for the purpose of charitable gifts and transfers to various family trusts for estate planning purposes, with any shares transferred under this exception reducing the number of shares that become transferable on the next transferability date; and
- our board of directors may authorize sales in underwritten offerings in accordance with the terms of the registration rights agreement entered into between HL and the HL Holders; provided that any shares sold under this exception will reduce the number of shares that become transferable on the next transferability date.

Under the lock-up agreements, our board of directors may consent to exceptions to those transfer restrictions, subject to any limitations or conditions imposed by it.

Stockholders’ Agreement

In connection with the IPO, we entered into the Stockholders’ Agreement dated as of August 18, 2015 (the "Stockholders' Agreement") with ORIX USA and the trustees of the HL Voting Trust. Pursuant to the Stockholders’ Agreement, our board of directors will generally consist of eleven members, with ORIX USA and the trustees on behalf of the HL Voting Trust each having the right to recommend the nomination of four of the eleven board members. The number of board members that ORIX USA is entitled to recommend for nomination is subject to maintaining certain ownership thresholds. If ORIX USA loses its right to recommend for nomination any director nominees pursuant to the terms of the Stockholders’ Agreement, these positions will generally be filled by individuals recommended for nomination by the trustees of the HL Voting Trust. In addition, under the Stockholders’ Agreement, we have agreed with ORIX USA upon certain standards to be satisfied in order for shares of our common stock subject to individual lock-up agreements to participate in underwritten offerings.

Controlled Company

The HL Voting Trust and ORIX USA control a majority of the voting power of our outstanding common stock. As a result, we are a “controlled company” under the rules of the New York Stock Exchange. Under these rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a “controlled company” and may elect not to comply with certain corporate governance standards, including the requirements that (i) a majority of our board of directors consist of independent directors and (ii) that our board of directors have compensation and nominating and corporate governance committees composed entirely of independent directors, as independence is defined in Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and under the New York Stock Exchange listing standards. We utilize, and intend to continue to utilize, these exemptions. As a result, although we have a fully independent audit committee as required by the New York Stock Exchange, we do not expect that the majority of our directors will be independent for some time. See “Risk Factors—Risks Related to Our Class A Common Stock—We are a “controlled company” within the meaning of the New York Stock Exchange listing standards and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements. Holders of Class A common stock do not have the same protections afforded to stockholders of companies that are subject to such requirements.” In the event that we cease to be a “controlled company” and our shares continue to be listed on the New York Stock Exchange, we will be required to comply with these provisions by the expiration of the applicable transition periods.

Market and Industry Data

The industry, market and competitive position data referenced throughout this Form 10-K are based on research, industry and general publications, including surveys and studies conducted by third parties. Industry rankings are as reported by Thomson Reuters unless otherwise noted. Thomson Reuters industry rankings are sourced through direct deal submissions from financial institutions coupled with research performed by Thomson Reuters analysts. Industry publications, surveys and studies generally state that they have been obtained from sources believed to be reliable. We have not independently verified such third party information. While we are not aware of any misstatements regarding any industry, market or similar data presented herein, such data involve uncertainties and are subject to change based on various factors, including those discussed under the headings “Cautionary Note Regarding Forward-Looking Statements” and “Risk Factors” in this Form 10-K.

In this Form 10-K, we use the term “independent investment banks” or “independent advisors” when referring to ourselves and other investment banks or financial advisors that are primarily focused on advisory services and that conduct no or limited commercial banking, lending, or securities sales and trading activities, which we believe are well positioned to provide uncompromised advice that is less subject to conflicts of interest arising from non-advisory services. In this Form 10-K, we use the term “mid-cap” when referring to transactions with a value below $1 billion and “large-cap” when referring to transactions with a value equal to or in excess of $1 billion.

Other Information

Our website address is www.hl.com. We make available free of charge in the Investor Relations section of our website (http://investors.hl.com) this Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed or furnished with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act. We also make available through our website other reports filed with or furnished to the SEC under the Exchange Act, including our Proxy Statements and reports filed by officers and directors under Section 16(a) of that Act, as well as various governance documents. From time to time, we may use our website as a channel of distribution of material company information. Financial and other material information regarding the Company is routinely posted on and accessible at http://investors.hl.com. We do not intend for information contained in our website to be part of this Form 10-K. The inclusion of our website address in this Form 10-K does not include or incorporate by reference the information on our website into this Form 10-K or any other document into which this Form 10-K is incorporated by reference.

Any materials we file with the SEC may be inspected without charge at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, and copies of all or any part of this Form 10-K may be obtained from the SEC upon payment of the prescribed fee. Information on the operation of the public reference facilities may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the SEC. The address of the site is http://www.sec.gov.

Table of Contents

Item 1A. Risk Factors

Risks Related to Our Business

Our ability to retain our Managing Directors and our other senior professionals is critical to the success of our business.

We depend on the efforts and reputations of our senior management and financial professionals. Our Managing Directors' and other senior professionals' reputations and relationships with clients and potential clients are critical elements in the success of our business. Our future success depends to a substantial degree on our ability to retain qualified management and financial professionals within our organization, including our Managing Directors. However, we may not be successful in our efforts to retain the required personnel as the market for qualified investment bankers is extremely competitive. Our investment bankers possess substantial experience and expertise and have strong relationships with our advisory clients. As a result, the loss of these financial professionals could jeopardize our relationships with clients and result in the loss of client engagements. For example, if our Managing Directors or other senior professionals, including our executive officers, or groups of professionals, were to join or form a competing firm, some of our current clients could choose to use the services of that competitor rather than our services. Managing Directors and other senior professionals have left Houlihan Lokey in the past and others may do so in the future, and the departure of any of these senior professionals may have an adverse impact on our business. Our compensation arrangements and post-employment restriction agreements with our Managing Directors and other professionals may not provide sufficient incentives or protections to prevent these professionals from resigning to join our competitors. In addition, some of our competitors have more resources than we do, which may allow them to attract some of our existing employees by offering superior compensation and benefits or otherwise. The departure of a number of Managing Directors or groups of senior professionals could have a material adverse effect on our business, financial condition and results of operations.

Our future growth will depend on, among other things, our ability to successfully identify, recruit and develop talent and will require us to commit additional resources.

Our business involves the delivery of professional services and is largely dependent on the talents and efforts of highly skilled individuals. Our future growth will depend on, among other things, our ability to successfully identify and recruit individuals and teams to join our firm. It typically takes time for these financial professionals to become profitable and effective. During that time, we may incur significant expenses and expend significant time and resources toward training, integration and business development aimed at developing this new talent. If we are unable to recruit and develop profitable financial professionals, we will not be able to implement our growth strategy, which ultimately could materially adversely affect our financial results.

In addition, sustaining growth will require us to commit additional management, operational and financial resources and to maintain appropriate operational and financial systems to adequately support expansion, especially in instances where we open new offices that may require additional resources before they become profitable. We may not be able to recruit and develop talent and manage our expanding operations effectively, and any failure to do so could materially adversely affect our ability to grow revenue and control our expenses.

Changing market conditions can adversely affect our business in many ways, including by reducing the volume of the transactions involving our business, which could materially reduce our revenue.

As a financial services firm, we are materially affected by conditions in the global financial markets and economic conditions throughout the world. Unfavorable market or economic conditions may adversely affect our businesses; in particular, where revenue generated is directly related to the volume and size of the transactions in which we are involved. For example, weak market or economic conditions may adversely affect our Corporate Finance and Financial Advisory Services groups because, in an economic downturn, the volume and size of transactions may decrease, thereby reducing the demand for our M&A, capital raising and opinion advisory services and increasing price competition among financial services companies seeking such engagements. Moreover, in the period following an economic downturn, the volume and size of transactions typically takes time to recover and lags a recovery in market and economic conditions. On the other hand, strong market or economic conditions may adversely affect our Financial Restructuring group. In a strong economic environment, the volume and size of recapitalization and restructuring transactions may decrease, thereby reducing the demand for the services provided by our Financial

Restructuring business segment and increasing price competition among financial services companies seeking such engagements. Changes in market and economic conditions are expected to impact our businesses in different ways, and we may not be able to benefit from such changes. Further, our business, financial condition and results of operations could be adversely affected by changing market or economic conditions.

Our profitability may also be adversely affected by changes in market and economic conditions because we may not be able to reduce certain fixed costs within a time frame sufficient to match any decreases in revenue. The future market and economic climate may deteriorate because of many factors beyond our control, including rising interest rates or inflation, terrorism or political uncertainty.

Table of Contents

We are subject to reputational and legal risk arising from, among other things, actual or alleged employee misconduct, conflicts of interest, failure to meet client expectations or cybersecurity breaches or other operational failures.

As a professional services firm, our ability to secure new engagements is substantially dependent on our reputation and the individual reputations of our financial professionals. Any factor that diminishes our reputation or that of our financial professionals, including not meeting client expectations or actual or alleged misconduct by our financial professionals, including misuse of confidential information, could make it substantially more difficult for us to attract new engagements and clients.

