HOULIHAN LOKEY, INC.
Form 10-Q
November 06, 2018

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

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from __________ to ______________

Commission File Number: 001-37537

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

Delaware	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)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

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

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

As of November 2, 2018, the registrant had 34,722,318 shares of Class A common stock, $0.001 par value per share, and 31,033,243 shares of Class B common stock, $0.001 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
HOULIHAN LOKEY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
($ in thousands, except share data and par value)

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

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

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

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

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

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

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

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

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended September 30, 2018 and 2017
($ in thousands)
(unaudited)

	HLI Class A common stock		HLI Class B common stock		Treasury Stock						
	Shares	$	Shares	$	Shares	$	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Stock subscription receivable	Total stockholders' equity
Balances – April 1, 2017	22,026,811	$22	50,883,299	$51	(6,900,000)	(193,572)	$854,750	$87,407	$(21,917)	$(124)	$726,6
Shares issued	—	—	1,244,097	1	—	—	187	—	—	—	188
Stock compensation vesting (note 14)	—	—	—	—	—	—	21,153	—	—	—	21,153
Dividends	—	—	—	—	—	—	—	(25,764)	—	—	(25,764
Stock subscriptions receivable redeemed	—	—	—	—	—	—	—	—	—	124	124
Retired shares upon settlement of forward purchase agreement	—	—	(6,900,000)	(7)	6,900,000	193,572	(193,565)	—	—	—	—
Conversion of Class B to Class A shares	3,064,907	3	(3,064,907)	(3)	—	—	—	—	—	—	—
Shares issued to non-employee directors (note 14)	5,589	—	—	—	—	—	—	—	—	—	—
Shares repurchase program (note 14)	(430,237)	—	—	—	—	—	(15,139)	—	—	—	(15,139
Other shares repurchased/forfeited	—	—	(178,481)	—	—	—	(1,835)	—	—	—	(1,835
Net income	—	—	—	—	—	—	—	72,601	—	—	72,601
Change in unrealized translation	—	—	—	—	—	—	—	—	7,753	—	7,753
Total comprehensive income	—	—	—	—	—	—	—	—	—	—	80,354
Balances - September 30, 2017	24,667,070	$25	41,984,008	$42	—	$—	$665,551	$134,244	$(14,164)	$—	$785,6

	HLI Class A common stock		HLI Class B common stock		Treasury Stock						
	Shares	$	Shares	$	Shares	$	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Stock subscription receivable	Total stockholders' equity
Balances – April 1, 2018	30,604,405	$31	37,187,932	$37	(2,000,000)	$(93,500)	$753,077	$207,124	$(13,956)	$—	$85
Cumulative effect of the change in accounting principle	—	—	—	—	—	—	—	(19,680)	—	—	(19,

related to revenue recognition from contracts with clients, net of tax											
Shares issued	—	—	1,158,001	1	—	—	6,991	—	—	—	6,99
Stock compensation vesting (note 14)	—	—	—	—	—	—	25,571	—	—	—	25,5
Class B shares sold	195,840	—	(195,840)	—	—	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	—	(34,923)	—	—	(34,
Secondary offering	3,000,000	3	(3,000,000)	(3)	—	—	—	—	—	—	—
Retired shares upon settlement of forward purchase agreement	—	—	(2,000,000)	(2)	2,000,000	93,500	(93,498)	—	—	—	—
Conversion of Class B to Class A shares	2,001,689	2	(2,001,689)	(2)	—	—	—	—	—	—	—
Shares issued to non-employee directors (note 14)	4,212	—	—	—	—	—	187	—	—	—	187
Other shares repurchased/forfeited	(1,110,141)	(1)	(84,959)	—	—	—	(56,178)	—	—	—	(56,
Net income	—	—	—	—	—	—	—	69,803	—	—	69,8
Change in unrealized translation	—	—	—	—	—	—	—	—	(16,278)	—	(16,
Total comprehensive income	—	—	—	—	—	—	—	—	—	—	53,5
Balances - September 30, 2018	34,696,005	$35	31,063,445	$31	—	$—	$636,150	$222,324	$(30,234)	$—	$82

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

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

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

Fully amortized intangibles written off	8,272	—
Cash acquired through acquisitions	16,141	—
Cash paid during the period:		
Interest	$432	$382
Taxes	40,450	39,431

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

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

(1) BACKGROUND

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

- Houlihan Lokey Capital, Inc., a California corporation ("HL Capital, Inc."), is a wholly owned direct subsidiary of HL, Inc. HL Capital, Inc. is registered as a broker-dealer under Section 15(b) of the Securities Exchange Act of 1934 and a member of the Financial Industry Regulatory Authority, Inc.

- Houlihan Lokey Financial Advisors, Inc., a California corporation ("HL FA, Inc."), is a wholly owned direct subsidiary of HL, Inc.

