

Section 1: 10-Q (10-Q)

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

FORM 10-Q

(Mark One)

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

For the quarterly period 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: 001-36418

Moelis & Company

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

399 Park Avenue, 5th Floor, New York NY
(Address of principal executive offices)

46-4500216

(I.R.S. Employer
Identification No.)

10022
(Zip Code)

(212) 883-3800

(Registrant's telephone number, including area code)

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company
(Do not check if a smaller reporting 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 April 19, 2018, there were 40,024,601 shares of Class A common stock, par value \$0.01 per share, and 15,222,935 shares of Class B common stock, par value \$0.01 per share, outstanding.



TABLE OF CONTENTS

	<u>Page</u>
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>Item 4. Controls and Procedures</u>	42
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	44
<u>Item 1A. Risk Factors</u>	44
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
<u>Item 3. Defaults Upon Senior Securities</u>	45
<u>Item 4. Mine Safety Disclosures</u>	45
<u>Item 5. Other Information</u>	45
<u>Item 6. Exhibits</u>	46
<u>Signatures</u>	47

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Financial Statements (Unaudited)

	<u>Page</u>
Condensed Consolidated Statements of Financial Condition as of March 31, 2018 and December 31, 2017	4
Condensed Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017	5
Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2018 and 2017	6
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017	7
Condensed Consolidated Statements of Changes in Equity for the three months ended March 31, 2018 and 2017	8
Notes to Condensed Consolidated Financial Statements	9

Moelis & Company**Condensed Consolidated Statements of Financial Condition****(Unaudited)****(dollars in thousands, except per share amounts)**

	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 130,990	\$ 213,191
Restricted cash	598	703
Receivables:		
Accounts receivable, net of allowance for doubtful accounts of \$2,122 and \$1,433 as of March 31, 2018 and December 31, 2017, respectively	45,260	56,725
Other receivables	15,856	4,868
Total receivables	61,116	61,593
Deferred compensation	11,593	8,848
Investments at fair value (cost basis \$28,644 and \$96,351 as of March 31, 2018 and December 31, 2017, respectively)	28,186	96,108
Equity method investments	56,999	58,848
Equipment and leasehold improvements, net	10,479	10,458
Deferred tax asset	313,469	234,000
Prepaid expenses and other assets	14,382	15,319
Total assets	<u>\$ 627,812</u>	<u>\$ 699,068</u>
Liabilities and Equity		
Compensation payable	\$ 56,257	\$ 145,152
Accounts payable and accrued expenses	16,457	18,323
Amount due pursuant to tax receivable agreement	243,997	177,148
Deferred revenue	2,924	4,948
Other liabilities	8,000	9,241
Total liabilities	<u>327,635</u>	<u>354,812</u>
Commitments and Contingencies (See Note 12)		
Class A common stock, par value \$0.01 per share (1,000,000,000 shares authorized, 41,080,910 issued and 39,959,167 outstanding at March 31, 2018; 1,000,000,000 authorized, 34,163,042 issued and 33,455,626 outstanding at December 31, 2017)	411	342
Class B common stock, par value \$0.01 per share (1,000,000,000 shares authorized, 15,222,935 issued and outstanding at March 31, 2018; 1,000,000,000 authorized, 19,912,230 issued and outstanding at December 31, 2017)	152	199
Treasury stock, at cost; 1,121,743 and 707,416 shares as of March 31, 2018 and December 31, 2017, respectively	(43,977)	(23,188)
Additional paid-in-capital	566,015	487,163
Retained earnings (accumulated deficit)	(194,386)	(139,918)
Accumulated other comprehensive income (loss)	1,738	352
Total Moelis & Company equity	329,953	324,950
Noncontrolling interests	(29,776)	19,306
Total equity	<u>300,177</u>	<u>344,256</u>
Total liabilities and equity	<u>\$ 627,812</u>	<u>\$ 699,068</u>

See notes to the condensed consolidated financial statements (unaudited).

Moelis & Company**Condensed Consolidated Statements of Operations****(Unaudited)****(dollars in thousands, except per share amounts)**

	Three Months Ended March 31,	
	2018	2017
Revenues	\$ 219,418	\$ 173,258
Expenses		
Compensation and benefits	127,177	101,726
Occupancy	4,583	4,180
Professional fees	5,684	5,241
Communication, technology and information services	7,133	5,471
Travel and related expenses	11,560	6,591
Depreciation and amortization	1,055	857
Other expenses	7,157	6,158
Total expenses	164,349	130,224
Operating income (loss)	55,069	43,034
Other income and (expenses)	587	238
Income (loss) from equity method investments	888	3,104
Income (loss) before income taxes	56,544	46,376
Provision for income taxes	2,563	6,997
Net income (loss)	53,981	39,379
Net income (loss) attributable to noncontrolling interests	20,656	24,101
Net income (loss) attributable to Moelis & Company	\$ 33,325	\$ 15,278
Weighted-average shares of Class A common stock outstanding		
Basic	36,169,566	26,160,969
Diluted	44,596,534	32,921,576
Net income (loss) per share attributable to holders of shares of Class A common stock		
Basic	\$ 0.92	\$ 0.58
Diluted	\$ 0.75	\$ 0.46
Dividends declared per share of Class A common stock	\$ 1.97	\$ 0.37

See notes to the condensed consolidated financial statements (unaudited).

Moelis & Company
Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(dollars in thousands)

	Three Months Ended	
	March 31,	
	2018	2017
Net income	\$ 53,981	\$ 39,379
Unrealized gain (loss) on investments	—	(125)
Foreign currency translation adjustment, net of tax	1,679	649
Other comprehensive income (loss)	1,679	524
Comprehensive income (loss)	55,660	39,903
Less: Comprehensive income attributable to noncontrolling interests	21,266	24,379
Comprehensive income (loss) attributable to Moelis & Company	<u>\$ 34,394</u>	<u>\$ 15,524</u>

See notes to the condensed consolidated financial statements (unaudited).

Moelis & Company
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(dollars in thousands)

	Three Months Ended	
	March 31,	
	2018	2017
Cash flows from operating activities		
Net income (loss)	\$ 53,981	\$ 39,379
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Bad debt expense	671	379
Depreciation and amortization	1,055	857
(Income) loss from equity method investments	(888)	(3,104)
Equity-based compensation	32,244	25,903
Deferred tax provision	7,302	(106)
Other	2,603	1,831
Changes in assets and liabilities:		
Accounts receivable	11,444	(11,707)
Other receivables	(7,435)	2,212
Prepaid expenses and other assets	1,149	(3,737)
Deferred compensation	(2,726)	(1,946)
Compensation payable	(89,487)	(85,706)
Accounts payable and accrued expenses	(1,963)	3,678
Deferred revenue	(2,024)	6,527
Dividends received	2,737	—
Other liabilities	(1,260)	310
Net cash provided by (used in) operating activities	<u>7,403</u>	<u>(25,230)</u>
Cash flows from investing activities		
Purchase of investments	(7,972)	(27,955)
Proceeds from sales of investments	75,310	33,000
Note payments received from employees	204	403
Purchase of equipment and leasehold improvements	(1,059)	(1,798)
Net cash provided by (used in) investing activities	<u>66,483</u>	<u>3,650</u>
Cash flows from financing activities		
Dividends and distributions	(137,029)	(129,154)
Payments under tax receivable agreement	—	(5,032)
Proceeds from exercise of stock options	365	—
Payments to settle employee tax obligations on share-based awards	(20,789)	(7,534)
Class A partnership units and other equity purchased	(135)	(101)
Net cash provided by (used in) financing activities	<u>(157,588)</u>	<u>(141,821)</u>
Effect of exchange rate fluctuations on cash, cash equivalents, and restricted cash	1,396	771
Net increase (decrease) in cash, cash equivalents, and restricted cash	(82,306)	(162,630)
Cash, cash equivalents, and restricted cash, beginning of period	213,894	319,585
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 131,588</u>	<u>\$ 156,955</u>
Supplemental cash flow disclosure:		
Cash paid during the period for:		
Income taxes	\$ 11,466	\$ 11,369
Dividends paid, declared in the prior year	\$ —	\$ 68,066
Other non-cash activity		
Dividend equivalents issued	\$ 20,379	\$ 3,706
Class A Partnership Units or other equity converted into Class A Common Stock	\$ 20,434	\$ 22,181
Cumulative Effect Adjustment upon Adoption of ASU 2016-09	\$ —	\$ 658
Cumulative Effect Adjustment upon Adoption of ASU 2014-09	\$ 3,155	\$ —
Forfeiture of fully-vested Group LP units or other equity units	\$ —	\$ 36

See notes to the condensed consolidated financial statements (unaudited).

Moelis & Company
Condensed Consolidated Statements of Changes in Equity
(Unaudited)
(dollars in thousands)

	Shares			Class A Common Stock	Class B Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
	Class A Common Stock	Class B Common Stock	Treasury Stock								
Balance as of January 1, 2018	34,163,042	19,912,230	(707,416)	\$ 342	\$ 199	\$(23,188)	\$ 487,163	\$ (139,918)	\$ 352	\$ 19,306	\$ 344,256
Cumulative Effect Adjustment upon Adoption of ASU 2014-09	—	—	—	—	—	—	—	3,155	—	—	3,155
Cumulative Effect Adjustment upon Adoption of ASU 2016-01	—	—	—	—	—	—	—	(317)	317	—	—
Balance as of January 1, 2018, as adjusted	34,163,042	19,912,230	(707,416)	\$ 342	\$ 199	\$(23,188)	\$ 487,163	\$ (137,080)	\$ 669	\$ 19,306	\$ 347,411
Net income (loss)	—	—	—	—	—	—	—	33,325	—	20,656	53,981
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	1,069	610	1,679
Equity-based compensation	2,210,079	—	—	22	—	—	31,764	—	—	458	32,244
Equity-based payments to non-employees	—	—	—	—	—	—	2,016	—	—	—	2,016
Dividends declared (\$1.97 per share of Class A Common Stock) and distributions	—	—	—	—	—	—	20,379	(90,631)	—	(66,777)	(137,029)
Treasury Stock Purchases	—	—	(414,327)	—	—	(20,789)	—	—	—	—	(20,789)
Exercise of stock options	18,494	—	—	—	—	—	365	—	—	—	365
Issuance of Class A common stock and cancellation of Class B common stock in connection with offerings and other exchanges	4,689,295	(4,689,295)	—	47	(47)	—	24,328	—	—	(4,029)	20,299
Balance as of March 31, 2018	<u>41,080,910</u>	<u>15,222,935</u>	<u>(1,121,743)</u>	<u>\$ 411</u>	<u>\$ 152</u>	<u>\$(43,977)</u>	<u>\$ 566,015</u>	<u>\$ (194,386)</u>	<u>\$ 1,738</u>	<u>\$ (29,776)</u>	<u>\$ 300,177</u>
Balance as of January 1, 2017	20,948,998	31,138,193	(387,890)	\$ 210	\$ 311	\$(10,930)	\$ 291,026	\$ (68,229)	\$ (543)	\$ 39,596	\$ 251,441
Cumulative Effect Adjustment upon Adoption of ASU 2016-09	—	—	—	—	—	—	4,855	(4,197)	—	—	658
Balance as of January 1, 2017, as adjusted	20,948,998	31,138,193	(387,890)	\$ 210	\$ 311	\$(10,930)	\$ 295,881	\$ (72,426)	\$ (543)	\$ 39,596	\$ 252,099
Net income (loss)	—	—	—	—	—	—	—	15,278	—	24,101	39,379
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	246	278	524
Equity-based compensation	886,818	—	—	9	—	—	25,206	—	—	688	25,903
Equity-based payments to non-employees	—	—	—	—	—	—	1,874	—	—	—	1,874
Dividends declared (\$0.37 per share of Class A Common Stock) and distributions	—	—	—	—	—	—	3,706	(13,606)	—	(51,188)	(61,088)
Treasury stock purchases	—	—	(205,085)	—	—	(7,534)	—	—	—	—	(7,534)
Issuance of Class A common stock and acquisition of Class B common stock in connection with follow-on offering	5,356,876	(5,356,876)	—	53	(53)	—	28,374	—	—	(6,294)	22,080
Other	—	—	—	—	—	—	(36)	—	—	—	(36)
Balance as of March 31, 2017	<u>27,192,692</u>	<u>25,781,317</u>	<u>(592,975)</u>	<u>\$ 272</u>	<u>\$ 258</u>	<u>\$(18,464)</u>	<u>\$ 355,005</u>	<u>\$ (70,754)</u>	<u>\$ (297)</u>	<u>\$ 7,181</u>	<u>\$ 273,201</u>

1. ORGANIZATION AND BASIS OF PRESENTATION

Moelis & Company and its consolidated subsidiaries (the “Company,” “we,” “our,” or “us”) is a leading global investment bank, incorporated in Delaware. Prior to the Company’s IPO, the business operated as a Delaware limited partnership that commenced operations during 2007. Following the IPO, the operations are owned by Moelis & Company Group LP (“Group LP”), a U.S. Delaware limited partnership, and Group LP is controlled by Moelis & Company. Moelis & Company’s shareholders are entitled to receive a portion of Group LP’s economics through their direct ownership interests in shares of Class A common stock of Moelis & Company. The noncontrolling interest owners of Group LP (not Moelis & Company) receive economics of the operations primarily through their ownership interests in Group LP partnership units.