In addition, we face the possibility of an actual, potential or perceived conflict of interest where we represent a client on a transaction in which an existing client is a party. We may be asked by two potential clients to act on their behalf on the same transaction, including by two clients as potential buyers in the same acquisition transaction In each of these situations, we face the risk that our current policies, controls and procedures may not timely identify or appropriately manage such conflicts of interest. Conflicts may also arise from investments or activities of employees outside their business activities on behalf of the Company. It is possible that actual, potential or perceived conflicts could give rise to client dissatisfaction, litigation or regulatory enforcement actions. Appropriately identifying and managing actual or perceived conflicts of interest is complex and difficult, and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation which could materially adversely affect our business in a number of ways, including a reluctance of some potential clients and counterparties to do business with us.

Further, because we provide our services primarily in connection with significant or complex transactions, disputes or other matters that usually involve confidential and sensitive information or are adversarial, and because our work is the product of myriad judgments of our financial professionals and other staff operating under significant time and other pressures, we may not always perform to the standards expected by our clients. In addition, we may face reputational damage from, among other things, litigation against us, our failure to protect confidential information and/or breaches of our cybersecurity protections or other inappropriate disclosure of confidential information, including inadvertent disclosures.

There is also a risk that our employees could engage in misconduct that could adversely affect our business. If our employees were to improperly use or disclose confidential information provided by our clients, we could be subject to regulatory sanctions and legal liability and suffer serious harm to our reputation, financial position, current client relationships and ability to attract future clients. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent misconduct may not be effective in all cases. In addition, our financial professionals and other employees are responsible for the security of the information in our systems or under our control and for ensuring that non-public information is kept confidential. Should any employee not follow appropriate security measures, the improper release or use of confidential information could result. If our employees engage in misconduct or fail to follow appropriate security measures, we could be subject to legal liability and reputational harm, which could impair our ability to attract and retain clients and in turn materially adversely affect our business.

A substantial portion of our revenue is derived from advisory engagements in our Corporate Finance and Financial Restructuring business segments, including engagements under which our fees include a significant component based upon goals, such as the completion of a transaction. As a result, our revenue and profits are highly volatile on a quarterly basis and may cause the price of our Class A common stock to fluctuate and decline.

Revenue and profits derived from our Corporate Finance and Financial Restructuring business segments can be highly volatile. We derive a substantial portion of our revenue from advisory fees, which are mainly generated at key transaction milestones, such as closing, the timing of which is outside of our control. From time to time, we enter into engagement agreements under which our fees include a significant component based upon goals, such as the completion of a transaction. In many cases, for advisory engagements that do not result in the successful consummation of a transaction, we are not paid a fee other than the reimbursement of certain out-of-pocket expenses and, in some cases, a modest retainer, despite having devoted considerable resources to these transactions. The achievement of these contractually-defined goals is often impacted by factors outside of our control, such as market conditions and the decisions and actions of our clients and interested third parties. For example, a client could delay or terminate an acquisition transaction because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or shareholder approvals, failure to secure necessary financing, adverse market conditions or because the target's business is experiencing unexpected financial problems. Anticipated bidders for client assets during a restructuring transaction may not materialize or our client may not be able to restructure its operations or indebtedness due to a failure to reach agreement with its principal creditors. Because these fees are contingent, revenue on such engagements, which is recognized when all revenue recognition criteria are met, is not certain and the timing of receipt is difficult to predict and may not occur evenly throughout the year.

We expect that we will continue to rely on advisory fees, including fees based upon goals, such as the completion of a transaction, for a substantial portion of our revenue for the foreseeable future. Accordingly, a decline in our advisory engagements or the market for advisory services would adversely affect our business. In addition, our financial results will likely fluctuate from quarter to quarter based on when fees are earned, and high levels of revenue in one quarter will not necessarily be predictive of continued high levels of revenue in future periods. Should these contingent fee arrangements represent a greater percentage of our business in the future, we may experience increased volatility in our working capital requirements and greater variations in our quarter-to-quarter results, which could affect the price of our Class A common stock. Because advisory revenue can be volatile and represents a significant portion of our total revenue, we may experience greater variations in our revenue and profits than other larger, more diversified competitors in the financial services industry. Fluctuations in our quarterly financial results could, in turn, lead to large adverse movements in the price of our Class A common stock or increased volatility in our stock price generally.

Our acquisitions, joint ventures and strategic investments may result in additional risks and uncertainties in our businesses.

In addition to recruiting and organic expansion, we have grown, and intend to continue to grow, our core businesses through acquisitions, joint ventures and strategic investments.

We regularly evaluate opportunities to acquire other businesses. Unless and until acquisitions of other businesses generate meaningful revenues, the purchase prices we pay to acquire such businesses could have a material adverse effect on our business, financial condition and results of operations. If we acquire a business, we may be unable to manage it profitably or successfully integrate its operations with our own. Moreover, we may be unable to realize the financial, operational, and other benefits we anticipate from acquisitions. Competition for future acquisition opportunities in our markets could increase the price we pay for businesses we acquire and could reduce the number of potential acquisition targets. Further, acquisitions may involve a number of special financial and business risks, including expenses related to any potential acquisition from which we may withdraw, diversion of our management's time, attention, and resources, decreased utilization during the integration process, loss of key acquired personnel, difficulties in integrating diverse corporate cultures, increased costs to improve or integrate personnel and financial, accounting, technology and other systems, including compliance with the Sarbanes-Oxley Act, dilutive issuances of equity securities, including convertible debt securities, the assumption of legal liabilities, amortization of acquired intangible assets, potential write-offs related to the impairment of goodwill and additional conflicts of interest. If we are unable to successfully manage these risks, we will not be able to implement our growth strategy, which ultimately could materially adversely affect our business, financial condition and results of operations.

In the case of joint ventures, we are subject to additional risks and uncertainties relating to governance and controls. For example, we may be dependent upon, and subject to, liability, losses or reputational damage relating to personnel, controls and systems that are not fully under our control. In addition, disagreements between us and our joint venture partners may negatively impact our business and profitability.

We face strong competition from other financial advisory firms, many of which have the ability to offer clients a wider range of products and services than those we offer, which could cause us to lose engagements to competitors and subject us to pricing pressures that could materially adversely affect our revenue and profitability.

The financial services industry is intensely competitive, highly fragmented and subject to rapid change, and we expect it to remain so. Our competitors are other investment banking and financial advisory firms. We compete on both a global and a regional basis, and on the basis of a number of factors, including depth of client relationships, industry knowledge, transaction execution skills, our range of products and services, innovation, reputation and price. In addition, in our business, there are usually no long-term contracted sources of revenue. Each revenue-generating engagement typically is separately solicited, awarded and negotiated. If we are unable to compete successfully with our existing competitors or with any new competitors, we will not be able to implement our growth strategy, which ultimately could materially adversely affect our business, financial condition and results of operations.

Our primary competitors include bulge-bracket institutions, many of which have far greater financial and other resources and greater name recognition than we do and have a greater range of products and services, more extensive marketing resources, larger customer bases, more managing directors to serve their clients' needs, as well as greater global reach and more established relationships with their customers than we have. These larger and better capitalized competitors may be better able to respond to changes in the investment banking market, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally, which puts us at a competitive disadvantage and could result in pricing pressures or loss of opportunities, which could materially adversely affect our revenue and profitability. In particular, we may be at a competitive disadvantage with regard to certain of our competitors who are able to, and often do, provide financing or market making services that are often a crucial component of the types of transactions on which we advise.

Table of Contents

In addition to our larger competitors, over the last few years, a number of independent investment banks that offer independent advisory services have emerged, with several showing rapid growth. As these independent firms or new entrants into the market seek to gain market share there could be pricing pressures, which would adversely affect our revenue and earnings. We have experienced intense competition over obtaining advisory engagements in recent years, and we may experience further pricing pressures in our business in the future as some of our competitors may seek to obtain increased market share by reducing fees. In particular, when making proposals for fixed-fee engagements, we estimate the costs and timing for completing the engagements. These estimates reflect our best judgment regarding the efficiencies of our methodologies and financial professionals as we plan to deploy them on engagements. Any increased or unexpected costs or unanticipated delays in connection with the performance of fixed-fee engagements, including delays caused by factors outside our control, could make these contracts less profitable or unprofitable, which would have an adverse effect on our profit margin.

Goodwill and other intangible assets represent a significant portion of our assets, and an impairment of these assets could have a material adverse effect on our financial condition and results of operations.

Goodwill and other intangible assets represent a significant portion of our assets, and totaled $723.3 million as of March 31, 2018. Goodwill is the excess of cost over the fair market value of net assets acquired in business combinations. We review goodwill and intangible assets at least annually for impairment. We may need to perform impairment tests more frequently if events occur or circumstances indicate that the carrying amount of these assets may not be recoverable. These events or circumstances could include a significant change in the business climate, attrition of key personnel, a prolonged decline in our stock price and market capitalization, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of one of our businesses and other factors. Although we determined that it is not more likely than not that the fair values of our goodwill and intangible assets were less than their carrying values during our fiscal 2018 and fiscal 2017, annual impairment reviews of indefinite-lived intangible assets or any future impairment of goodwill or other intangible assets would result in a non-cash charge against earnings, which would adversely affect our results of operations. The valuation of the reporting units requires judgment in estimating future cash flows, discount rates and other factors. In making these judgments, we evaluate the financial health of our reporting units, including such factors as market performance, changes in our client base and projected growth rates. Because these factors are ever changing, due to market and general business conditions, our goodwill and indefinite-lived intangible assets may be impaired in future periods.

We may be unable to execute on our growth initiatives, business strategies or operating plans.

