

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

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

Form 10-K

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 (I.R.S. Employer
incorporation or organization) 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
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Class A Common Stock, par value \$.001	New York Stock Exchange
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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 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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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.

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 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

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.

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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 reorganization 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,” “intends,” “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.

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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.

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.

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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.

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Australia

In July 2017, the Company purchased the remaining interest of Houlihan Lokey (Australia) Pty Limited ("HL Australia") that we did not previously 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 F