The Company’s activities as an investment banking advisory firm constitute a single business segment offering clients, including corporations, governments and financial sponsors, a range of advisory services with expertise across all major industries in mergers and acquisitions, recapitalizations and restructurings and other corporate finance matters.

Basis of Presentation—The condensed consolidated financial statements of Moelis & Company include its partnership interests in Group LP, its equity interest in the sole general partner of Group LP, Moelis & Company Group GP LLC (“Group GP”), and its interests in its subsidiaries. Moelis & Company will operate and control all of the business and affairs of Group LP and its operating entity subsidiaries indirectly through its equity interest in Group GP. The Company operates through the following subsidiaries:

- Moelis & Company LLC (“Moelis U.S.”), a Delaware limited liability company, a registered broker-dealer with the U.S. Securities and Exchange Commission (“SEC”) and a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”).
- Moelis & Company International Holdings LLC (“Moelis International”), a Delaware limited liability company, owns the following entities and investments:
 - Moelis & Company UK LLP (“Moelis UK”), a limited liability partnership registered under the laws of England and Wales. In addition to the United Kingdom, Moelis UK maintains operations through the following branches:
 - Moelis & Company UK LLP, French Branch (French branch)
 - Moelis & Company Europe Limited, Frankfurt am Main Branch (German branch)
 - Moelis & Company UK LLP, DIFC Branch (Dubai branch)
 - Moelis & Company Asia Limited (“Moelis Asia”), a limited company incorporated in Hong Kong licensed under the Hong Kong Securities and Futures Ordinance to provide financial advisory services. In addition to Hong Kong, Moelis Asia maintains operations in Beijing China through Hong Kong Moelis & Company Asia Limited Beijing Representative Office, as well as having a wholly-owned Chinese subsidiary, Moelis & Company Consulting (Beijing) Company Limited.
 - Moelis & Company India Private Limited, a private limited company incorporated in Mumbai, India.
 - Moelis & Company Assessoria Financeira Ltda. (“Moelis Brazil”), a limited liability company incorporated in São Paulo, Brazil.
 - An equity method investment in Moelis Australia Limited (“Moelis Australia”), a public company listed on the Australian Securities Exchange

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The Company prepared the accompanying condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). As permitted by the interim reporting rules and regulations set forth by the SEC, the condensed consolidated financial statements presented exclude certain financial information and footnote disclosures normally included in audited financial statements prepared in accordance with U.S. GAAP. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to fairly present the accompanying unaudited condensed consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Consolidation—The Company’s policy is to consolidate (i) entities, other than limited partnerships, in which it has a controlling financial interest, (ii) variable interest entities where the Company has a variable interest and is deemed to be the primary beneficiary and (iii) limited partnerships where the Company has ownership of the majority of voting interests. When the Company does not have a controlling interest in an entity, but exerts significant influence over the entity’s operating and financial decisions, the Company applies the equity method of accounting in which it records in earnings its share of income or losses of the entity. All intercompany balances and transactions with the Company’s subsidiaries have been eliminated in consolidation.

Use of Estimates—The preparation of condensed consolidated financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the period in which they are determined to be necessary.

In preparing the condensed consolidated financial statements, management makes estimates and assumptions regarding:

- the adequacy of the allowance for doubtful accounts;
- the measurement and realization of deferred taxes;
- the measurement of amount due pursuant to tax receivable agreement;
- the measurement and vesting of equity-based compensation; and
- other matters that affect the reported amounts and disclosures of contingencies in the financial statements.

Cash, Cash Equivalents and Restricted Cash—Cash and cash equivalents include all short-term highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less from the date of purchase.

The Company’s cash is maintained in U.S. and non-U.S. bank accounts, of which most bank account balances had little or no insurance coverage (most balances are held in U.S. and U.K. accounts which exceeded the U.S. Federal Deposit Insurance Corporation and U.K. Financial Services Compensation Scheme coverage limits). The Company’s cash equivalents are invested primarily in government securities money markets, government debt securities and U.S. Treasury instruments.

Effective January 1, 2018, the Company adopted ASU 2016-18 which requires restricted cash to be included in the beginning and ending balances of cash and cash equivalents within the condensed consolidated statement of cash flows. As a result, the beginning and ending balances of the prior period in the condensed consolidated statement of cash flows has been adjusted to include restricted cash.

The Company's restricted cash is comprised of collateral deposits primarily held by certain non-U.S. subsidiaries. These deposits are required for certain direct debit accounts and are used to satisfy future medical claims. A reconciliation of the Company's cash, cash equivalents and restricted cash as of March 31, 2018 and 2017, is presented below.

	March 31,	
	2018	2017
Cash	\$ 76,791	\$ 40,184
Cash equivalents	54,199	116,143
Restricted cash	598	628
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 131,588</u>	<u>\$ 156,955</u>

Additionally, as of December 31, 2017, the Company held cash of \$86,032 and cash equivalents of \$127,159.

Receivables—The accompanying condensed consolidated statements of financial condition present accounts receivable balances net of allowance for doubtful accounts based on the Company's assessment of the collectability of customer accounts.

The Company maintains an allowance for doubtful accounts that, in management's opinion, provides for an adequate reserve to cover losses that may be incurred. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, age of the accounts receivable, and the current economic conditions that may affect a customer's ability to pay such amounts owed to the Company.

After concluding that a reserved accounts receivable is no longer collectible, the Company will charge-off the receivable. This is determined based on several factors including the age of the accounts receivable and the credit worthiness of the customer. This has the effect of reducing both the gross receivable and the allowance for doubtful accounts.

Deferred Compensation—Deferred compensation costs represent arrangements with certain employees whereby cash payments are subject to a required period of service subsequent to payment by the Company. These amounts are charged to expenses over the period that the employee is required to provide services in order to vest in the payment.

Financial Instruments at Fair Value—Fair value is generally based on quoted prices, however if quoted market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations, price activity for equivalent instruments and valuation pricing models. The Company established a fair value hierarchy which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of instrument, the characteristics specific to the instrument and the state of the marketplace (including the existence and transparency of transactions between market participants). Financial instruments with readily-available actively quoted prices or for which fair value can be measured from actively-quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories (from highest to lowest) based on inputs:

Level 1—Quoted prices (unadjusted) are available in active markets for identical instruments that the Company has the ability to access as of the reporting date. The Company, to the extent that it holds such instruments, does

not adjust the quoted price for these instruments, even in situations in which the Company holds a large position and a sale could reasonably affect the quoted price.

Level 2—Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1. Fair value is determined through the use of models or other valuation methodologies.

Level 3—Pricing inputs are unobservable for the instruments and include situations where there is little, if any, market activity for the investments. The inputs into the determination of fair value require significant judgment or estimation by the Company's management.

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

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

Effective January 1, 2018, the Company adopted ASU 2016-01 using the modified retrospective approach. As a result, a cumulative adjustment was recorded which decreased retained earnings and increased accumulated other comprehensive income by \$317. The adjustment is related to the accumulated unrealized losses in fair value of an equity investment as of December 31, 2017. No prior periods were adjusted as a result of this change in accounting policy. The adoption of ASU 2016-01 requires that changes in fair value of equity investments measured at fair value be recognized in net income prospectively. For each period where a consolidated statement of operations is presented, the Company will disclose the portion of realized and/or unrealized gains and losses related to equity investments held at the reporting date or sold during the period.

Equity Method Investments—The Company accounts for its equity method investments under the equity method of accounting as the Company does not control these entities but has the ability to exercise significant influence. The amounts recorded on the condensed consolidated financial statements of financial condition reflect the Company's share of contributions made to, distributions received from, and the equity earnings and losses of, the investments. The Company reflects its share of gains and losses of the investment in income (loss) from equity method investments in the condensed consolidated statements of operations. Certain adjustments have been made to account for the Company's equity method investment in Moelis Australia under US GAAP as Moelis Australia Limited follows local accounting principles under Australian Accounting Standards.

Equipment and Leasehold Improvements—Office equipment and furniture and fixtures are stated at cost less accumulated depreciation, which is determined using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years, respectively. Leasehold improvements are stated at cost less accumulated amortization, which is determined using the straight-line method over the lesser of the term of the lease or the estimated useful life of the asset.

Major renewals and improvements are capitalized and minor replacements, maintenance and repairs are charged to expenses as incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation or amortization are removed from the condensed consolidated statements of financial condition and any gain or loss is reflected in the condensed consolidated statements of operations.

Deferred Tax Asset and Amount Due Pursuant to Tax Receivable Agreement—In conjunction with the IPO, the Company was treated for U.S. federal income tax purposes as having directly purchased Class A partnership units in

Group LP from the existing unitholders. Additional Group LP Class A partnership units may be exchanged for shares of Class A common stock in the Company. The initial purchase and future exchanges are expected to result in an increase in the tax basis of Group LP's assets attributable to the Company's interest in Group LP. These increases in the tax basis of Group LP's assets attributable to the Company's interest in Group LP would not have been available but for the initial purchase and future exchanges. Such increases in tax basis are likely to increase (for tax purposes) depreciation and amortization deductions and therefore reduce the amount of income tax the Company would otherwise be required to pay in the future. As a result, the Company records a deferred tax asset for such increase in tax basis.

The Company has entered into a tax receivable agreement with its eligible Managing Directors that will provide for the payment by the Company to its eligible Managing Directors of 85% of the amount of cash savings, if any, in U.S. federal, state, and local income tax or franchise tax that the Company actually realizes as a result of (a) the increases in tax basis attributable to exchanges by its eligible Managing Directors and (b) tax benefits related to imputed interest deemed to be paid by the Company as a result of this tax receivable agreement. The Company expects to benefit from the remaining 15% of cash savings, if any, in income tax that it realizes and record any such estimated tax benefits as an increase to additional paid-in-capital. For purposes of the tax receivable agreement, cash savings in income tax will be computed by comparing the Company's actual income tax liability to the amount of such taxes that it would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Group LP as a result of the exchanges and had it not entered into the tax receivable agreement. The term of the tax receivable agreement commenced upon consummation of the IPO and will continue until all such tax benefits have been utilized or expired, unless the Company exercises its right to terminate the tax receivable agreement for an amount based on an agreed value of payments remaining to be made under the agreement. The Company has recorded the estimated tax benefits related to the increase in tax basis and imputed interest as a result of the initial purchase and subsequent exchanges described above as a deferred tax asset in the condensed consolidated statements of financial condition. The amount due to its eligible Managing Directors related to the tax receivable agreement as a result of the initial purchase and subsequent exchanges described above is recorded as amount due pursuant to tax receivable agreement in the condensed consolidated statements of financial condition. The amounts recorded for the deferred tax asset and the liability for our obligations under the tax receivable agreement are estimates. Any adjustments to our estimates subsequent to their initial establishment will be included in net income (loss). Future exchanges of Class A partnership units in Group LP for Class A common shares in the Company will be accounted for in a similar manner.