We are executing on a number of growth initiatives, strategies and operating plans designed to enhance our business. For example, we intend to continue to expand our platform into new industry and product sectors, both organically and through acquisitions, and to expand our existing expertise into new geographies. The anticipated benefits from these efforts are based on several assumptions that may prove to be inaccurate. Moreover, we may not be able to complete successfully these growth initiatives, strategies and operating plans and realize all of the benefits, including growth targets and cost savings, we expect to achieve or it may be more costly to do so than we anticipate. A variety of factors could cause us not to realize some or all of the expected benefits. These factors include, among others: delays in the anticipated timing of activities related to such growth initiatives, strategies and operating plans; difficulty in competing in certain industries, product areas and geographies in which we have less experience than others; negative attention from any failed initiatives; and increased or unexpected costs in implementing these efforts.

Moreover, our continued implementation of these programs may disrupt our operations and performance. As a result, we may not realize the expected benefits from these plans. If, for any reason, the benefits we realize are less than our estimates or the implementation of these growth initiatives, strategies and operating plans adversely affect our operations or cost more or take longer to effectuate than we expect, or if our assumptions prove inaccurate, we will not be able to implement our growth strategy, which ultimately could materially adversely affect our business, financial condition and results of operations.

Recent U.S. tax legislation may materially adversely affect our financial condition, results of operations and cash flows.

Recently enacted U.S. tax legislation has significantly changed the U.S. federal income taxation of U.S. corporations, including by reducing the U.S. corporate income tax rate, limiting interest deductions, permitting immediate expensing of certain capital expenditures, adopting elements of a territorial tax system, imposing a one-time transition tax (or "repatriation tax") on all undistributed earnings and profits of certain U.S.-owned foreign corporations, revising the rules governing net operating losses and the rules governing foreign tax credits, and introducing new anti-base erosion provisions. Many of these changes are effective immediately, without any transition periods or grandfathering for existing transactions. ASC 740 requires all companies to reflect the effects of the new law in the financial statements for the period in which the law was enacted. Accordingly, we reduced the statutory rate that applies to our year-to-date earnings, remeasured our deferred tax assets and liabilities based on the new rate, and recorded a one-time deemed repatriation tax (a "toll charge") on our foreign earnings in our reporting period ended December 31, 2017. The impacts of the legislation, including both the adjustment to the deferred tax accounts and the toll charge, are our best estimates based on the information that is available at the time of these financial statements and may change as additional information becomes available. Adjustments to deferred tax expense could arise if the actual timing of future deferred tax reversals and originations differs from current estimates. As for the toll charge, the calculation involves a number of variables and assumptions, including state tax impacts, which will continue to be refined by us from the fourth quarter through the filing date of our federal and state tax returns. In addition, the legislation is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementing regulations by the Department of the Treasury and Internal Revenue Service ("IRS"), any of which could lessen or increase certain adverse impacts of the legislation. Furthermore, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities. If an adjustment is required, it will be reflected as a discrete expense or benefit in the quarter that it is identified, as allowed by SEC Staff Accounting Bulletin No. 118. We urge our investors to consult with their legal and tax advisors with respect to such legislation and the potential tax consequences of investing in our Class A common stock.

Our international operations are subject to certain risks, which may affect our revenue.

In fiscal 2018, we earned approximately 14% of our revenue from our international operations. We intend to grow our non-United States business, including growth into new regions with which we have less familiarity and experience, and this growth is important to our overall success. In addition, many of our larger clients are non-United States entities. Our international operations carry special financial and business risks, which could include the following:

- greater difficulties in managing and staffing foreign operations;
- fluctuations in foreign currency exchange rates that could adversely affect our results;
- unexpected changes in trading policies, regulatory requirements, tariffs and other barriers;
- cultural and language barriers and the need to adopt different business practices in different geographic areas;
- longer transaction cycles;
- higher operating costs;
- local labor conditions and regulations;
- adverse consequences or restrictions on the repatriation of earnings;
- potentially adverse tax consequences, such as trapped foreign losses;
- potentially less stable political and economic environments;
- terrorism, political hostilities, war and other civil disturbances or other catastrophic events that reduce business activity; and
- difficulty collecting fees.

As part of our day-to-day operations outside the United States, we are required to create compensation programs, employment policies, compliance policies and procedures and other administrative programs that comply with the laws of multiple countries. We also must communicate and monitor standards and directives across our global operations. Our failure to successfully manage and grow our geographically diverse operations could impair our ability to react quickly to changing business and market conditions and to enforce compliance with non-United States standards and procedures.

Any payment of distributions, loans or advances to and from our subsidiaries could be subject to restrictions on or taxation of, dividends or repatriation of earnings under applicable local law, monetary transfer restrictions, foreign currency exchange regulations in the jurisdictions in which our subsidiaries operate or other restrictions imposed by current or future agreements, including debt instruments, to which our non-United States subsidiaries may be a party. Our business, financial condition and/or results of operations could be adversely impacted, possibly materially, if we are unable to successfully manage these and other risks of international operations in a volatile environment. If our international business increases relative to our total business, these factors could have a more pronounced effect on our operating results or growth prospects.

Table of Contents

In recent years, the United States Department of Justice and the SEC have devoted greater resources to enforcement of the FCPA. In addition, the United Kingdom has significantly expanded the reach of its anti-bribery laws. While we have developed and implemented policies and procedures designed to ensure strict compliance by us and our personnel with the FCPA and other anti-corruption laws, such policies and procedures may not be effective in all instances to prevent violations. Any determination that we have violated the FCPA or other applicable anti-corruption laws could subject us to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects, financial condition, results of operations or the market value of our Class A common stock.

Prior to our IPO in August 2015, our management had not previously managed a public company.

Prior to our IPO in August 2015, our management team had historically operated our business as a privately-owned company, and the individuals constituting our management team had not previously managed a publicly traded company. Compliance with public company requirements places significant additional demands on our management and has required us to enhance our investor relations, legal, financial reporting, internal audit, compliance with the Sarbanes-Oxley Act and corporate communications functions. These additional efforts may strain our resources and divert management's attention from other business concerns, which could adversely affect our business and profitability.

Fluctuations in foreign currency exchange rates could adversely affect our results.

Because our financial statements are denominated in United States dollars and we receive a portion of our net revenue in other currencies, we are exposed to fluctuations in foreign currencies. In addition, we pay certain of our expenses in such currencies. Fluctuations in foreign currency exchange rates led to a net gain in cash of $0.8 million for fiscal 2018, compared to a net loss in cash of $4.0 million for fiscal 2017. In particular, we are exposed to the Euro and the pound sterling, and the weakening of the Euro and other currencies relative to the United States dollar has had, and may continue to have, an adverse effect on our revenue. From time to time, we have entered into transactions to hedge our exposure to certain foreign currency fluctuations through the use of derivative instruments or other methods. Notwithstanding our entry into such hedge transactions, a depreciation of any of the currencies to which we are exposed relative to the United States dollar could result in an adverse impact to our business, financial condition, results of operations and/or cash flows.

The cost of compliance with international broker-dealer, employment, labor, benefits and tax regulations may adversely affect our business and hamper our ability to expand internationally.

Because we operate our business both in the United States and internationally, we are subject to many distinct securities, employment, labor, benefits and tax laws in each country in which we operate, including regulations affecting our employment practices and our relations with our employees and service providers. If we are required to comply with new regulations or new interpretations of existing regulations, or if we are unable to comply with these regulations or interpretations, our business could be adversely affected or the cost of compliance may make it difficult to expand into new international markets. Additionally, our competitiveness in international markets may be adversely affected by regulations requiring, among other things, the awarding of contracts to local contractors, the employment of local citizens and/or the purchase of services from local businesses or favoring or requiring local ownership.

We may enter into new lines of business, which may result in additional risks and uncertainties in our business.

We currently generate substantially all of our revenue from advisory services. However, while we have no current plans to do so, we may grow our business by entering into new lines of business other than advisory services. To the extent we enter into new lines of business, we will face numerous risks and uncertainties, including risks associated with actual or perceived conflicts of interest because we would no longer be limited to the advisory business, the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, the required investment of capital and other resources and the loss of clients due to the perception that we are no longer focusing on a core business.

Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. In addition, certain aspects of our cost structure, such as costs for compensation, occupancy and equipment rentals, communication and information technology services, and depreciation and amortization will be largely fixed, and we may not be able to timely adjust these costs to match fluctuations in revenue related to our entering into new lines of business. If a new business generates insufficient revenue or if we are unable to efficiently manage our expanded operations, our business, financial condition and results of operations could be materially adversely affected.

Table of Contents

We are subject to risks relating to our operations, including our information and technology, that could harm our business.

We operate a business that is highly dependent on information systems and technology. Any failure to keep accurate books and records can render us liable to disciplinary action by governmental and self-regulatory authorities, as well as to claims by our clients. We rely on third-party service providers for certain aspects of our business. Although we have yet to suffer any significant losses or other damages as a result of operational risks, any interruption or deterioration in the performance of these third parties or failures of their information systems and technology could impair our operations, affect our reputation and adversely affect our business.