- Houlihan Lokey EMEA, LLP, a limited liability partnership registered in England ("HL EMEA, LLP"), is an indirect subsidiary of HL, Inc. HL EMEA, LLP is regulated by the Financial Conduct Authority in the United Kingdom ("U.K.").

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

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

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

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

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

- $3,549 and $3,590 of compensation expenses associated with the amortization of restricted stock granted in connection with the IPO during the three months ended September 30, 2018 and 2017, respectively, and $6,872 and $7,159 during the six months ended September 30, 2018 and 2017, respectively; amortization expense of restricted stock granted in connection with the IPO is being recognized over a four and one-half year vesting period; and

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

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

In connection with, and prior to, the February 2017 Follow-on Offering, on February 6, 2017, we entered into a Forward Share Purchase Agreement (the "February 2017 Forward Share Purchase Agreement"), with an indirect wholly owned subsidiary of ORIX USA pursuant to which we agreed to repurchase from ORIX USA on April 5, 2017 the number of shares of our Class B common stock equal to the number of shares of our Class A common stock sold by us in the February 2017 Follow-on Offering (including any shares sold upon the exercise by the underwriters of their option to purchase additional shares of our Class A common stock) for a purchase price per share equal to the public offering price in the February 2017 Follow-on Offering less underwriting discounts and commissions. The cash proceeds from the February 2017 Follow-on Offering that were used to consummate the purchase pursuant to the February 2017 Forward Share Purchase Agreement were held in an escrow account as of March 31, 2017 and presented as restricted cash as discussed in note 2. On April 5, 2017 we settled the transaction provided for in the February 2017 Forward Share Purchase Agreement and acquired 6,900,000 shares of Class B common stock from ORIX USA using the net proceeds we received from the February 2017 Follow-on Offering. In accordance with the terms of the February 2017 Forward Share Purchase Agreement, the purchase price per share was reduced by the per share amount of the dividend paid to ORIX USA on the shares of our Class B common stock subject to the February 2017 Forward Share Purchase Agreement prior to the settlement of such transaction. As the February 2017 Forward Share Purchase Agreement required physical settlement by purchase of a fixed number of shares in exchange for cash, the 6,900,000 shares that were purchased are excluded from the Company's calculation of basic and diluted earnings per share in the Company's financial statements for the year ended March 31, 2017. In addition, as the agreement provides for the refund of any dividends paid during the term on the underlying Class A common stock, such shares are not classified as participating securities and the Company does not apply the two-class method for calculating its earnings per share.
On October 25, 2017, pursuant to a registered underwritten public offering, ORIX USA sold 1,750,000 shares of our Class A common stock and certain of our former and current employees and members of our management sold 1,750,000 shares of our Class A common stock, in each case, at a price to the public of $42.00 per share, and

such transaction closed on October 30, 2017 (the "October 2017 Follow-on Offering"). On November 3, 2017, ORIX USA sold an additional 125,000 shares of Class A common stock and our former and current employees and members of our management sold an additional 125,000 shares of Class A common stock in connection with the underwriters' partial exercise of their option to purchase additional shares in the offering.

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

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

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

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

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

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

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

- Financial Restructuring provides advice to debtors, creditors and other parties-in-interest in connection with recapitalization/deleveraging transactions implemented both through bankruptcy proceedings and 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.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

(b) Principles of Consolidation

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

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

(c) Use of Estimates

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

(d) Recognition of Revenue

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

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

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

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

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

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

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

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

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

(e) Operating Expenses

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

(f) Translation of Foreign Currency Transactions

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

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

(g) Property and Equipment

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

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

(h) Cash and Cash Equivalents and Restricted Cash

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

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

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

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

	September 30, 2018	September 30, 2017
Cash and cash equivalents	$ 227,599	$ 245,356
Restricted cash	366	—
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 227,965	$ 245,356

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

(i) Investment Securities

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

(j) Accounts Receivable

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

(k) Income Taxes

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

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

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

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

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

(l) Goodwill and Intangible Assets

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

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

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

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

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

(m) Recent Accounting Pronouncements

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

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

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

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

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

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

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

(n) Reclassifications

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

(3) REVENUE RECOGNITION

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

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

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

	Six Months Ended September 30, 2018		
	As reported	Excluding adoption of ASC 606	Adjustments
Revenues	$494,994	$478,744	$ 16,250
Operating expenses:			
Employee compensation and benefits	314,501	314,476	25
Travel, meals, and entertainment	19,697	13,146	6,551
Rent	18,625	18,625	—
Depreciation and amortization	7,174	7,174	—
Information technology and communications	10,298	9,812	486
Professional fees	12,061	9,982	2,079
Other operating expenses	16,333	9,138	7,195
Total operating expenses			