Revenue and Expense Recognition

Initial Adoption—Effective January 1, 2018, the Company adopted ASU 2014-09 and all related amendments (“Topic 606”) using the modified retrospective method for all contracts. The adoption of the new standard requires the Company to present reimbursable expenses gross in revenues and expenses and to use new revenue recognition patterns as discussed below in the policy. As a result, a cumulative adjustment was recorded which increased the opening balance of other receivables and retained earnings by \$3,722 for outstanding reimbursable expenses at December 31, 2017, which would have been recognized as revenues under the new standard. The tax effect of this adjustment decreased retained earnings by \$567, resulting in a net increase to the opening balance of retained earnings of \$3,155. No prior periods were adjusted as a result of this change in accounting policy.

Impact of Adoption on Year-to-date Results—See below for the impact to our condensed consolidated financial statements from the adoption of Topic 606, as of and for the three months ended March 31, 2018:

	March 31, 2018		
	As reported	Excluding adoption of Topic 606	Change
Statement of Financial Condition			
Other receivables	\$ 15,856	\$ 12,374	\$ 3,482
Accounts payable and accrued expenses	16,457	15,934	523
Retained earnings (accumulated deficit)	(194,386)	(197,345)	2,959
	For the three months ended March 31, 2018		
	As reported	Excluding adoption of Topic 606	Change
Statement of Operations			
Revenues	\$ 219,418	\$ 216,230	\$ 3,188
Expenses			
Professional fees	5,684	4,890	794
Communication, technology and information services	7,133	6,827	306
Travel and related expenses	11,560	9,571	1,989
Other expenses	7,157	6,818	339
Income (loss) before income taxes	56,544	56,784	(240)
Provision for income taxes	2,563	2,607	(44)
Net income (loss)	\$ 53,981	\$ 54,177	\$ (196)
Net income (loss) per share attributable to holders of shares of Class A common stock			
Basic	\$ 0.92	\$ 0.92	\$ —
Diluted	\$ 0.75	\$ 0.75	\$ —

The adoption of Topic 606 is not anticipated to have a material impact to our condensed consolidated financial statements as the vast majority of our revenues are from variable transaction fees which are constrained for recognition until it is probable that a significant revenue reversal will not occur, which is similar to our accounting under the old standard where revenues were primarily recognized upon the completion of our engagements.

The Company recognizes revenues from providing advisory services when or as our obligations are fulfilled and collection is reasonably assured. The vast majority of our advisory revenues, which include reimbursements for certain out-of-pocket expenses, are recognized over time; however, a small number of transactions may be recognized at a point in time. We provide our advisory service on an ongoing basis which, for example, may include evaluating and selecting one of multiple strategies. During such engagements, our clients are continuously benefitting from our counsel and the over time recognition matches the transfer of such benefits. However, the recognition of transaction fees is constrained until substantially all services have been provided, specified conditions have been met and the transaction is effectively complete. Upfront fees and retainers specified in our engagement letters that meet the over time criteria will be recognized on a systematic basis over the estimated period where the related services are performed. Revenues may be recognized at a point in time if the engagement represents a singular objective that does not transfer any notable value

until formally completed, such as when issuing a fairness opinion. In these instances, the point in time recognition appropriately matches the transfer and consumption of our services.

Incremental costs of obtaining a contract are expensed as incurred since such costs are generally not recoverable and the typical duration of our advisory contracts is less than one year (as allowed per ASC 340-40-25-1). Costs to fulfill contracts consist of out-of-pocket expenses that are part of performing our advisory services and are typically expensed as incurred, except where the transfer and consumption of our services occurs at a point in time. For engagements recognized at a point in time, out-of-pocket expenses are capitalized and subsequently expensed in the condensed consolidated statement of operations upon completion of the engagement. The Company records deferred revenues when it receives fees from clients that have not yet been earned (e.g. an upfront fee) or when the Company has an unconditional right to consideration before all performance obligations are complete (e.g. upon satisfying conditions to earn an announcement fee, but before the transaction is consummated).

Equity-based Compensation—The Company recognizes the cost of employee services received in exchange for an equity instrument award. The cost is based on its grant-date fair value based on quoted market prices at the time of grant amortized over the service period required by the award’s vesting terms. The Company records as treasury stock shares repurchased from its employees for the purpose of settling tax liabilities incurred upon the vesting of restricted stock units (“RSUs”). The Company records dividends in kind, net of forfeitures, on outstanding RSUs as a dividend payment and a charge to equity. Dividends in kind on RSUs are subject to the same vesting conditions as the underlying RSUs on which they were accrued. Dividends in kind will be forfeited if the award does not vest.

Effective January 1, 2017, the Company adopted a change in accounting policy in accordance with Accounting Standards Update 2016-09, “Compensation—Stock Compensation (Topic 718)” (“ASU 2016-09”) to account for forfeitures as they occur. The change was applied on a modified retrospective basis with a cumulative decrease to retained earnings and an increase in additional paid-in capital (“APIC”) of \$4,855 as of January 1, 2017. The tax effect of this adjustment increased deferred tax assets and retained earnings by \$658. No prior periods were adjusted as a result of this change in accounting policy.

The Company has a retirement plan whereby a retiring employee generally will not forfeit certain qualifying incentive RSUs granted during employment if at retirement the employee meets certain requirements. For qualifying awards issued prior to December 1, 2016, the employee must (i) be at least 54 years old and (ii) have provided at least 8 consecutive years of service to the Company. For qualifying awards issued on or after December 1, 2016, (i) the employee must be at least 56 years old, (ii) the employee must have provided at least 5 consecutive years of service to the Company and (iii) the total of (i) and (ii) must be equal to at least 65 years. Any such RSUs will continue to vest on their applicable vesting schedule, subject to noncompetition and other terms. Over time a greater number of employees may become retirement eligible and the related requisite service period over which we will expense these awards will be shorter than the stated vesting period. Any unvested RSUs prior to meeting the stated requisite service period or retirement eligibility date are eligible to receive dividends in kind; however, the right to dividends in kind will be forfeited if the underlying award does not vest.

Income Taxes—The Company accounts for income taxes in accordance with ASC 740, “Accounting for Income Taxes” (“ASC 740”), which requires the recognition of tax benefits or expenses on temporary differences between the financial reporting and tax bases of its assets and liabilities by applying the enacted tax rates in effect for the year in which the differences are expected to reverse. Such net tax effects on temporary differences are reflected on the Company’s condensed consolidated statements of financial condition as deferred tax assets and liabilities. Deferred tax assets are reduced by a valuation allowance when the Company believes that it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized.

ASC 740-10 prescribes a two-step approach for the recognition and measurement of tax benefits associated with the positions taken or expected to be taken in a tax return that affect amounts reported in the financial statements. The Company has reviewed and will continue to review the conclusions reached regarding uncertain tax positions, which may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulations and

interpretations thereof. For the three months ended March 31, 2018 and 2017, no unrecognized tax benefit was recorded. To the extent that the Company's assessment of the conclusions reached regarding uncertain tax positions changes as a result of the evaluation of new information, such change in estimate will be recorded in the period in which such determination is made. The Company reports income tax-related interest and penalties relating to uncertain tax positions, if applicable, as a component of income tax expense. For the three months ended March 31, 2018 and 2017, no such amounts were recorded.

Prior to January 1, 2017, all excess tax benefits resulting from exercise or settlement of share-based payment transactions were recognized in APIC and any tax deficiencies were either offset against APIC, or were recognized in the income statement under certain conditions. Under ASU 2016-09, all excess tax benefits and deficiencies are recognized as income tax benefits or expenses in the condensed consolidated statement of operations prospectively.

Under ASU 2016-09, the Company is now required to present excess tax benefits and detriments as an operating activity in the same manner as other cash flows related to income taxes rather than as a financing activity. The Company adopted these changes retrospectively, and prior year excess tax benefits are now reflected in changes in prepaid expenses and other assets within the condensed consolidated statement of cash flows.

Foreign Currency Translation—Assets and liabilities held in non-U.S. dollar denominated currencies are translated into U.S. dollars at exchange rates in effect at the end of the reporting period. Revenues and expenses are translated at average exchange rates during the reporting period. A charge or credit is recorded to other comprehensive income to reflect the translation of these amounts to the extent the non-U.S. currency is designated the functional currency of the subsidiary. Non-functional currency related transaction gains and losses are immediately recorded in the condensed consolidated statements of operations.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 increases the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments will retain lease classifications, distinguishing finance leases from operating leases, using criteria that is substantially similar for distinguishing capital leases from operating leases in previous guidance. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. Upon initial evaluation, the Company has determined it will record right-to-use assets and liabilities measured at the present value of reasonably certain lease payments on our consolidated statements of financial condition. We do not anticipate any material changes to our condensed and consolidated statements of operations.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income" ("ASU 2018-02"). ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. ASU 2018-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. Upon initial evaluation, we do not anticipate any material changes to our condensed consolidated financial statements.

4. EQUITY METHOD INVESTMENTS

Moelis Australia

On April 1, 2010, the Company entered into a 50-50 joint venture in Moelis Australia Holdings PTY Limited, investing a combination of cash and certain net assets in exchange for its interests. The remaining 50% was owned by an Australian trust established by and for the benefit of Moelis Australia senior executives.

On April 10, 2017, Moelis Australia Holdings PTY Limited consummated their initial public offering and became listed on the Australian Securities Exchange as Moelis Australia Limited (ASX: MOE). As a result of the offering, the Company's ownership interest in Moelis Australia was diluted to less than 50% and the Company recognized a gain of approximately \$15,170 during the second quarter of 2017, recorded in other income and expenses on the condensed consolidated statement of operations. Contemporaneous with the offering, Moelis Australia agreed to terminate an asset management related revenue sharing agreement resulting in a payment to a third party, of which the Company recognized a charge of approximately \$2,400 in income (loss) from equity method investments during the second quarter of 2017. In connection with Moelis Australia's initial public offering, the Company and Moelis Australia entered into a Strategic Alliance Agreement for Moelis Australia to continue to conduct its investment banking advisory business in Australia and New Zealand as an integrated part of the global advisory business of the Company consistent with the manner in which Moelis Australia and the Company have partnered together since 2010. Also, in connection with the offering and new shareholders agreement, the Company and Moelis Australia terminated a put option enabling the key senior Australian executive to sell his shares held in Moelis Australia back to the Company, and a call option held by the Company to purchase additional shares in Moelis Australia. On March 20, 2017, Moelis Australia declared a dividend, of which the Company received \$11,672 on April 18, 2017. The Company accounted for the dividend as a return on investment and reduced the carrying value of the investment in Moelis Australia by \$11,672 on April 18, 2017.

On September 13, 2017 and October 30, 2017, Moelis Australia completed offerings of 11,940,000 and 10,060,000 shares of common stock, respectively, to raise additional capital. The issuance of shares further reduced Moelis & Company's ownership interest in Moelis Australia. These shares were issued at a fair value greater than the carrying value of the ownership interest disposed, resulting in gains of approximately \$14,429 and \$9,680, during the third and fourth quarter of 2017, respectively, recorded in other income on the condensed and consolidated statement of operations.

Moelis Australia issued additional shares during 2017 related to acquisitions, which further reduced Moelis & Company's ownership interest in Moelis Australia. The shares were issued at a fair value greater than the carrying value of the ownership interest disposed, resulting in gains of approximately \$2,280 and \$92, during the second and third quarter of 2017, respectively, recorded in other income and expenses on the condensed and consolidated statement of operations.

On February 20, 2018, Moelis Australia declared a dividend, of which the Company received \$2,737 on March 7, 2018. The Company accounted for the dividend as a return on investment and reduced the carrying value of the investment in Moelis Australia by \$2,737.