In addition, a disaster or other business continuity problem, such as a pandemic, other man-made or natural disaster or disruption involving electronic communications or other services used by us or third parties with whom we conduct business, could lead us to experience operational challenges. The incidence and severity of catastrophes and other disasters are inherently unpredictable, and our inability to timely and successfully recover could materially disrupt our business and cause material financial loss, regulatory actions, reputational harm or legal liability.

Extensive and evolving regulation of our business and the business of our clients exposes us to the potential for significant penalties and fines due to compliance failures, increases our costs and may result in limitations on the manner in which our business is conducted.

As a participant in the financial services industry, we are subject to extensive regulation in the United States and internationally. We are subject to regulation by governmental and self-regulatory organizations in the jurisdictions in which we operate. As a result of market volatility and disruption in recent years, the United States and other governments have taken unprecedented steps to try to stabilize the financial system, including providing assistance to financial institutions and taking certain regulatory actions. The full extent of the effects of these actions and of legislative and regulatory initiatives (including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”)) effected in connection with, and as a result of, such extraordinary disruption and volatility is uncertain, both as to the financial markets and participants in general, and as to us in particular.

Our ability to conduct business and our operating results, including compliance costs, may be adversely affected as a result of any new requirements imposed by the SEC, FINRA or other United States or foreign governmental regulatory authorities or self-regulatory organizations that regulate financial services firms or supervise financial markets. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. In addition, some of our clients or prospective clients may adopt policies that exceed regulatory requirements and impose additional restrictions affecting their dealings with us. Accordingly, we may incur significant costs to comply with United States and international regulations. Our expenses incurred in complying with these regulatory requirements, including legal fees and fees paid to the SEC, FINRA and United States or foreign governmental regulatory authorities or self-regulatory organizations, have increased in recent years. We maintain an internal team that works full-time to develop and implement regulatory compliance policies and procedures, monitor business activities to ensure compliance with such policies and procedures and reports to senior management. This team also uses various software tracking and reporting systems and confers regularly with internal and outside legal counsel in the performance of its responsibilities. In addition, new laws or regulations or changes in enforcement of existing laws or regulations applicable to our clients may adversely affect our business. For example, changes in antitrust enforcement could affect the level of M&A activity and changes in applicable regulations could restrict the activities of our clients and their need for the types of advisory services that we provide to them.

Our failure to comply with applicable laws or regulations could result in adverse publicity and reputational harm as well as fines, suspensions of personnel or other sanctions, including revocation of any required registration of us or any of our subsidiaries and could impair executive retention or recruitment. In addition, any changes in the regulatory framework under which we operate could impose additional expenses or capital requirements on us, result in limitations on the manner in which our business is conducted, have an adverse impact upon our business, financial condition and results of operations and require substantial attention by senior management. In addition, our business is subject to periodic examination by various regulatory authorities, and we cannot predict the outcome of any such examinations.

Table of Contents

New accounting standards could adversely affect future reported results.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. The Financial Accounting Standards Board (the "FASB") and the SEC have at times revised the financial accounting and reporting standards that govern the preparation of our financial statements. In addition, accounting standard setters and those who interpret the accounting standards may change or even reverse their previous interpretations or positions on how these standards should be applied. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements. For further discussion of some of our significant accounting policies and standards, see the "Critical Accounting Estimates" discussion within Item 7 in this report, and Note 2 of the Notes to Consolidated Financial Statements in this Form 10-K. The FASB has issued several new accounting standards, including on the topics of revenue recognition and leases. Specifically, ASU No. 2014-09, Revenue from Contracts with Customers will affect the timing of revenue recognition in that certain of our engagements which are currently recognized on an over time basis will be recognized on a point in time basis under the new standard which is effective April 1, 2018. In addition, certain reimbursable out-of-pocket expenses incurred by the Company are currently presented net against the related expenses in the accompanying consolidated statements of comprehensive income however under the new standard these will be reported on a gross basis resulting in an increase to both fee revenue and operating expenses.

We face substantial litigation risks.

Our role as advisor to our clients involves complex analysis and the exercise of professional judgment, including rendering fairness opinions in connection with mergers and other transactions. Our activities, and particularly those of our Financial Advisory Services group, may subject us to the risk of significant legal liabilities to our clients and affected third parties, including shareholders of our clients who could bring securities class actions against us. In recent years, the volume of claims and amount of damages claimed in litigation and regulatory proceedings against financial services companies have been increasing. Litigation alleging that we performed below our agreed standard of care or breached any other obligations to a client or other parties could expose us to significant legal liabilities, particularly with respect to our Financial Advisory Services group, and, regardless of outcome, is often very costly, could distract our management and could damage our reputation. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. Our engagements typically include broad indemnities from our clients and provisions to limit our exposure to legal claims relating to our services, but these provisions may not protect us in all cases, including when we perform below our agreed standard of care or a client does not have the financial capacity to pay under the indemnity. As a result, we may incur significant legal expenses in defending against or settling litigation. In addition, we may have to spend a significant amount to adequately insure against these potential claims, or insurance coverage may not be available on commercial terms or at all. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which could seriously harm our business prospects, financial condition and results of operations.

Cyber-attacks or other security breaches could have a material adverse effect on our business.

Our clients typically provide us with sensitive and confidential information. We are dependent on information technology networks and systems to securely process, transmit and store such information and to communicate among our locations around the world and with our professional staff, clients, alliance partners and vendors. We may be subject to attempted security breaches and cyber-attacks and, while none have had a material impact to date, a successful breach could lead to shutdowns or disruptions of our systems or third-party systems on which we rely and potential unauthorized disclosure of sensitive or confidential information. Breaches of our security systems or third-party network security systems on which we rely could involve attacks that are intended to obtain unauthorized access to our proprietary information, client and third party information, destroy data or disable, degrade or sabotage our systems, often through the introduction of computer viruses, cyber-attacks and other means and could originate from a wide variety of sources, including unknown third parties outside the Company. If our systems or third-party systems on which we rely are compromised, do not operate properly or are disabled, we could suffer a disruption of our business, financial losses, liability to clients, regulatory sanctions and damage to our reputation.

Table of Contents

We are subject to continuing contingent tax liabilities of ORIX USA.

As a result of the corporate reorganization prior to our IPO, certain tax liabilities of ORIX USA may have become our obligations. Under the Internal Revenue Code of 1986, as amended (the “Code”), and the related rules and regulations, each corporation that was a member of the ORIX USA consolidated United States federal income tax reporting group during any taxable period or portion of any taxable period ending on or before the completion of the corporate reorganization is jointly and severally liable for the United States federal income tax liability of the entire ORIX USA consolidated tax reporting group for that taxable period. As part of the Corporate Reorganization, we agreed with ORIX USA to allocate the responsibility for prior period taxes of the ORIX USA consolidated tax reporting group between us and ORIX USA. Thus, in the event that ORIX USA were to be assessed for taxes attributable to our business for any period, we would be required to compensate ORIX USA for such liability. In addition, if ORIX USA is unable to pay any prior period taxes for which it is responsible, we could be required to pay the entire amount of such taxes.

Our revenue in any given period is dependent on the number of fee-paying clients in such period and the size of transactions on which we are advising, and a significant reduction in the number of fee-paying clients in any given period could reduce our revenue and adversely affect our operating results in such period.

Our revenue in any given period is dependent on the number of fee-paying clients in such period and the size of transactions on which we are advising. We may lose clients as a result of the sale or merger of a client, a change in a client's senior management, competition from other financial advisors and financial institutions and other causes. A significant reduction in the number of fee-paying clients and/or the size of transactions on which we are advising in any given period could reduce our revenue and adversely affect our operating results in such period.

Our clients may be unable to pay us for our services.

We face the risk that certain clients may not have the financial resources to pay our agreed-upon advisory fees, including in the bankruptcy or insolvency context. Our clients include some companies that may from time to time encounter financial difficulties. If a client's financial difficulties become severe, the client may be unwilling or unable to pay our invoices in the ordinary course of business, which could adversely affect collections of both our accounts receivable and unbilled services. On occasion, some of our clients have entered bankruptcy, which has prevented us from collecting amounts owed to us. The bankruptcy of a number of our clients that, in the aggregate, owe us substantial accounts receivable could have a material adverse effect on our business, financial condition and results of operations. In addition, if a number of clients declare bankruptcy after paying us certain invoices, courts may determine that we are not properly entitled to those payments and may require repayment of some or all of the amounts we received, which could adversely affect our business, financial condition and results of operations. In addition, some fees earned from certain activities in our Financial Restructuring business segment are subject to approval by the United States Bankruptcy Courts and other interested parties, including United States Trustees, which have the ability to challenge the payment of those fees. Fees earned and reflected in our revenue may from time to time be subject to successful challenges, which could result in a reduction of revenue. Finally, certain clients may also be unwilling to pay our advisory fees in whole or in part, in which case we may have to incur significant costs to bring legal action to enforce our engagement agreements to obtain our advisory fees. We accrued bad debt expense of $2.0 million in fiscal 2018 and $4.0 million in fiscal 2017, related to uncollectible or doubtful accounts receivable.

Table of Contents

We may not be able to generate sufficient cash in the future to service any future indebtedness.

Our ability to make scheduled payments on or to refinance our debt obligations will depend on our business, financial condition and results of operations. We cannot provide assurance that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal of, and interest on, our indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance such indebtedness.

Risks Related to Our Class A Common Stock

The dual class structure of our common stock and the ownership of our Class B common stock by ORIX USA and the HL Holders through the HL Voting Trust have the effect of concentrating voting control with ORIX USA and the HL Voting Trust for the foreseeable future, which limits the ability of our Class A common stockholders to influence corporate matters. We are controlled by ORIX USA and the HL Voting Trust, whose interests may differ from those of our Class A common stockholders.

Each share of our Class B common stock is entitled to ten votes per share, and each share of our Class A common stock is entitled to one vote per share. Given the greater number of votes per share attributed to our Class B common stock, as of March 31, 2018 and after giving effect to the January 2018 Forward Share Purchase Agreement, ORIX USA and the HL Holders through the HL Voting Trust, which each hold shares of Class B common stock, collectively beneficially owned 35,187,932 shares of Class B common stock representing approximately 53.5% of the economic interest, and control 92.0% of the voting power of our outstanding capital stock. ORIX USA and the HL Voting Trust will, for the foreseeable future, have significant influence over our corporate management and affairs, and will be able to control virtually all matters requiring stockholder approval. ORIX USA and the HL Voting Trust are collectively able, subject to applicable law and voting arrangements between them, to elect a majority of the members of our board of directors and control actions to be taken by us and our board of directors, including amendments to our amended and restated certificate of incorporation and bylaws and approval of significant corporate transactions, including mergers and sales of substantially all of our assets. The directors so elected will have the authority, subject to the terms of our indebtedness and applicable rules and regulations, to issue additional stock, implement stock repurchase programs, declare dividends and make other decisions. This concentrated control will limit the ability of holders of our Class A common stock to influence corporate matters for the foreseeable future and may materially adversely affect the market price of our Class A common stock. It is possible that the interests of ORIX USA and the HL Voting Trust may in some circumstances conflict with our interests and the interests of our other stockholders. For example, ORIX USA and the HL Voting Trust may have different tax positions or other differing incentives from other stockholders that could influence their decisions regarding whether and when to cause us to dispose of assets, incur new or refinance existing indebtedness or take other actions. Additionally, the holders of our Class B common stock may cause us to make strategic decisions or pursue acquisitions that could involve risks to holders of our Class A common stock or may not be in the best interests of holders of our Class A common stock.

The holders of our Class B common stock will also be entitled to a separate vote in the event we seek to amend our amended and restated certificate of incorporation to increase or decrease the par value of a class of our common stock or in a manner that alters or changes the powers, preferences or special rights of the Class B common stock in a manner that affects its holders adversely. Future transfers by holders of Class B common stock will generally result in those shares converting on a one-for-one basis to Class A common stock, which will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long-term.

We are a “controlled company” within the meaning of the New York Stock Exchange listing standards and, as a result, qualify for, and rely on, exemptions from certain corporate governance requirements. Holders of Class A common stock do not have the same protections afforded to stockholders of companies that are subject to such requirements.

ORIX USA and the HL Voting Trust control a majority of the voting power of our outstanding common stock. As a result, we qualify as a “controlled company” within the meaning of the corporate governance standards of the New York Stock Exchange. Under these rules, a listed company of which more than 50% of the voting power is held by an individual, group or another company is a “controlled company” and may elect not to comply with certain corporate governance requirements, including the requirement that a majority of the board of directors consist of independent directors, the requirement that we have a nominating and corporate governance committee that is composed entirely of independent directors, and the requirement that we have a compensation committee that is composed entirely of independent directors.

We intend to continue to rely on some or all of these exemptions. As a result, we do not have a majority of independent directors and our compensation and nominating and corporate governance committees do not consist entirely of independent directors. Accordingly, our stockholders do not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange.

Table of Contents

While we currently pay a quarterly cash dividend to our stockholders, we may change our dividend policy at any time and we may not continue to declare cash dividends.

Although we currently pay a quarterly cash dividend to our stockholders, we have no obligation to do so, and our dividend policy may change at any time. Returns on stockholders' investments will primarily depend on the appreciation, if any, in the price of our Class A common stock. The amount and timing of dividends, if any, are subject to capital availability and periodic determinations by our board of directors that cash dividends are in the best interest of our stockholders and are in compliance with all applicable laws and any other contractual agreements limiting our ability to pay dividends. Under our current debt obligations (as described herein) we are restricted from paying cash dividends in certain circumstances, and we expect these restrictions to continue in the future. Our ability to pay dividends may also be restricted by the terms of any future credit agreement or any future debt or preferred equity securities of ours or of our subsidiaries. Future dividends, including their timing and amount, may be affected by, among other factors: general economic and business conditions; our financial condition and operating results; our available cash and current anticipated cash needs; capital requirements; contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders; and such other factors as our board of directors may deem relevant.

Our dividend payments may change from time to time, and we may not continue to declare dividends in any particular amounts or at all. The reduction in or elimination of our dividend payments could have a negative effect on our stock price.

If securities analysts do not publish research or reports about our business or if they publish negative evaluations of our Class A common stock, the price of our Class A common stock could decline.

The trading market for our Class A common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. If one or more of the analysts covering our business downgrade their evaluations of our stock, the price of our Class A common stock could decline. If one or more of these analysts cease to cover our Class A common stock, we could lose visibility in the market for our stock, which in turn could cause our Class A common stock price to decline.

The trading price of our Class A common stock may be volatile or may decline regardless of our operating performance, which could cause the value of our Class A common stock to decline.

The market price for our Class A common stock is volatile, in part because of the limited number of shares of Class A common stock outstanding, and the limited trading history of the Class A common stock. In addition, the market price of our Class A common stock may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

- our operating and financial performance and prospects;
- our quarterly or annual earnings or those of other companies in our industry;
- the public’s reaction to our press releases, our other public announcements and our filings with the SEC;
- quarterly variations in our operating results compared to market expectations;
- changes in, or failure to meet, earnings estimates or recommendations by research analysts who track our common shares or the stock of other companies in our industry;
- adverse publicity about us, the industries we participate in or individual scandals;
- announcements of new offerings by us or our competitors;
- stock price performance of our competitors;
- changes in the evaluations of our Class A common stock by research analysts
- fluctuations in stock market prices and volumes;
- default on our indebtedness;
- actions by competitors;
- changes in senior management or key personnel;
- changes in financial estimates by securities analysts;
- our status as a “controlled company”;
- negative earnings or other announcements by us or other financial services companies;
- downgrades in our credit ratings or the credit ratings of our competitors;

- incurrence of indebtedness or issuances of capital stock;
- global economic, legal and regulatory factors unrelated to our performance; and
- the other factors listed in this “Risk Factors” section.

In addition, stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies in our industry. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we could incur substantial costs and our resources and the attention of management could be diverted from our business.

Table of Contents

Our share price may decline due to the large number of shares eligible for future sale.

The market price of our Class A common stock could decline as a result of sales of a large number of shares of Class A common stock available for sale upon conversion of Class B common stock or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

All of our executive officers and the other HL Holders who have deposited their shares into the HL Voting Trust are subject to lock-up agreements that restrict their ability to transfer shares of our capital stock. These agreements restrict these holders' ability to transfer shares of our capital stock until August 2018, subject to acceleration in certain circumstances. After this period, shares of common stock held by HL Holders indirectly through the HL Voting Trust will become transferable in three equal installments in each of August 2018, 2019 and 2020. In addition, shares of our common stock held by managing directors and certain senior corporate officers of the Company whose employment with the Company or a subsidiary thereof terminates (other than due to a death or disability) before the third anniversary of the IPO will be subject to transfer restrictions for seven years following the IPO. As of March 31, 2018, 25,477,601 shares of our Class A common stock issuable upon conversion of outstanding Class B common stock are eligible for sale, subject to the restrictions under the lock-up agreements described above, and subject to certain restrictions under the Securities Act of 1933, as amended (the "Securities Act"). Stockholders who are subject to any of the lock-up agreements described above may be permitted to sell shares prior to the expiration of the applicable lock-up agreement in certain circumstances, including a secondary offering, or as a result of a waiver approved by the Board of Directors.

We have incurred and will continue to incur increased costs as a result of becoming a public company and in the administration of our organizational structure.

As a public company, we incur significant legal, accounting, insurance and other expenses that we did not previously incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will continue to incur costs associated with the Sarbanes-Oxley Act and related rules implemented by the SEC. We also incur ongoing periodic expenses in connection with the administration of our organizational structure. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing as a result of additional rules and regulations. We expect this to continue which will likely make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

The historical financial information in this Form 10-K for periods prior to the initial public offering of our Class A common stock presented herein do not reflect the added costs we incur as a public company, including costs related to public company reporting, investor relations and compliance with the Sarbanes-Oxley Act. As a result of these matters, among others, it may be difficult for investors to compare our current and future results to historical results or to evaluate our relative performance or trends in our business. For more information on our historical financial information, see "Selected Consolidated Financial and Other Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements included elsewhere in this Form 10-K.

Failure to establish and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

We are required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. Our independent registered public accounting firm is now required to formally attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404. Our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating.