For the three months ended March 31, 2018 and 2017, income from this equity method investment was \$888 and \$3,112, respectively.

5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements, net consists of the following:

	March 31, 2018	December 31, 2017
Office equipment	\$ 9,694	\$ 9,639
Furniture and fixtures	3,429	3,424
Leasehold improvements	12,215	11,324
Total	25,338	24,387
Less accumulated depreciation and amortization	(14,859)	(13,929)
Equipment and leasehold improvements, net	<u>\$ 10,479</u>	<u>\$ 10,458</u>

Depreciation and amortization expenses for fixed assets totaled \$1,055 and \$857 for the three months ended March 31, 2018 and 2017, respectively.

6. FAIR VALUE MEASUREMENTS

The Company established a fair value hierarchy which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories (from highest to lowest) based on inputs:

Level 1—Quoted prices (unadjusted) are available in active markets for identical instruments that the Company has the ability to access as of the reporting date. The Company, to the extent that it holds such instruments, does not adjust the quoted price for these instruments, even in situations in which the Company holds a large position and a sale could reasonably affect the quoted price.

Level 2—Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are not the same as those used in level 1. Fair value is determined through the use of models or other valuation methodologies.

Level 3—Pricing inputs are unobservable for the instruments and include situations in which there is little, if any, market activity for the investments. The inputs into the determination of fair value require significant judgment or estimation by the Company's management.

The estimated fair values of government securities money markets, U.S. Treasury instruments, and government debt securities as of March 31, 2018 and December 31, 2017 are based on quoted prices for recent trading activity in identical or similar instruments. The Company generally invests in U.S. Treasury instruments with maturities of less than twelve months. See Note 2 for further information on the Company's fair value hierarchy.

The following table summarizes the levels of the fair value hierarchy into which the Company's financial assets fall as of March 31, 2018:

	Total	Level 1	Level 2	Level 3
Financial assets:				
<i>Included in cash and cash equivalents</i>				
Government debt securities (1)	\$ 6,183	\$ —	\$ 6,183	\$ —
U.S. treasury instruments	39,905	39,905	—	—
Government securities money market	8,113	—	8,113	—
<i>Investments</i>				
Government debt securities (1)	13,549	—	13,549	—
U.S. treasury instruments	14,328	14,328	—	—
Common stock	309	309	—	—
Total financial assets	<u>\$ 82,387</u>	<u>\$ 54,542</u>	<u>\$ 27,845</u>	<u>\$ —</u>

(1) Consists of municipal bonds, agency bonds and agency discount notes.

For the three months ended March 31, 2018, unrealized gains of \$46 were recognized in other income and expenses on the condensed consolidated statement of operations related to common stock held at the reporting date.

The following table summarizes the levels of the fair value hierarchy into which the Company's financial assets fall as of December 31, 2017:

	Total	Level 1	Level 2	Level 3
Financial assets:				
<i>Included in cash and cash equivalents</i>				
Government debt securities (1)	\$ 41,086	\$ —	\$ 41,086	\$ —
U.S. treasury instruments	39,978	—	39,978	—
Government securities money market	46,095	—	46,095	—
<i>Investments</i>				
Government debt securities (1)	39,910	—	39,910	—
U.S. treasury instruments	55,935	7,943	47,992	—
Common stock	263	263	—	—
Total financial assets	<u>\$ 223,267</u>	<u>\$ 8,206</u>	<u>\$ 215,061</u>	<u>\$ —</u>

(1) Consists of municipal bonds, agency bonds and agency discount notes

For the three months ended March 31, 2017, unrealized losses of \$125 were recognized in unrealized gain loss on investments on the condensed consolidated statement of comprehensive income related to common stock held at the reporting date.

The Company's methodology for reclassifications impacting the fair value hierarchy is that transfers in/out of the respective category are reported at fair value as of the beginning of the period in which the reclassification occurred.

At the end of the reporting period, the Company reviews U.S. treasury instruments held to determine whether the securities are of the most recent issuance of that security with the same maturity (referred to as "on-the-run", which is the most liquid version of the maturity band). If a U.S. treasury instrument held at the end of the reporting period was from the most recent issuance it is classified as level 1, otherwise it is referred to as "off-the-run" and is classified as level 2. During the three months ended March 31, 2018 and 2017, there were no transfers from level 1 to level 2 related to U.S. treasury instruments acquired on-the-run that as of the reporting period became off-the-run.

7. NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO CLASS A COMMON SHAREHOLDERS

The calculations of basic and diluted net income (loss) per share attributable to holders of shares of Class A common stock for the three months ended March 31, 2018 and 2017 are presented below.

(dollars in thousands, except per share amounts)	Three Months Ended March 31,	
	2018	2017
<i>Numerator:</i>		
Net income (loss) attributable to holders of shares of Class A common stock—basic	\$ 33,325	\$ 15,278
Add (deduct) dilutive effect of:		
Noncontrolling interests related to Class A partnership units	(a)	(a)
Net income (loss) attributable to holders of shares of Class A common stock—diluted	\$ 33,325	\$ 15,278
<i>Denominator:</i>		
Weighted average shares of Class A common stock outstanding—basic	36,169,566	26,160,969
Add (deduct) dilutive effect of:		
Noncontrolling interests related to Class A partnership units	(a)	(a)
Weighted average number of incremental shares issuable from unvested restricted stock, RSUs and stock options, as calculated using the treasury stock method	8,426,968 (b)	6,760,607 (b)
Weighted average shares of Class A common stock outstanding—diluted	44,596,534	32,921,576
Net income (loss) per share attributable to holders of shares of Class A common stock		
Basic	\$ 0.92	\$ 0.58
Diluted	\$ 0.75	\$ 0.46

We have not included the impact of Class B common stock because these shares are entitled to an insignificant amount of economic participation.

- (a) Class A partnership units may be exchanged for Moelis & Company Class A common stock on a one-for-one basis, subject to applicable lock-up, vesting and transfer restrictions. If all Class A partnership units were to be exchanged for Class A common stock, fully diluted Class A common stock outstanding would be 66,323,929 and 62,321,050 for the three months ended March 31, 2018 and 2017, respectively. In computing the dilutive effect, if any, that the aforementioned exchange would have on net income (loss) per share, net income (loss) available to holders of Class A common stock would be adjusted due to the elimination of the noncontrolling interests in consolidated entities associated with the Group LP Class A partnership units (including any tax impact). For the three ended March 31, 2018 and 2017, such exchange is not reflected in diluted net income (loss) per share as the assumed exchange is not dilutive.
- (b) During the three months ended March 31, 2018 and 2017, certain shares of Moelis & Company's Class A common stock assumed to be issued pursuant to certain RSUs as calculated using the treasury stock method were antidilutive and therefore have been excluded from the calculation of diluted net income (loss) per share attributable to Moelis & Company. During the three months ended March 31, 2018 and 2017, the additional weighted average amount of RSUs that would have been included in this calculation if the effect were dilutive would have been 79,217 and 896 units, respectively.

8. EQUITY-BASED COMPENSATION

Partnership Units

Prior to the Company's restructuring and IPO, the business operated as a partnership and its ownership structure was comprised of common partners (principally outside investors) holding units. The common partners contributed capital to the partnership and were not subject to vesting. Units granted to Managing Directors upon joining the Company and as part of annual incentive compensation generally vested based on service over five to eight years. Certain non-Managing Director employees were granted units as part of their incentive arrangements and these units generally vest based on service ratably over four years. In connection with the Company's restructuring and IPO, substantially all of the Managing Director partner equity subject to vesting had been accelerated. Units granted to non-Managing Director employees were not accelerated in connection with the Company's restructuring and IPO and continue to vest based on the original terms of the grant.

In connection with the reorganization and IPO, Group LP issued Class A partnership units to Moelis & Company and to certain existing unit holders. Following the reorganization, a Group LP Class A partnership unit (not held by Moelis & Company or its subsidiaries) is exchangeable into one share of Moelis & Company Class A common stock and represents the Company's noncontrolling interests. As of March 31, 2018, partners held 17,783,042 Group LP partnership units, 422,323 of which were unvested and will continue to vest over their service life.

In relation to the vesting of units, the Company recognized compensation expenses of \$459 and \$688 for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, there was \$915 of unrecognized compensation expense related to unvested Class A partnership units which is expected to be recognized over a weighted-average period of 0.6 years, using the graded vesting method.

2014 Omnibus Incentive Plan

In connection with the IPO, the Company adopted the Moelis & Company 2014 Omnibus Incentive Plan (the "Plan") to provide additional incentives to selected officers, employees, Managing Directors, non-employee directors, independent contractors, partners, senior advisors and consultants. The Plan provides for the issuance of incentive stock options ("ISOs"), nonqualified stock options, stock appreciation rights ("SARs"), restricted stock, RSUs, stock bonuses, other stock-based awards and cash awards.

In the first quarter of 2015, the Board of Directors authorized the repurchase of up to \$25 million of shares of Class A common stock of the Company and/or Class A partnership units of Group LP with no expiration date. Under this share repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of shares repurchased will be opportunistic and measured in nature and will depend on a variety of factors, including price and market conditions. As of March 31, 2018, approximately \$20 million of shares may yet be purchased under the program.

Restricted Stock and Restricted Stock Units (RSUs)

Pursuant to the Plan and in connection with the Company's annual compensation process and ongoing hiring process, the Company issues RSUs which generally vest over a service life of four to five years. For the three months ended March 31, 2018 and 2017, the Company recognized expense of \$31,180 and \$24,463, respectively, in relation to the vesting of RSUs.

The following table summarizes activity related to restricted stock and RSUs for the three months ended March 31, 2018 and 2017.

	Restricted Stock & RSUs			
	2018		2017	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested Balance at January 1,	9,357,999	\$ 30.15	8,504,190	\$ 26.70
Granted	2,715,840	54.26	2,569,302	37.03
Forfeited	(46,306)	37.41	(29,491)	29.12
Vested	(2,197,193)	32.23	(1,041,696)	26.82
Unvested Balance at March 31,	<u>9,830,340</u>	<u>\$ 36.23</u>	<u>10,002,305</u>	<u>\$ 29.50</u>

As of March 31, 2018, the total compensation expense related to unvested restricted stock and RSUs not yet recognized was \$191,118. The weighted-average period over which this compensation expense is expected to be recognized at March 31, 2018 is 1.9 years. Beginning in January of 2017, the Company accounts for forfeitures as they occur per the guidance in ASU 2016-09. See Note 2 for further discussion on this change in accounting policy.

Stock Options

Pursuant to the Plan, the Company issued 3,501,881 stock options in 2014 which vest over a five-year period. The Company estimated the fair value of stock option awards at grant using the Black-Scholes valuation model with the following assumptions:

	Assumptions
Expected life (in years)	6
Weighted-average risk free interest rate	1.91 %
Expected volatility	35 %
Dividend yield	2.72 %
Weighted-average fair value at grant date	\$ 6.70

The Company paid special dividends of \$5.55, in aggregate, through March 31, 2018. As required under Section 5 of the Company's 2014 Omnibus Incentive Plan, the Compensation Committee of the Company's Board of Directors equitably reduced the exercise price of the Company's outstanding options to purchase common stock by \$5.55 from \$25.00 per share to \$19.45 per share.

The following table summarizes activity related to stock options for the three months ended March 31, 2018 and 2017.

	Stock Options Outstanding			
	2018		2017	
	Number Outstanding	Weighted Average Exercise Price Per Share	Number Outstanding	Weighted Average Exercise Price Per Share
Outstanding at January 1,	2,436,232	\$ 19.45	2,822,728	\$ 19.45
Grants	—	—	—	—
Exercises	(18,494)	19.45	—	—
Forfeitures or expirations	(12,000)	19.45	(35,500)	19.45
Outstanding at March 31,	<u>2,405,738</u>	<u>\$ 19.45</u>	<u>2,787,228</u>	<u>\$ 19.45</u>

For the three months ended March 31, 2018 and 2017, the Company recognized expenses of \$605 and \$752, respectively. As of March 31, 2018, the total compensation expense related to unvested stock options not yet recognized was \$2,290. The weighted-average period over which this compensation expense is expected to be recognized at March 31, 2018 is 0.9 years. Beginning in January of 2017, the Company accounts for forfeitures as they occur per the guidance in ASU 2016-09. See Note 2 for further discussion on this change in accounting policy.

9. STOCKHOLDERS EQUITY

Class A Common Stock

In April 2014, the Company issued 15,263,653 shares of Class A common stock in connection with the IPO and reorganization. Since its IPO, the Company has conducted several offerings of Class A common stock in order to facilitate organized liquidity and increase the public float of its Class A common stock. The details of these offerings are displayed below. The Company did not retain any proceeds from the sale of its Class A common stock.

Date of Offering	Total Shares Offered	Total Increase in Shares Outstanding
November, 2014	6,325,000	4,511,058
January, 2017	5,750,000	5,356,876
July, 2017	6,000,000	5,680,903
March, 2018	5,000,000	4,689,295
Total	<u>23,075,000</u>	<u>20,238,132</u>

As of March 31, 2018, 41,080,910 shares of Class A common stock were issued and 39,959,167 shares were outstanding, and as of December 31, 2017, 34,163,042 shares of Class A common stock were issued and 33,455,626 shares were outstanding. The changes in Class A common stock are due primarily to the IPO and offering transactions described above, in addition to the vesting of restricted stock units in connection with the Company's annual compensation process and ongoing hiring process.

Class B Common Stock

In conjunction with Moelis & Company's IPO of its Class A common stock, the Company issued 36,158,698 shares of Class B common stock. Moelis & Company Partner Holdings LP ("Partner Holdings") holds all shares of Class B common stock, enabling it initially to exercise majority voting control over the Company. The economic rights of Class B common stock are based on the ratio of the Class B subscription price to the initial public offering price of shares of Class A common stock (.00055 to 1). Shares of Class B common stock are generally not transferrable and, if transferred other than in the limited circumstances set forth in Moelis & Company's Amended and Restated Certificate

of Incorporation, such shares shall automatically convert into a number of shares of Class A common stock, or dollar equivalent. Each share of Class B common stock may also be converted to a number of Class A shares at the option of the holder. Holders of shares of Class B common stock are entitled to receive dividends of the same type as any dividends payable on outstanding shares of Class A common stock at a ratio of .00055 to 1.

In connection with each of the Company's follow-on offerings, the Company purchased shares of Class B common stock from Partner Holdings for cash, or Partner Holdings surrendered shares of Class B common stock for Class A common stock (at a ratio of .00055 to 1) and subsequently cancelled those shares. The Company did not retain any proceeds from the offerings.

Date of Offering	Class B Stock Purchased / Surrendered	Purchase Cost (in thousands)
November, 2014	4,507,453	\$ 28
January, 2017	5,356,876	101
July, 2017	5,680,903	128
March, 2018	4,689,295	135
Total	20,234,527	\$ 392

As of March 31, 2018 and December 31, 2017, 15,222,935 and 19,912,230 shares of Class B common stock were issued and outstanding, respectively, due primarily to the IPO, offering transactions, and Class B conversions described above.

Treasury Stock

During the three months ended March 31, 2018 and 2017, the Company repurchased 414,327 and 205,085 shares, respectively, from its employees for the purpose of settling tax liabilities incurred upon the vesting of RSUs. The result of the repurchases was an increase of \$20,789 and \$7,534, respectively, in the treasury stock balance on the Company's condensed consolidated statements of changes in equity as of March 31, 2018 and 2017.

Noncontrolling Interests

A Group LP Class A partnership unit (not held by Moelis & Company or its subsidiaries) is exchangeable into one share of Moelis & Company Class A common stock and represents the Company's noncontrolling interests (non-redeemable). As of March 31, 2018 and December 31, 2017, partners held 17,783,042 and 22,472,337 Group LP partnership units, respectively, representing a 31% and 40% noncontrolling interest in Moelis & Company, respectively.

Controlling Interests

Moelis & Company operates and controls all of the business and affairs of Group LP and its operating entity subsidiaries indirectly through its equity interest in Group GP, and thus the 39,959,167 shares of Class A common stock outstanding at March 31, 2018 (33,455,626 as of December 31, 2017), represents the controlling interest.

10. RELATED-PARTY TRANSACTIONS

Aircraft Lease—On August 30, 2014, a related party, Moelis & Company Manager LLC ("Manager"), acquired an aircraft with funds received solely from its managing member (Mr. Moelis). The aircraft is used and operated by the Company pursuant to a dry lease with Manager which terminates on December 31, 2019. The terms of the dry lease are comparable to the market rates of leasing from an independent third party. Pursuant to this dry lease arrangement, the lessee is obligated to bear its share of the costs of operating the aircraft. For the three months ended March 31, 2018 and 2017, the Company incurred \$468 and \$468 in aircraft lease costs to be paid to Manager, respectively. In addition,

Mr. Moelis is the other lessee of the aircraft and shares the operating and related costs of the plane in proportion to his respective use pursuant to a cost sharing and operating agreement.

Promissory Notes—As of March 31, 2018, there were \$362 of unsecured promissory notes from employees held by the Company (December 31, 2017: \$552). Any outstanding balances are reflected in other receivables on the condensed consolidated statements of financial condition. The notes held as of March 31, 2018 and December 31, 2017 bear a fixed interest rate of 4.00%. During the three months ended March 31, 2018 and 2017, the Company received \$204 and \$403 of principal repayments and recognized interest income of \$9 and \$7, respectively, on such notes, which is included in other income and expenses on the condensed consolidated statements of operations.

Services Agreement—In connection with the Company's IPO, the Company entered into a services agreement with a related party, Moelis Asset Management LP, whereby the Company provides certain administrative services, technology, and office space to Moelis Asset Management LP for a fee. This fee totaled \$157 and \$313 for the three months ended March 31, 2018 and 2017, respectively. The amount of the fee is based upon the estimated usage and related expense of all shared services between the Company and Moelis Asset Management LP during the relevant period, and will be assessed periodically by Management as per the terms of the agreement. As of March 31, 2018 and December 31, 2017, there were no balances due from Moelis Asset Management LP.

Moelis Australia—As of March 31, 2018 and December 31, 2017, the Company had net balances due from Moelis Australia of \$64 and \$128, respectively, which are reflected in other receivables on the condensed consolidated statements of financial condition. These balances consist of amounts due to or from Moelis Australia for advisory services performed as well as billable expenses incurred by the Company on behalf of Moelis Australia during the period. The relationship between the Company and Moelis Australia is governed by a services agreement.

Revenues—From time to time, the Company enters into advisory transactions with Moelis Asset Management LP and its affiliates. The Company earned revenues associated with such transactions of \$0 and \$1,019 for the three months ended March 31, 2018 and 2017, respectively.

11. REGULATORY REQUIREMENTS

Under the SEC Uniform Net Capital Rule (SEC Rule 15c3-1) Alternative Standard under Section (a)(1)(ii), the minimum net capital requirement is \$250. At March 31, 2018, Moelis U.S. had net capital of \$75,935, which was \$75,685 in excess of its required net capital. At December 31, 2017, Moelis U.S. had net capital of \$29,259 which was \$29,009 in excess of its required net capital.

Moelis U.S. does not carry customer accounts and does not otherwise hold funds or securities for, or owe money or securities to, customers and accordingly is exempt under Section (k)(2)(ii) of SEC Rule 15c3-3.

At March 31, 2018, the aggregate regulatory net capital of Moelis UK was \$47,530 which exceeded the minimum requirement by \$47,468. At December 31, 2017, the aggregate regulatory net capital of Moelis UK was \$50,498, which exceeded the minimum requirement by \$50,439.

12. COMMITMENTS AND CONTINGENCIES

Bank Line of Credit—In April 2017 the Company renewed its revolving credit facility which extended the maturity date to June 30, 2019. As of March 31, 2018, the commitment amount was \$40,000.

Borrowings on the facility bear interest at the greater of a fixed rate of 3.50% per annum or at the borrower's option of (i) LIBOR plus 1% or (ii) Prime minus 1.50%. As of March 31, 2018 and December 31, 2017, the Company had no borrowings under the credit facility.

As of March 31, 2018, the Company's available credit under this facility was \$34,727 as a result of the issuance of an aggregate amount of \$5,273 of various standby letters of credit, which were required in connection with certain office lease and other agreements. The Company incurs a 1% per annum fee on the outstanding balance of issued letters of credit.

Leases—The Company maintains operating leases with expiration dates that extend through 2026. The Company incurred expense relating to its operating leases of \$3,937 and \$3,756 for the three months ended March 31, 2018 and 2017, respectively. In addition, during the second quarter of 2016, the Company decided to sublet a portion of its growth space in the U.K. which required a sublease loss reserve to be recognized for the estimated net economics of such sublet. The expense related to the aforementioned sublease loss reserve, which is remeasured at each reporting period for the three months ended March 31, 2018 and 2017, was \$0 and \$150, respectively.

The future minimum rental payments required under the operating leases in place at March 31, 2018, are as follows:

Fiscal year ended	Operating Leases	Sublease Income	Net Minimum Payments
2018	\$ 14,947	\$ (352)	\$ 14,595
2019	19,901	(586)	19,315
2020	13,151	(938)	12,213
2021	7,656	(938)	6,718
2022	7,212	(938)	6,274
Thereafter	11,400	(2,344)	9,056
Total	\$ 74,267	\$ (6,096)	\$ 68,171

Contractual Arrangements—In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties and which provide indemnification for specified losses, including certain indemnification of certain officers, directors and employees.

Legal—In the ordinary course of business, from time to time the Company and its affiliates are involved in judicial or regulatory proceedings, arbitration or mediation concerning matters arising in connection with the conduct of its businesses, including contractual and employment matters. In addition, government agencies and self-regulatory organizations conduct periodic examinations and initiate administrative proceedings regarding the Company's business, including, among other matters, compliance, accounting and operational matters, that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer, investment advisor, or its directors, officers or employees. In view of the inherent difficulty of determining whether any loss in connection with such matters is probable and whether the amount of such loss can be reasonably estimated, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot estimate the amount of such loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that it is not currently party to any material pending proceedings, individually or in the aggregate, the resolution of which would have a material effect on the Company.

13. EMPLOYEE BENEFIT PLANS

The Company covers substantially all U.S. salaried employees with a defined contribution 401(k) plan. Each salaried employee of the Company who has attained the age of 21 is eligible to participate in the 401(k) plan on their first day of employment. Any employer contributions to the 401(k) plan are entirely at the discretion of the Company. The Company accrued expenses relating to employer matching contributions to the 401(k) plan for the three months ended March 31, 2018 and 2017, in the amounts of \$595 and \$516, respectively.

14. INCOME TAXES

Prior to the Company's reorganization and IPO of Moelis & Company, the Company had been primarily subject to the New York City unincorporated business tax ("UBT") and certain other foreign, state, and local taxes. The Company's operations are comprised of entities that are organized as limited liability companies and limited partnerships. For U.S. federal income tax purposes, taxes related to income earned by these entities represent obligations of their interest holders, which were primarily made up of individual partners prior to the IPO and have historically not been reflected in the condensed consolidated statements of financial condition. In connection with the Company's reorganization and IPO, the Company became subject to U.S. corporate federal, state, and local income tax on its allocable share of results of operations from Group LP.

The Company's provision for income taxes and effective tax rate were \$2,563 and 5% and \$6,997 and 15% for the three months ended March 31, 2018 and 2017, respectively. The income tax provision for the aforementioned periods primarily reflects the Company's allocable share of earnings from Group LP at the prevailing U.S. federal, state, and local corporate income tax rates and the effect of the allocable earnings to noncontrolling interests being subject to UBT and certain other foreign, state, and local entity-level taxes.