Table of Contents

To comply with the requirements of being a public company, we have undertaken various actions, and may need to take additional actions, such as implementing new internal controls and procedures and hiring additional accounting or internal audit staff. Testing and maintaining internal controls can divert our management's attention from other matters that are important to the operation of our business. A material weakness is a deficiency, or combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Although we have not identified a material weakness in the past two fiscal years, in the future when evaluating our internal controls over financial reporting, we may identify material weaknesses that we may not be able to remediate in time to meet the applicable deadline imposed upon us for compliance with the requirements of Section 404. If we identify any material weaknesses in our internal controls over financial reporting or are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal controls over financial reporting is ineffective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting once, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Class A common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are be listed, the SEC or other regulatory authorities, which could require additional financial and management resources and could lead to a decline in our stock price.

Our anti-takeover provisions could prevent or delay a change in control of our Company, even if such change in control would be beneficial to our stockholders.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law could discourage, delay or prevent a merger, acquisition or other change in control of our company, even if such change in control would be beneficial to our stockholders. Certain provisions of our amended and restated certificate of incorporation and our amended and restated bylaws that could prevent or delay a change in control of our company include:

- the ability to issue “blank check” preferred stock, which could increase the number of outstanding shares and thwart a takeover attempt;
- a classified board of directors so that not all members of our board of directors are elected at one time;
- the ability to remove directors only for cause;
- no use of cumulative voting for the election of directors;
- no ability of stockholders to call special meetings;
- supermajority voting provisions for stockholder approval of amendments to our certificate of incorporation and by-laws;
- the requirement that, to the fullest extent permitted by law and unless we agree otherwise, certain proceedings against or involving us or our directors, officers or employees be brought exclusively in the Court of Chancery in the State of Delaware;
- the ability of stockholders to take action by written consent; and
- advance notice and duration of ownership requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors of their choosing and cause us to take other corporate actions they desire. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team.

In addition, the General Corporation Law of the State of Delaware (the “DGCL”), to which we are subject, prohibits us, except under specified circumstances, from engaging in any mergers, significant sales of stock or assets or business combinations with any stockholder or group of stockholders who owns at least 15% of our common stock.

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our Class A common stock, which could depress the price of our

Class A common stock.

Our amended and restated certificate of incorporation authorizes us to issue one or more series of preferred stock. Our board of directors has the authority to determine the preferences, limitations and relative rights of the shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our stockholders. Our preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discourage bids for our Class A common stock at a premium to the market price, and materially and adversely affect the market price and the voting and other rights of the holders of our Class A common stock.

Table of Contents

The provision of our amended and restated certificate of incorporation requiring exclusive venue in the Court of Chancery in the State of Delaware for certain types of lawsuits may have the effect of discouraging lawsuits against our directors, officers and stockholders.

Our amended and restated certificate of incorporation requires, to the fullest extent permitted by law, that (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or stockholders to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL or as to which the DGCL confers jurisdiction in the Court of Chancery of the State of Delaware or (iv) any action asserting a claim governed by the internal affairs doctrine will have to be brought only in the Court of Chancery in the State of Delaware, unless we agree otherwise. Although we believe this provision benefits us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors, officers and stockholders.

Table of Contents

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our headquarters is located in leased office space at 10250 Constellation Boulevard, Los Angeles, California 90067. We lease the space in the United States for our offices in Atlanta, Chicago, Dallas, Houston, Minneapolis, Miami, New York, San Francisco and Washington D.C.; and internationally in Amsterdam, Beijing, Dubai, Frankfurt, Hong Kong, London, Madrid, Paris, Singapore, Sydney and Tokyo.

We do not own any real property. We consider these arrangements to be adequate for our present and future needs.

Item 3. Legal Proceedings

In the ordinary course of business, from time to time the Company and its affiliates are involved in judicial or regulatory proceedings, arbitrations or mediations concerning matters arising in connection with the conduct of its businesses, including contractual and employment matters. In addition, government agencies and self-regulatory organizations conduct periodic examinations and initiate administrative proceedings regarding the Company's business, including, among other matters, compliance, accounting and operational matters, that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer or its directors, officers or employees. In view of the inherent difficulty of determining whether any loss in connection with such matters is probable and whether the amount of such loss can be reasonably estimated, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot estimate the amount of such loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that it is not currently party to any material pending proceedings, individually or in the aggregate, the resolution of which would have a material effect on the Company. Where appropriate, provisions for losses are established in accordance with Accounting Standards Codification (ASC) 450, "Contingencies" when warranted. Once established, such provisions are adjusted when there is more information available or when an event occurs requiring a change.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Class A common stock is traded on the New York Stock Exchange under the symbol "HLI." There is no publicly traded market for our 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. Our fiscal year ends on March 31 of each year. The following table sets forth, for the fiscal quarters indicated, the high and low sales prices per share of our Class A common stock, as reported in the consolidated transaction reporting system, and the quarterly dividends declared on each share of our Class A and Class B common stock.

	Sales Price		Dividends per share of common stock
	High	Low	
Fiscal Year Ended March 31, 2017			
Quarter ended 6/30/2016	$25.54	$21.53	$ 0.17
Quarter ended 9/30/2016	$25.99	$20.96	$ 0.17
Quarter ended 12/31/2016	$31.75	$23.19	$ 0.17
Quarter ended 3/31/2017	$34.95	$29.51	$ 0.20
Fiscal Year Ended March 31, 2018			
Quarter ended 6/30/2017	$36.65	$32.08	$ 0.20
Quarter ended 9/30/2017	$39.68	$34.41	$ 0.20
Quarter ended 12/31/2017	$46.99	$38.89	$ 0.20
Quarter ended 3/31/2018	$52.81	$43.22	$ 0.20

As of May 21, 2018, there were approximately five holders of record of our Class A common stock and two holders of record of our Class B common stock. This does not include the number of shareholders that hold shares in "street-name" through banks or broker-dealers or through the HL Voting Trust.

Dividend Payments and Dividend Policy

Prior to the consummation of the IPO, HL CA made a distribution to its direct holder that was ultimately distributed pro rata and paid to its then-existing owners in the amount of $270.0 million, consisting of (i) a short-term note in the aggregate amount of $197.2 million, which was repaid immediately after the consummation of the IPO, and was allocated $94.5 million to ORIX USA and $102.7 million to the HL Holders, (ii) a $45.0 million note issued to ORIX USA and (iii) certain of our non-operating assets (consisting of non-marketable minority equity interests in four separate businesses that ranged in carrying value from $2.5 million to $11.0 million as of June 30, 2015 and were valued in the aggregate at approximately $22.8 million as of June 30, 2015, together with $5.0 million in cash to be used to complete a potential additional investment and in the administration of these assets in the future), which were distributed to certain of the HL Holders.

The Company has regularly declared and paid quarterly dividends and plans to continue paying regularly quarterly dividends.

The declaration and payment of any future dividends will be at the sole discretion of our board of directors. Our board of directors will take into account: general economic and business conditions; our financial condition and operating results; our available cash and current anticipated cash needs; capital requirements; contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders; and such other factors as our board of directors may deem relevant.

Unregistered Sales of Equity Securities and Use of Proceeds

In August 2017, we issued an aggregate of 26,492 shares of Class B common stock at a price of $34.90 per share to certain former employees in connection with the acquisition of Bridge Strategy Group ("Bridge").

In December 2017, we issued an additional 41,974 shares of Class B common stock at a price of $41.76 per share to sellers in connection with the acquisition of McQueen Holdings Limited ("McQueen").

Table of Contents

In January 2018, we issued an aggregate of 24,666 shares of Class B common stock at a price of $23.14 per share to certain former employees in connection with the acquisition of Archpoint.

None of the foregoing issuances of unregistered equity securities involved any underwriters, underwriting discounts or commissions, or any public offering, and, to the extent any such issuances constituted sales of unregistered equity securities, we believe that such transactions were originally exempt from the registration requirements of the Securities Act in reliance on Rule 701 promulgated under the Securities Act as transactions pursuant to a compensatory benefit plan approved by our board of directors, or Section 4(a)(2) of the Securities Act and/or Rule 506(b) of Regulation D promulgated thereunder, as transactions by an issuer not involving a public offering, based in part on representations from the recipients regarding their investment intention, sophistication, net worth and access to information concerning us.

Stock Performance

The stock performance graph below compares the performance of an investment in our Class A common stock, from August 13, 2015 through March 29, 2018, with that of the S&P 500 Index and the S&P Financial Index. The graph assumes $100 was invested in each of our Class A common stock on August 13, 2015 (at the closing price on the first trading day following our initial public offering), the S&P 500 Index and the S&P Financial Index. It also assumes that dividends were reinvested on the date of payment without payment of any commissions. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

Table of Contents

Purchases of Equity Securities

The following table summarizes all of the repurchases of Houlihan Lokey, Inc. registered equity securities during the the fiscal year ended March 31, 2018:

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs	Maximum Number Of Shares That May Yet Be Purchased Under The Plans Or Programs
April 1, 2017 - April 30, 2017	71,913	(1)	$25.52	—	—
May 1, 2017 - May 31, 2017	—		—	—	—
June 1, 2017 - June 30, 2017	166,774	(2)	$34.26	166,774	—
July 1, 2017 - July 31, 2017	48,794	(2)	$35.31	48,794	—
August 1, 2017 - August 31, 2017	137,935	(2)	$35.70	137,935	—
September 1, 2017 - September 30, 2017	76,734	(2)	$36.10	76,734	—
October 1, 2017 - October 31, 2017	—		—	—	—
November 1, 2017 - November 30, 2017	—		—	—	—
December 1, 2017 - December 31, 2017	—		—	—	—
January 1, 2018 - January 31, 2018	—		—	—	—
February 1, 2018 - February 28, 2018	—		—	—	—
March 1, 2018 - March 31, 2018	68,504	(1)	$15.68	—	—
Total	570,654		$31.61	430,237	—

1. Represents shares of Class B common stock repurchased from former employees pursuant to contractual arrangements entered into in connection with a prior acquisition, or at a negotiated price.
2. On February 1, 2017, our board of directors approved a Class A common stock share repurchase program pursuant to which we may, from time to time, purchase shares of our Class A common stock having an aggregate purchase price of up to $50.0 million in open market or negotiated transactions of which $34.9 million remains unused as of March 31, 2018. The shares of Class A common stock repurchased through this program have been retired.