The Company recorded an increase in the net deferred tax asset of \$79,469 for the three months ended March 31, 2018, which was primarily attributable to the step-up in tax basis in Group LP assets resulting from the exchange of Class A partnership units in connection with the Company's follow-on offering in March 2018. Approximately \$78,645 of this deferred tax asset is attributable to exchanges by certain partners of Group LP who are party to the tax receivable agreement. Pursuant to this agreement, 85% (or \$66,848) of the tax benefits associated with this portion of the deferred tax asset are payable to such exchanging partners over the next 15 years and recorded as amount due pursuant to tax receivable agreement in the condensed consolidated statements of financial condition. The remaining tax benefit is allocable to the Company and is recorded in additional paid-in-capital. The Company also recorded an increase in the deferred tax asset related to deferred equity compensation, which was principally offset by the vesting and delivery of equity awards during the first quarter in 2018.

On December 22, 2017, the U.S. enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). The Tax Act made broad and complex changes to the U.S. tax code including, but not limited to, reducing the U.S. federal corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the tax legislation 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 or a reasonable estimate if such accounting is incomplete. The Company recorded a provisional amount related to its analysis of the impact of the Tax Act in its consolidated statements of financial condition for the year ended December 31, 2017. The impact of the Tax Act may differ from the estimated amounts recorded due to, among other things, further refinement of the Company's calculations, changes in interpretations and assumptions the Company has made in conjunction with the release of additional regulatory guidance that may be issued, and actions the Company may take as a result of Tax Act. The Company has not yet finalized its analysis and no adjustment to the provisional estimate has been recorded as of March 31, 2018.

15. REVENUES AND BUSINESS INFORMATION

The Company's activities as an investment banking advisory firm constitute a single business segment offering clients, including corporations, governments and financial sponsors, a range of advisory services with expertise across all major industries in mergers and acquisitions, recapitalizations and restructurings and other corporate finance matters.

We earn substantially all of our revenues from advisory engagements, and, in many cases, we are not paid until the completion of an underlying transaction. The vast majority of our advisory revenues are recognized over time, although the recognition of our transaction fees are generally constrained until the engagement is effectively complete.

Complications that may terminate or delay a transaction include failure to agree upon final terms with the counterparty, failure to obtain required regulatory consents, failure to obtain board or stockholder approvals, failure to secure financing, adverse market conditions or unexpected operating or financial problems related to either party to the transaction. In these circumstances, we often do not receive advisory fees that would have been received if the transaction had been completed, despite the fact that we may have devoted considerable time and resources to the transaction. Barriers to the completion of a restructuring transaction may include a lack of anticipated bidders for the assets of our client, the inability of our client to restructure its operations, or indebtedness due to a failure to reach agreement with its creditors. In these circumstances, our fees are generally limited to monthly retainer fees and reimbursement of certain out-of-pocket expenses.

We do not allocate our revenue by the type of advice we provide because of the complexity of the transactions on which we may earn revenue and our holistic approach to client service. For example, a restructuring engagement may evolve to require a sale of all or a portion of the client, M&A assignments can develop from relationships established on prior restructuring engagements, and capital markets expertise can be instrumental on both M&A and restructuring assignments.

Since the financial markets are global in nature, the Company generally manages its business based on the operating results of the enterprise taken as whole, not by geographic region. The following table disaggregates the revenues and assets based on the location of the office that generates the revenues or holds the assets, and therefore may not be reflective of the geography in which our clients are located. No client accounted for more than 10% of revenues in either of the three month periods ended March 31, 2018, and 2017.

	Three Months Ended March 31,	
	2018	2017
Revenues:		
United States	\$ 178,682	\$ 138,402
Europe	23,436	22,019
Rest of World	17,300	12,837
Total	\$ 219,418	\$ 173,258

	March 31,	December 31,
	2018	2017
Assets:		
United States	\$ 496,043	\$ 519,933
Europe	37,413	83,834
Rest of World	94,356	95,301
Total	\$ 627,812	\$ 699,068

As of March 31, 2018, and December 31, 2017, the Company had deferred revenues of \$2.9 million and \$4.9 million, respectively. These amounts primarily consist of upfront fees and retainers for our services. During the three months ended March 31, 2018, \$3.8 million of revenues were recognized from the opening balance of deferred revenues.

Due to the factors that may delay or terminate a transaction (as described above), the Company does not estimate constrained transaction fees for revenue recognition. In accordance with ASC 606-10-50-14A, quantitative disclosures of constrained variable consideration are not provided for remaining performance obligations. In addition, remaining performance obligations related to retainers, upfront fees and announcement fees are typically associated with contracts that have durations of one year or less. In accordance with ASC 606-10-50-14, the Company does not disclose the expected timing and amount of revenues remaining related to such contracts.

16. SUBSEQUENT EVENTS

On April 19, 2018, the Board of Directors of Moelis & Company declared a quarterly dividend of \$0.47 per share to be paid on May 17, 2018 to shareholders of record as of May 3, 2018.

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

This Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q and our audited consolidated and combined financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Forward-Looking Statements and Certain Factors that May Affect Our Business

The following discussion should be read in conjunction with our condensed consolidated financial statements and the related notes that appear elsewhere in this Form 10-Q. We have made statements in this discussion that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “intend,” “predict,” “potential” or “continue,” the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties, and assumptions about us, may include projections of our future financial performance, based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks outlined under “Risk Factors” in our Annual Report on Form 10-K and in this Form 10-Q.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as a prediction of future events. We are under no duty to and we do not undertake any obligation to update or review any of these forward-looking statements after the date of this filing to conform our prior statements to actual results or revised expectations whether as a result of new information, future developments or otherwise.

Executive Overview

Moelis & Company is a leading global independent investment bank that provides innovative strategic advice and solutions to a diverse client base, including corporations, governments and financial sponsors. With 19 geographical locations in the Americas, Europe, the Middle East, Asia and Australia, we advise clients around the world on their most critical decisions, including mergers and acquisitions, recapitalizations and restructurings and other corporate finance matters.

We were founded in July 2007 by veteran investment bankers to create a global independent investment bank that offers multi-disciplinary solutions and exceptional transaction execution. We opened for business in New York and Los Angeles with a team of top tier advisory professionals. The dislocation in the financial services industry caused by the global financial crisis provided us with a unique opportunity to rapidly build a firm with global scale and broad advisory expertise, and we more than tripled our professional headcount from the end of 2008 through the end of 2011. Since our founding, we have added new Managing Directors with sector, regional or transactional expertise and with strong client relationships. In addition, we have established recruiting programs at top universities to hire talented junior professionals and instituted training programs to help develop them into advisory specialists.

We have added Managing Directors to expand our sector expertise, and currently provide capabilities across all major industries including Consumer, Retail & Restaurants; Energy, Power & Infrastructure; Financial Institutions; Financial Sponsors; General Industrials; Healthcare; Real Estate, Gaming, Lodging & Leisure and Technology, Media & Telecommunications. In addition, we hired professionals to broaden our global reach and opened a network of offices, expanding into London in 2008, Sydney in 2009, Dubai in 2010, Hong Kong and Beijing in 2011, Frankfurt, Mumbai and Paris in 2012 and Melbourne and São Paulo in 2014. In regions where it made more sense to establish a partnership

rather than build from the ground up, we entered into strategic alliances, including in Japan with Sumitomo Mitsui Banking Corporation (“SMBC”) and its subsidiary, SMBC Nikko Securities Inc. in 2012 and in Mexico with Alfaro, Dávila y Scherer, S.C. (“ADS”) in 2016. We also added regional capabilities in the U.S., opening offices in Boston in 2007, Chicago in 2008, Houston and San Francisco in 2011 and Washington DC in 2014. We have developed additional areas of advisory expertise to complement our strong M&A capabilities and to meet the changing needs of our clients. Our early investment in recapitalization and restructuring talent in mid-2008 positioned us to capitalize on the significant increase in restructuring volume during the global financial crisis. In 2009, we added expertise in advising clients on capital markets matters and advising financial institutions on complex risk exposures. In 2014, we added capabilities to provide capital raising, secondary transaction and other advisory services to private fund sponsors and limited partners. Our ability to provide services to our clients across sectors and regions and through all phases of the business cycle has led to long-term client relationships and a diversified revenue base.

As of March 31, 2018, we served our clients globally with 514 advisory bankers. We continued to grow our firm across sectors, geographies and products to deliver the most relevant advice and innovative solutions to our clients.

We generate revenues primarily from providing advisory services on transactions that are subject to individually negotiated engagement letters which set forth our fees. We generally generate fees at key transaction milestones, such as closing, the timing of which is outside of our control. As a result, revenues and net income in any period may not be indicative of full year results or the results of any other period and may vary significantly from year to year and quarter to quarter. The performance of our business depends on the ability of our professionals to build relationships with clients over many years by providing trusted advice and exceptional transaction execution.

Business Environment and Outlook

Economic and global financial conditions can materially affect our operational and financial performance. See “Risk Factors” in our Form 10-K for a discussion of some of the factors that can affect our performance. Revenues and net income in any period may not be indicative of full year results or the results of any other period and may vary significantly from year to year and quarter to quarter. The M&A market data for announced and completed transactions during the three months ended March 31, 2018 and 2017, referenced throughout this Form 10-Q was obtained from Thomson Financial as of April 3, 2018.

For the first three months of 2018, we earned revenues of \$219.4 million, an increase of 27% from the \$173.3 million earned during the same period in 2017. This compares favorably with a 14% decrease in the number of global completed M&A transactions greater than \$100 million and a 16% decrease in volume for the same period. The increase in revenues was driven by significant and continued growth in our M&A activity and steady restructuring activity as compared with the prior year period.

In the U.S., which has been a particularly strong driver of our revenues, we are observing many companies pursue M&A as they seek to obtain a competitive advantage in their business models. We believe U.S. tax reform will also fuel this trend as companies generate significantly more cash flow to support strategic M&A. In addition, based on historical experience, we believe the current economic backdrop (already high corporate cash balances, relatively low interest rates and availability of credit), provides a solid foundation for M&A. In Europe, we continue to see an improvement in transaction activity.

As our team of investment banking professionals expands and continues to gain traction, we expect our global collaboration will deepen and continue to resonate with clients. Our current conversations with clients remain robust, and we continue to experience a growing global demand for independent advice as clients evaluate a wide range of strategic alternatives.

Results of Operations

The following is a discussion of our results of operations for the three months ended March 31, 2018 and 2017.

(\$ in thousands)	Three Months Ended		
	March 31,		
	2018	2017	2018 vs 2017
Revenues	\$ 219,418	\$ 173,258	27%
Expenses:			
Compensation and benefits	127,177	101,726	25%
Non-compensation expenses	37,172	28,498	30%
Total operating expenses	164,349	130,224	26%
Operating income (loss)	55,069	43,034	28%
Other income and (expenses)	587	238	147%
Income (loss) from equity method investments	888	3,104	-71%
Income (loss) before income taxes	56,544	46,376	22%
Provision for income taxes	2,563	6,997	-63%
Net income (loss)	\$ 53,981	\$ 39,379	37%

N/M = Not meaningful

Revenues

We operate in a highly competitive environment. Each revenue-generating engagement is separately solicited, awarded and negotiated, and there are usually no long-term contracted sources of revenue. As a consequence, our fee-paying client engagements are not predictable, and high levels of revenues in one quarter are not necessarily predictive of continued high levels of revenues in future periods. To develop new business, our professionals maintain an active business dialogue with a large number of existing and potential clients. We add new clients each year as our bankers continue to expand their relationships, as we hire senior bankers who bring their client relationships and as we receive introductions from our relationship network of senior executives, board members, attorneys and other third parties. We also lose clients each year as a result of the sale or merger of clients, changes in clients' senior management, competition from other financial services firms and other causes.

We earn substantially all of our revenues from advisory engagements, and, in many cases, we are not paid until the completion of an underlying transaction. The vast majority of our advisory revenues are recognized over time, although the recognition of our transaction fees are constrained until the engagement is effectively complete.