Item 6. Selected Financial Data

The following selected financial and other data should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the historical financial statements and related notes included elsewhere in this Form 10-K.

The selected historical financial data for the years ended March 31, 2018, 2017, and 2016 and as of March 31, 2018 and 2017 have been derived from our audited consolidated financial statements included in this Form 10-K.

Table of Contents

($ in thousands)	Year ended March 31, 2018	2017	2016
Consolidated Statements of Operations Data:			
Fee revenue	$963,364	$872,091	$693,765
Operating expenses:			
Employee compensation and benefits	636,631	582,244	461,609
Non-compensation expenses	112,287	107,852	105,756
Total operating expenses	748,918	690,096	567,365
Operating income	214,446	181,995	126,400
Other (income) expense, net	(3,390)	3,508	770
Income before provision for income taxes	217,836	178,487	125,630
Provision for income taxes	45,553	70,144	55,863
Net income	172,283	108,343	69,767
Net income attributable to noncontrolling interest	—	—	(26)
Net income attributable to Houlihan Lokey, Inc.	$172,283	$108,343	$69,741
Weighted average number of shares outstanding (1)			
Basic	62,494,275	61,100,497	59,044,981
Diluted	66,324,093	66,579,130	63,475,903
Net income attributable to Houlihan Lokey, Inc. per share (1)			
Basic	$2.76	$1.77	$1.18
Diluted	$2.60	$1.63	$1.10
Cash dividends per share (2)	$0.80	$0.71	$0.30
Consolidated Balance Sheets Data:			
Cash and cash equivalents	$206,723	$300,314	$166,169
Investment securities (3)	209,319	—	—
Total assets	1,418,841	1,385,707	1,070,884
Long-term obligations (4)	10,872	15,112	76,620
Total liabilities	566,028	655,252	417,329
Total stockholders' equity	852,813	726,617	651,160

(1) The number of shares and per share amounts for the periods presented have been retroactively restated to reflect the conversion of Fram shares to HLI shares at a ratio of 10.425 shares to each share of Fram stock. See accompanying notes to consolidated financial statements.

(2) In addition to the $0.30 per share paid to holders of HLI shares during the year ended March 31, 2016, prior to the consummation of the IPO, the Company distributed to the existing owners an aggregate dividend of $270.0 million, consisting of (i) a short term note in the aggregate amount of $197.2 million, which was repaid immediately after the consummation of the IPO, and was allocated $94.5 million to ORIX USA and $102.7 million to the HL Holders, (ii) a note to ORIX USA in the amount of $45.0 million (see footnote 7), and (iii) certain of our non-operating assets (consisting of non-marketable minority equity interests in four separate businesses that range in carrying value from $2.5 million to $11.0 million) to certain of the HL Holders.

(3) Investment securities consists of corporate debt, certificates of deposit, and U.S. treasury securities with maturities less than one year.

(4) For further detail, please see Contractual Obligations included in Item 7. Management's Discussion and Analysis.

30

Table of Contents

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read together with our historical financial statements and related notes included elsewhere in this Form 10-K. Actual results and the timing of events may differ significantly from those expressed or implied in any forward-looking statements due to a number of factors, including those set forth in the sections entitled “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements” and elsewhere in this Form 10-K.

Executive Overview

Established in 1972, Houlihan Lokey is a leading global independent investment bank with expertise in M&A, financings, financial restructurings and financial advisory services. Through our 21 offices in the United States, Europe, Middle East, and Asia and one office through our joint venture in Milan, we serve a diverse set of clients worldwide including corporations, financial sponsors, and government agencies. We advise our clients on critical strategic and financial decisions employing a rigorous analytical approach coupled with deep product and industry expertise.

We operate in three segments: Corporate Finance, Financial Restructuring and Financial Advisory Services. In our Corporate Finance business segment, we believe we are an established leader in M&A and capital markets advisory services. Through our Financial Restructuring business segment, we advise on some of the largest and most complex restructurings around the world. Our Financial Advisory Services business segment is one of the largest and most respected valuation and financial opinion, and financial and strategic consulting practices in the United States.

As of March 31, 2018, we served our clients globally with 884 financial professionals, including 169 Managing Directors. We plan to continue to grow our firm across industry sectors, geographies and products to deliver quality advice and innovative solutions to our clients, both organically and through acquisitions. Acquisitions include: Milestone Advisors in December 2012, which we combined with our existing financial institutions group to create a more robust platform; ArchPoint Partners LLC in March 2014, which significantly increased our expertise in the technology sector; Bridge in January 2015, which added strategic consulting to our current consulting capabilities for C-suite relationships; M.E.S.A. Securities, Inc. in June 2015, which increased our capabilities in the digital and traditional media sectors; McQueen in September 2015, which increased our capacity in the consumer, food and retail sectors, particularly in Europe; Leonardo & Co. NV in November 2015 in Germany, the Netherlands and Spain, and a minority interest in a joint venture with the management team of Leonardo's investment banking operations in Italy (collectively, "Leonardo"), which enables us to provide a much greater breadth of services and coverage to our clients both in continental Europe and across the globe; and Black Stone IP LLC in January 2017, which increased our capabilities in the intellectual property sector.

We generate revenues primarily from providing advisory services on transactions that are subject to individually negotiated engagement letters that set forth our fees. A significant portion of our engagements include Progress Fees (as defined herein) consisting of both periodic and milestone-related payments. The timing of milestone-related payments, such as upon the closing of a transaction, is generally not within our control. Accordingly, fee revenue and net income in any period may not be indicative of full year results or the results of any other period and may vary significantly from year to year and quarter to quarter.

Corporate expenses represent expenses that are not allocated to individual business segments such as office of the executives, accounting, information technology, compliance and legal, marketing, human capital management and human resources, including related compensation expense for corporate employees.

Business Environment and Outlook

Economic and global financial conditions can materially affect our operational and financial performance. See “Risk Factors” for a discussion of some of the factors that can affect our performance.

Our fiscal year ends on March 31 of each year. For the fiscal year ended March 31, 2018, we earned fee revenue of $963.4 million, an increase of 10% from the $872.1 million earned during the fiscal year ended March 31, 2017. For the fiscal year ended March 31, 2017, fee revenue reflects an increase of 26% over fiscal year ended March 31, 2016 fee revenue of $693.8 million. For the fiscal years ended March 31, 2018, 2017 and 2016, we earned fee revenue of $133.3 million, $111.6 million and $92.6 million, respectively, from our international operations.

Based on historical experience, we believe the current economic condition (high corporate cash balances and lower but increasing interest rates) provides a healthier environment for M&A and capital markets activities. In the United States, our dialog with clients who are evaluating strategic alternatives remains good and the availability of capital for the mid-cap space continues to be strong, which has the potential to fuel continued activity in M&A. In addition, in the current economic environment, companies and financial sponsors globally are pursuing M&A in order to drive greater efficiencies by reducing costs and increasing cash flows.

Table of Contents

At the same time, we continue to experience demand for our Financial Restructuring services due to opportunities arising as a result of dislocations in certain geographies and industries. In addition, we are positioned to identify attractive opportunities in geographies where restructuring markets are just beginning to evolve, driven by increased external investment and continued development of financial and legal sophistication, such as India, China, and other parts of Asia.

Key Financial Measures

Fee Revenue

Fee revenue reflects revenues from our Corporate Finance (“CF”) , Financial Restructuring (“FR”), and Financial Advisory Services (“FAS”) business segments that substantially consist of fees for advisory services.

Revenue for all three business segments is recognized when earned and realizable. 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”). Retainer Fees are generally recognized on a monthly basis, except in situations where there is uncertainty as to the timing of collection of the amount due. Progress Fees are recognized based on management’s estimates of the relative proportion of services provided through the financial reporting date to the total services required to be performed. Completion Fees are recognized only upon substantial completion of the contingencies stipulated by the engagement agreement. In some cases, approval of our fees is required from the courts or other regulatory authority; in these circumstances, the recognition of revenue is often deferred until approval is granted. However, if the fee that is going to be collected from the client is fixed and determinable, and the collectability of the fee is reasonably assured, there are instances when revenue recognition prior to such approval is appropriate under GAAP. In instances when the revenue recognized on a specific engagement exceeds the amounts billed, unbilled work-in-process is recorded. Billed receivables are recorded as accounts receivable in the consolidated balance sheets. See “Critical Accounting Policies and Estimates” included in Part II, Item 7 of this Form 10-K for a more detailed discussion.

Corporate Finance provides general financial advisory services in addition to advice on mergers and acquisitions and capital markets offerings. We advise public and private institutions on a wide variety of situations, including buy-side and sell-side transactions, as well as leveraged loans, private mezzanine debt, high-yield debt, initial public offerings, follow-ons, convertibles, equity private placements, private equity, and liability management transactions, and advise financial sponsors on all types of transactions. The majority of our Corporate Finance revenues consists of Completion Fees. A Corporate Finance transaction can fail to be completed for many reasons that are outside of our control. In these instances, our fees are generally limited to Retainer Fees and in some cases Progress Fees that may have been earned.

Financial Restructuring 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 Financial Restructuring business segment offers a wide range of advisory services to our clients, including: the structuring, negotiation, and confirmation of plans of reorganization; structuring and analysis of exchange offers; corporate viability assessment; dispute resolution and expert testimony; and procuring debtor in possession financing. Although atypical, a Financial Restructuring transaction can fail to be completed for many reasons that are outside of our control. In these instances, our fees are generally limited to the initial Retainer Fees and/or Progress Fees.

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

Operating Expenses

Our operating expenses are classified as employee compensation and benefits expense and non-compensation expenses; headcount is the primary driver of our operating expenses. Expenses are recorded on the consolidated statements of comprehensive income, net of any expenses reimbursed by clients.

Table of Contents

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

In managing employee compensation and benefits expense, we focus on the following: (i) the ratio of our employee compensation and benefits to fee revenue (“Compensation Ratio”), (ii) the ratio of our employee compensation and benefits to fee revenue, excluding certain equity and cash grants vesting in connection with our IPO (“Adjusted Compensation Ratio”), (iii) the ratio of cash compensation and benefits plus deferred stock compensation with respect to the applicable year less any forfeitures of unvested deferred stock that occurred during the applicable year to fee revenue (“Awarded Compensation Ratio”) and, (iv) for periods commencing on October 1, 2015 through March 31, 2018, the Awarded Compensation Ratio, excluding certain equity and cash grants awarded in connection with our IPO (“Adjusted Awarded Compensation Ratio”). We believe adjusted awarded employee compensation and benefits reflects the actual compensation cost more accurately than the GAAP measure of compensation cost, which includes applicable-period cash compensation and the amortization of deferred incentive compensation principally attributable to prior periods’ deferred compensation. For periods commencing on October 1, 2015 through March 31, 2018, we targeted an Adjusted Awarded Compensation Ratio of approximately 65.0% to 66.0%. With the adoption of ASU No. 2014-09, Revenue from Contracts with Customers, post April 1, 2018, we target an Adjusted Compensation Ratio of approximately 60.5% to 61.5%. However, our Adjusted Compensation Ratio may increase or decrease to a level outside of this target range if we continue to achieve improved operating leverage, identify opportunities to grow fee revenue through significant expansion, position our business during challenging market conditions for future growth or for other reasons.

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

Other (Income) Expense, net

Other (Income) Expense, net includes (i) interest income earned on non-marketable securities, cash and cash equivalents, loans receivable from affiliates and employee loans, (ii) interest expense and/or gains or losses associated with our Revolving Credit Facility (defined herein), the loan payable to affiliate and loans payable to former shareholders, (iii) interest expense on the loan payable to non-affiliate, (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/losses associated with the reduction/increase of earnout liabilities.

33

Table of Contents

Results of Consolidated Operations

The following is a discussion of our results of operations for the years ended March 31, 2018, 2017 and 2016. For a more detailed discussion of the factors that affected the revenues and the operating expenses of our Corporate Finance, Financial Restructuring and Financial Advisory Services business segments in these periods, see "Business Segments" below.

	Year ended March 31,			Year-over-Year Change	
($ in thousands)	2018	2017	2016	'17-'18	'16-'17
Fee revenue	$963,364	$872,091	$693,765	10 %	26 %
Operating expenses:					
Employee compensation and benefits	636,631	582,244	461,609	9 %	26 %
Non-compensation expenses	112,287	107,852	105,756	4 %	2 %
Total operating expenses	748,918	690,096	567,365	9 %	22 %
Operating income	214,446	181,995	126,400	18 %	44 %
Other (income) expense, net	(3,390)	3,508	770	N/M	N/M
Income before provision for income taxes	217,836	178,487	125,630	22 %	42 %
Provision for income taxes	45,553	70,144	55,863	(35)%	26 %
Net income	172,283	108,343	69,767	59 %	55 %
Net income attributable to noncontrolling interest	—	—	(26)	N/M	(100)%
Net income attributable to Houlihan Lokey, Inc.	$172,283	$108,343	$69,741	59 %	55 %

N/M = Not Meaningful

Year ended March 31, 2018 versus March 31, 2017

Fee revenue was $963.4 million for the year ended March 31, 2018, compared with $872.1 million for the year ended March 31, 2017, representing an increase of 10%. For the year ended March 31, 2018, Corporate Finance revenues increased 22%, Financial Restructuring revenues decreased 4%, and Financial Advisory Services revenues increased 8%, compared with the year ended March 31, 2017.

Operating expenses were $748.9 million for the year ended March 31, 2018, compared with $690.1 million for the year ended March 31, 2017, an increase of 9%. Employee compensation and benefits expense, as a component of operating expenses, was $636.6 million for the year ended March 31, 2018, compared with $582.2 million for the year ended March 31, 2017, an increase of 9%. The increase in employee compensation and benefits expense was primarily due to the increase in revenues for the fiscal year. The Compensation Ratio was 66% for the year ended March 31, 2018 and 67% for the year ended March 31, 2017. Non-compensation expenses, as a component of operating expenses, were $112.3 million for the year ended March 31, 2018, compared with $107.9 million for the year ended March 31, 2017, an increase of 4%. The increase in non-compensation expenses was primarily a result of higher general operating expenses. Acquisition-related amortization of intangible assets are a component of non-compensation expenses and were $1.7 million for the year ended March 31, 2018, compared with $3.1 million for the year ended March 31, 2017.

Other (income) expense, net was $(3.4) million for the year ended March 31, 2018, compared with $3.5 million for the year ended March 31, 2017. The increase in other (income) expense, net was primarily a result of (i) gains from our joint venture investments for the year ended March 31, 2018 compared with losses from our joint ventures for the year ended March 31, 2017, (ii) gains from the reduction in earnout liabilities associated with our acquisitions, and (iii) higher interest income generated on higher cash balances.

The provision for income taxes for the year ended March 31, 2018 was $45.6 million, which reflected an effective tax rate of 20.9%. The provision for income taxes for the year ended March 31, 2017 was $70.1 million, which reflected an effective tax rate of 39.3%. The decrease in the effective tax rate was a result of (i) the Tax Cuts and Jobs Acts (the "Tax Act") that was enacted into law in December 2017 that resulted in a lower effective federal tax rate; the re-measurement of deferred tax assets and liabilities based on the new tax rate; a one-time deemed repatriation tax on foreign earnings, among other discrete items and (ii) the positive difference between the price of the stock at the time of vesting in October 2017 (accelerated from April/May 2018) and our stock price at the time of grant for the shares that vested.

Table of Contents

Year Ended March 31, 2017 versus March 31, 2016

Fee revenue was $872.1 million for the year ended March 31, 2017, compared with $693.8 million for the year ended March 31, 2016, representing an increase of 26%. For the year ended March 31, 2017, Corporate Finance revenues increased 17%, Financial Restructuring revenues increased 52%, and Financial Advisory Services revenues increased 9%, compared with the year ended March 31, 2016.

Operating expenses were $690.1 million for the year ended March 31, 2017, compared with $567.4 million for the year ended March 31, 2016, an increase of 22%. Employee compensation and benefits expense, as a component of operating expenses, was $582.2 million for the year ended March 31, 2017, compared with $461.6 million for the year ended March 31, 2016, an increase of 26%. The increase in employee compensation and benefits expense was primarily due to the increase in revenues for the fiscal year. The Compensation Ratio was 67% for both the year ended March 31, 2017 and the year ended March 31, 2016. Non-compensation expenses, as a component of operating expenses, were $107.9 million for the year ended March 31, 2017, compared with $105.8 million for the year ended March 31, 2016, an increase of 2%. The increase in non-compensation expenses was primarily a result of an increase in costs associated with being a public company for the full year that were only partially included in the year ended March 31, 2016, and an increase in variable operating expenses associated with our revenue growth, offset by transaction costs incurred in the year ended March 31, 2016 related to our IPO in August 2015. Acquisition expenses and acquisition-related amortization of intangible assets are a component of non-compensation expenses and were $3.7 million for the year ended March 31, 2017, compared with $5.5 million for the year ended March 31, 2016.

Other (income) expense, net was $3.5 million for the year ended March 31, 2017, compared with $0.8 million for the year ended March 31, 2016. The decrease in other (income) expense, net was primarily a result of lower interest income generated on lower cash balances, higher interest expense associated with our debt obligations, and losses incurred from investments in unconsolidated entities.

The provision for income taxes for the year ended March 31, 2017 was $70.1 million, which reflected an effective tax rate of 39.3%. The provision for income taxes for the year ended March 31, 2016 was $55.9 million, which reflected an effective tax rate of 44.5%. The decrease in the effective tax rate was due to a significant portion of the professional services fees associated with the IPO being non-tax deductible.

Table of Contents

Business Segments

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

($ in thousands)	Year ended March 31, 2018	Year-over-Year Change