Complications that may terminate or delay a transaction include failure to agree upon final terms with the counterparty, failure to obtain required regulatory consents, failure to obtain board or stockholder approvals, failure to secure financing, adverse market conditions or unexpected operating or financial problems related to either party to the transaction. In these circumstances, we often do not receive advisory fees that would have been received if the transaction had been completed, despite the fact that we may have devoted considerable time and resources to the transaction. Barriers to the completion of a restructuring transaction may include a lack of anticipated bidders for the assets of our client, the inability of our client to restructure its operations, or indebtedness due to a failure to reach agreement with its creditors. In these circumstances, our fees are generally limited to monthly retainer fees and reimbursement of certain out-of-pocket expenses.

We do not allocate our revenue by the type of advice we provide because of the complexity of the transactions on which we may earn revenue and our holistic approach to client service. For example, a restructuring engagement may evolve to require a sale of all or a portion of the client, M&A assignments can develop from relationships established on prior restructuring engagements, and capital markets expertise can be instrumental on both M&A and restructuring assignments.

Three Months Ended March 31, 2018 versus 2017

Revenues were \$219.4 million for the three months ended March 31, 2018 as compared with \$173.3 million for the same period in 2017, representing an increase of 27%. The increase in revenues was driven by significant and continued growth in our M&A activity, where we are earning higher average fees per completed transaction and steady restructuring activity as compared with the prior year period.

For the three months ended March 31, 2018 and 2017 we earned revenues from 131 and 141 clients, respectively, and the number of clients who paid fees equal to or greater than \$1 million increased to 51 clients from 46 clients for the same period of 2017.

Operating Expenses

The following table sets forth information relating to our operating expenses:

(\$ in thousands)	Three Months Ended March 31,		Variance
	2018	2017	2018 vs 2017
Expenses:			
Compensation and benefits	\$127,177	\$101,726	25%
<i>% of revenues</i>	58%	59%	
Non-compensation expenses	\$ 37,172	\$ 28,498	30%
<i>% of revenues</i>	17%	16%	
Total operating expenses	\$164,349	\$130,224	26%
<i>% of revenues</i>	75%	75%	

Our operating expenses are classified as compensation and benefits expenses and non-compensation expenses, and headcount is the primary driver of the level of our expenses. Compensation and benefits expenses account for the majority of our operating expenses. Non-compensation expenses, which include the costs of professional fees, travel and related expenses, communication, technology and information services, occupancy, depreciation and other expenses, generally have been less significant in comparison with compensation and benefits expenses.

Three Months Ended March 31, 2018 versus 2017

Operating expenses were \$164.3 million for the three months ended March 31, 2018 and represented 75% of revenues, compared with \$130.2 million for the same period in 2017 which represented 75% of revenues. The increase in operating expenses was generally in-line with the growth in revenues and was primarily driven by increased compensation, including higher equity amortization as compared to the prior year, and the absence of contra expenses related to client reimbursements.

Compensation and Benefits Expenses

Our compensation and benefits expenses are determined by management based on revenues earned, the competitiveness of the prevailing labor market and anticipated compensation requirements for our employees, the level of recruitment of new Managing Directors, the amount of compensation expenses amortized for equity awards and other relevant factors.

Our compensation expenses consist of base salary and benefits, annual incentive compensation payable as cash bonus awards, including certain amounts subject to clawback and contingent upon a required period of service (“contingent cash awards”) and amortization of equity-based compensation awards. Base salary and benefits are paid ratably throughout the year. Equity awards are amortized into compensation expenses on a graded basis (based upon the fair value of the award at the time of grant) during the service period over which the award vests, which is typically four or five years. The awards are recorded within equity as they are expensed. Contingent cash awards are amortized into compensation expenses over the required service period. Cash bonuses, which are accrued each quarter, are discretionary

and dependent upon a number of factors including the performance of the Company and are generally paid during the first two months of each calendar year with respect to prior year performance. The equity component of the annual incentive award is determined with reference to the Company's estimate of grant date fair value, which in turn determines the number of equity awards granted subject to a vesting schedule.

Our compensation expenses are primarily based upon revenues, prevailing labor market conditions and other factors that can fluctuate, including headcount, and as a result, our compensation expenses may fluctuate materially in any particular period. Accordingly, the amount of compensation expenses recognized in any particular period may not be consistent with prior periods or indicative of future periods.

Three Months Ended March 31, 2018 versus 2017

For the three months ended March 31, 2018, compensation-related expenses of \$127.2 million represented 58% of revenues, compared with \$101.7 million of compensation-related expenses which represented 59% of revenues in the prior year period. The increase in compensation expenses was primarily driven by greater revenue and equity amortization during 2018 as compared with 2017.

Our fixed compensation costs, which are primarily the sum of base salaries, payroll taxes and benefits and the amortization of previously issued equity and contingent cash awards, were \$81.8 million and \$67.5 million for the three months ended March 31, 2018 and 2017, respectively. The increase in fixed compensation costs relates to increased headcount and higher equity amortization as compared to the prior year. The aggregate amount of discretionary cash bonus expenses, which generally represents the excess amount of total compensation over base compensation and amortization of equity and contingent cash awards, was \$45.4 million and \$34.2 million for the three months ended March 31, 2018 and 2017, respectively. The combination of the discretionary and fixed compensation expenses represents the overall compensation expense pool. The increase in discretionary cash bonus expense is primarily related to higher revenues earned, partially offset by the increase in fixed compensation expense.

Non-Compensation Expenses

Our non-compensation expenses include the costs of occupancy, professional fees, communication, technology and information services, travel and related expenses, depreciation and other expenses. Any expenses reimbursed by clients are presented within revenues on the consolidated statement of operations, except for certain transactions where the expenses are deferred and presented within prepaid expenses and other assets on the consolidated statements of financial condition.

Historically, our non-compensation expenses associated with business development have increased as we have increased headcount and the related non-compensation support costs which results from growing our business. This trend may continue as we expand into new sectors, geographies and products to serve our clients' growing needs.

Three Months Ended March 31, 2018 versus 2017

For the three months ended March 31, 2018, non-compensation expenses of \$37.2 million represented 17% of revenues, compared with \$28.5 million which represented 16% of revenues in the prior year period. The increase in non-compensation expense is primarily due to the absence of contra expenses related to client reimbursements and greater business development charges associated with increased revenues.

Income (Loss) From Equity Method Investments

The Company accounts for its equity method investments under the equity method of accounting as the Company does not control these entities but has the ability to exercise significant influence. The amounts recorded on the condensed consolidated statements of financial condition reflect the Company's share of contributions made to, distributions received from, and the equity earnings and losses of, the investments. The Company reflects its share of

gains and losses of the investment in income (loss) from equity method investments in the condensed consolidated statements of operations. Certain adjustments have been made to account for the Company's equity method investment in Moelis Australia under US GAAP as Moelis Australia follows local accounting principles under Australian Accounting Standards.

Moelis Australia

On April 1, 2010, we entered into a joint venture in Moelis Australia, investing a combination of cash and certain net assets in exchange for a 50% interest in the venture. The remaining 50% was owned by an Australian trust established by and for the benefit of Australian executives. Moelis Australia's business is offering advisory services as well as equity capital markets and research business, sales and trading business covering Australian public equity securities and an asset management business. Advisory fees are generally recognized at key transaction milestones, so the revenues earned by Moelis Australia can vary significantly period to period. Moelis Australia has offices in Sydney and Melbourne.

On April 10, 2017, Moelis Australia consummated their initial public offering and became listed on the Australian Securities Exchange (ASX: MOE). As a result of the offering, the Company's ownership interest in Moelis Australia was diluted to less than 50% and the Company recognized a gain of approximately \$15.2 million during the second quarter of 2017, recorded in other income and expenses on the consolidated statement of operations. Contemporaneous with the offering, Moelis Australia agreed to terminate an asset management related revenue sharing agreement resulting in a payment to a third party, of which the Company recognized a charge of approximately \$2.4 million in income (loss) from equity method investments during the second quarter of 2017. See Note 4 of the consolidated financial statements included in this Form 10-K for further information.

On September 13, 2017 and October 30, 2017, Moelis Australia completed offerings of 11,940,000 and 10,060,000 shares of common stock, respectively, to raise additional capital. The issuance of shares further reduced Moelis & Company's ownership interest in Moelis Australia. These shares were issued at a fair value greater than the carrying value of the ownership interest disposed, resulting in gains of approximately \$14.4 million and \$9.7 million during the third and fourth quarter of 2017, respectively, recorded in other income on the consolidated statement of operations. Moelis Australia issued additional shares during 2017 related to acquisitions, which further reduced Moelis & Company's ownership interest in Moelis Australia. The shares were issued at a fair value greater than the carrying value of the ownership interest disposed, resulting in gains of approximately \$2.3 million and \$0.1 million during the second and third quarter of 2017, respectively, recorded in other income and expenses on the consolidated statement of operations.

Three Months Ended March 31, 2018 versus 2017

Income (loss) from equity method investments related to our share of gains and losses of Moelis Australia was income of \$0.9 million and \$3.1 million for the three months ended March 31, 2018 and 2017, respectively.

Provision for Income Taxes

Prior to the Company's reorganization and IPO of Moelis & Company, the Company had been primarily subject to the New York City unincorporated business tax ("UBT") and certain other foreign, state, and local taxes. The Company's operations are comprised of entities that are organized as limited liability companies and limited partnerships. For U.S. federal income tax purposes, taxes related to income earned by these entities represent obligations of their interest holders, which were primarily made up of individual partners prior to the IPO and have historically not been reflected in the consolidated statements of financial condition. In connection with the Company's reorganization and IPO, the Company became subject to U.S. corporate, federal, state, and local income tax on its allocable share of results of operations from Group LP.

Three Months Ended March 31, 2018 versus 2017

The Company's provision for income taxes and effective tax rates were \$2.6 million and 5% and \$7.0 million and 15% for the three months ended March 31, 2018 and 2017, respectively. The income tax provision and effective tax rate for the aforementioned periods primarily reflect the Company's allocable share of earnings from Group LP at the prevailing U.S. federal, state, and local corporate income tax rate and the effect of the allocable earnings to noncontrolling interests being subject to UBT and certain other foreign, state, and local entity-level taxes. The decrease in the effective tax rate is primarily attributable to the reduction in the U.S. federal corporate income tax rate from 35% to 21% beginning in 2018 as a result of the enactment of the Tax Cuts and Jobs Act in 2017 and the excess tax benefit recognized in connection with the delivery of share based compensation for the appreciation of the Company's stock price between employee equity grant date and delivery date. The decrease in effective tax rate was partially offset by an increase in the allocable share of earnings subject to the corporate income tax rate as a result of the Company's follow-on offering in March 2018.

Liquidity and Capital Resources

Our current assets have historically comprised cash, short-term liquid investments and receivables related to fees earned from providing advisory services. Our current liabilities are primarily comprised of accrued expenses, including accrued employee compensation. We pay a significant portion of incentive compensation during the first two months of each calendar year with respect to the prior year's results. We also distribute estimated partner tax payments primarily in the first quarter of each year in respect of the prior year's operating results. Therefore, levels of cash generally decline during the first quarter of each year after incentive compensation has been paid to our employees and estimated tax payments have been distributed to partners. Cash then typically builds over the remainder of the year.

We evaluate our cash needs on a regular basis in light of current market conditions. Cash and cash equivalents include all short-term highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less from the date of purchase. The Company had cash equivalents of \$54.2 million and \$127.2 million as of March 31, 2018 and December 31, 2017, respectively, invested in U.S. Treasury instruments, government debt securities and government securities money market funds. Additionally, the Company had cash of \$76.8 million and \$86.0 million as of March 31, 2018 and December 31, 2017, respectively, maintained in U.S. and non-U.S. bank accounts, of which most bank account balances exceeded the U.S. Federal Deposit Insurance Corporation ("FDIC") and U.K. Financial Services Compensation Scheme ("FSCS") coverage limits.

In addition to cash and cash equivalents, we hold various types of government debt securities that are classified as investments on our condensed consolidated statements of financial condition as they have original maturities of three months or more from the date of purchase. The Company held \$27.9 million and \$95.8 million of government debt securities classified as investments as of March 31, 2018 and December 31, 2017, respectively.

Our liquidity is highly dependent upon cash receipts from clients which generally requires the successful completion of transactions. The timing of receivable collections typically occurs within 60 days of billing. As of March 31, 2018 and December 31, 2017 accounts receivable were \$45.3 million and \$56.7 million, respectively, net of allowances of \$2.1 million and \$1.4 million, respectively.

To provide for additional working capital and other general corporate purposes, we maintain a \$40.0 million revolving credit facility that matures on June 30, 2019. Advances on the facility bear interest at the greater of a fixed rate of 3.50% per annum or at the Company's option of (i) LIBOR plus 1% or (ii) Prime minus 1.50%. As of March 31, 2018, the Company had no borrowings under the credit facility.

As of March 31, 2018, the Company's available credit under this facility was \$34.7 million as a result of the issuance of an aggregate amount of \$5.3 million of various standby letters of credit, which were required in connection with certain office leases and other agreements. The Company incurs a 1% per annum fee on the outstanding balances of issued letters of credit.

The Board of Directors of Moelis & Company declared a quarterly dividend of \$0.47 will be paid on May 17, 2018 to Class A common stockholders of record on May 3, 2018. During the three months ended March 31, 2018 the Company paid aggregate dividends of \$1.97 per share, which included a special dividend of \$1.50 per share along with the regular quarterly dividend of \$0.47 per share.

Regulatory Capital

We actively monitor our regulatory capital base. Our principal subsidiaries are subject to regulatory requirements in their respective jurisdictions to ensure general financial soundness and liquidity. This requires, among other things, that we comply with certain minimum capital requirements, record-keeping, reporting procedures, experience and training requirements for employees and certain other requirements and procedures. These regulatory requirements may restrict the flow of funds to and from affiliates. See Note 11 of the condensed consolidated financial statements as of March 31, 2018 for further information. These regulations differ in the United States, United Kingdom, Hong Kong and other countries in which we operate a registered broker-dealer. The license under which we operate in each such country is meant to be appropriate to conduct an advisory business. We believe that we provide each of our subsidiaries with sufficient capital and liquidity, consistent with their business and regulatory requirements.

Tax Receivable Agreement

In connection with the IPO in April 2014, we entered into a tax receivable agreement with our eligible Managing Directors that provides for the payment to eligible Managing Directors of 85% of the amount of cash savings, if any, in U.S. federal, state, and local income tax or franchise tax that we realize as a result of (a) the increases in tax basis attributable to exchanges by our eligible Managing Directors and (b) tax benefits related to imputed interest deemed to be paid by us as a result of this tax receivable agreement. The Company expects to benefit from the remaining 15% of income tax cash savings, if any, that we realize.

For purposes of the tax receivable agreement, income tax cash savings will be computed by comparing our actual income tax liability to the amount of such taxes that we would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Group LP as a result of the exchanges and had we not entered into the tax receivable agreement. The term of the tax receivable agreement commenced upon consummation of the IPO and will continue until all such tax benefits have been utilized or expired, unless we exercise our right to terminate the tax receivable agreement for an amount based on an agreed value of payments remaining to be made under the agreement.

Payments made under the tax receivable agreement are required to be made within 225 days of the filing of our tax returns. Because we generally expect to receive the tax savings prior to making the cash payments to the eligible selling holders of Group LP partnership units, we do not expect the cash payments to have a material impact on our liquidity.

In addition, the tax receivable agreement provides that, upon a merger, asset sale, or other form of business combination or certain other changes of control or if, at any time, we elect an early termination of the tax receivable agreement, our (or our successor's) obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control or early termination) will be based on certain assumptions, including that we would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement, and, in the case of an early termination election, that any units that have not been exchanged are deemed exchanged for the market value of the Class A common stock at the time of termination. Consequently, it is possible, in these circumstances, that the actual cash tax savings realized by us may be significantly less than the corresponding tax receivable agreement payments.

Cash Flows

Our operating cash flows are primarily influenced by the amount and timing of receipt of advisory fees, which are generally collected within 60 days of billing, and the payment of operating expenses, including payments of incentive compensation to our employees. We pay a significant portion of incentive compensation during the first two months of each calendar year with respect to the prior year's results. Our investing and financing cash flows are primarily influenced by activities to fund investments and payments of dividends and estimated partner taxes. A summary of our operating, investing and financing cash flows is as follows:

(\$ in thousands)	Three Months Ended	
	March 31,	
	2018	2017
Cash Provided By (Used In)		
Operating Activities:		
Net income (loss)	\$ 53,981	\$ 39,379
Non-cash charges	42,987	25,760
Other operating activities	(89,565)	(90,369)
Total operating activities	7,403	(25,230)
Investing Activities	66,483	3,650
Financing Activities	(157,588)	(141,821)
Effect of exchange rate changes	1,396	771
Net increase (decrease) in cash	(82,306)	(162,630)
Cash, cash equivalents, and restricted cash, beginning of period	213,894	319,585
Cash, cash equivalents, and restricted cash, end of period	\$ 131,588	\$ 156,955

Three months ended March 31, 2018

Cash, cash equivalents, and restricted cash were \$131.6 million at March 31, 2018, a decrease of \$82.3 million from \$213.9 million at December 31, 2017. Operating activities resulted in a net inflow of \$7.4 million primarily attributable to cash collected from clients during the period, partially offset by discretionary bonuses earned in 2017 and paid in 2018. Investing activities resulted in a net inflow of \$66.5 million primarily attributable to the net proceeds from sales and purchases of investments. Financing activities resulted in a net outflow of \$157.6 million primarily related to the payment of dividends and tax distributions.

Three months ended March 31, 2017

Cash, cash equivalents, and restricted cash were \$157.0 million at March 31, 2017, a decrease of \$162.6 million from \$319.6 million at December 31, 2016. Operating activities resulted in a net outflow of \$25.2 million primarily attributable to discretionary bonuses earned in 2016 and paid in 2017, partially offset by cash collected from clients during the period. Investing activities resulted in a net inflow of \$3.7 million primarily attributable to the net proceeds from sales and purchases of investments. Financing activities resulted in a net outflow of \$141.8 million primarily related to the payment of the special dividend of \$1.25 per share which was declared in 2016, tax distributions and payment of the quarterly dividend.

Contractual Obligations

The following table sets forth information relating to our contractual obligations as of March 31, 2018:

(\$ in thousands)	Payment Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Operating leases (net of \$6,096 of committed sublease income)	\$ 68,171	\$ 14,595	\$31,528	\$12,992	\$ 9,056
Amount due pursuant to Tax Receivable Agreement	243,997	10,959	25,965	28,075	178,998
Total	\$312,168	\$ 25,554	\$57,493	\$41,067	\$ 188,054

As of March 31, 2018, the Company has a total payable of \$244.0 million due pursuant to the tax receivable agreement in the condensed consolidated financial statements, which represents management’s best estimate of the amounts currently expected to be owed under the tax receivable agreement. Payments made under the tax receivable agreement are required to be made within 225 days of the filing of our tax returns. Because we generally expect to receive the tax savings prior to making the cash payments to the eligible selling holders of Group LP partnership units, we do not expect the cash payments to have a material impact on our liquidity. There were no payments made pursuant to the tax receivable agreement during the first quarter of 2018.

Off-Balance Sheet Arrangements

We do not invest in any off-balance sheet vehicles that provide liquidity, capital resources, market or credit risk support, or engage in any activities that expose us to any liability that is not reflected in our condensed financial statements except for those described under “Contractual Obligations” above.

Market Risk and Credit Risk

Our business is not capital-intensive and we do not invest in derivative instruments or, generally, borrow through issuing debt. As a result, we are not subject to significant market risk (including interest rate risk, foreign currency exchange rate risk and commodity price risk) or credit risk.

Risks Related to Cash and Short-Term Investments

Our cash and cash equivalents include all short-term highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less from the date of purchase. We invest most of our cash in highly-rated municipal bonds, U.S. government agency debt securities and U.S. treasury instruments. Cash is maintained in U.S. and non-U.S. bank accounts. Most U.S. and U.K. account balances exceed the FDIC and FSCS coverage limits. In addition to cash and cash equivalents, we hold various types of government debt securities that are classified as investments on our statement of financial condition as they have original maturities of three months or more

(but less than twelve months) from the date of purchase. We believe our cash and short-term investments are not subject to any material interest rate risk, equity price risk, credit risk or other market risk.

Credit Risk

We regularly review our accounts receivable and allowance for doubtful accounts by considering factors such as historical experience, credit quality, age of the accounts receivable, and the current economic conditions that may affect a customer's ability to pay such amounts owed to the Company. We maintain an allowance for doubtful accounts that, in our opinion, provides for an adequate reserve to cover losses that may be incurred. See "—Critical Accounting Policies—Accounts Receivable and Allowance for Doubtful Accounts."

Exchange Rate Risk

The Company is exposed to the risk that the exchange rate of the U.S. dollar relative to other currencies may have an adverse effect on the reported value of the Company's non-U.S. dollar denominated assets and liabilities. Non-functional currency-related transaction gains and losses are recorded in the condensed consolidated statements of operations. In addition, the reported amounts of our revenues may be affected by movements in the rate of exchange between the pound sterling, euro, Brazilian real, Hong Kong dollar, rupee and the U.S. dollar, in which our financial statements are denominated. For the three months ended March 31, 2018 and 2017, the net impact of the fluctuation of foreign currencies in other comprehensive income (loss) in the condensed statements of comprehensive income was a gain of \$1.7 million and a gain of \$0.6 million, respectively. We have not entered into any transactions to hedge our exposure to these foreign currency fluctuations through the use of derivative instruments or other methods.

Critical Accounting Policies

We believe that the critical accounting policies included below represent those that are most important to the presentation of our financial condition and results of operations and require management's most difficult, subjective and complex judgment.

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the period for which they are determined to be necessary.

All intercompany balances and transactions within the Company have been eliminated.

Revenue and Expense Recognition

The Company recognizes revenues from providing advisory services when or as our obligations are fulfilled and collection is reasonably assured. The vast majority of our advisory revenues, which include reimbursements for certain out-of-pocket expenses, are recognized over time; however, a small number of transactions may be recognized at a point in time. We provide our advisory service on an ongoing basis which, for example, may include evaluating and selecting one of multiple strategies. During such engagements, our clients are continuously benefitting from our counsel and the over time recognition matches the transfer of such benefits. However, the recognition of transaction fees is constrained until substantially all services have been provided, specified conditions have been met and the transaction is effectively complete. Upfront fees and retainers specified in our engagement letters that meet the over time criteria will be recognized on a systematic basis over the estimated period where the related services are performed. Revenues may be recognized at a point in time if the engagement represents a singular objective that does not transfer any notable value until formally completed, such as when issuing a fairness opinion. In these instances, the point in time recognition appropriately matches the transfer and consumption of our services.

Incremental costs of obtaining a contract are expensed as incurred since such costs are generally not recoverable and the typical duration of our advisory contracts is less than one year (as allowed per ASC 340-40-25-1). Costs to fulfill contracts consist of out-of-pocket expenses that are part of performing our advisory services and are typically expensed as incurred, except where the transfer and consumption of our services occurs at a point in time. For engagements recognized at a point in time, out-of-pocket expenses are capitalized and subsequently expensed in the condensed consolidated statement of operations upon completion of the engagement. The Company records deferred revenues when it receives fees from clients that have not yet been earned (e.g. an upfront fee) or when the Company has an unconditional right to consideration before all performance obligations are complete (e.g. upon satisfying conditions to earn an announcement fee, but before the transaction is consummated).

Accounts Receivable and Allowance for Doubtful Accounts

The accompanying condensed consolidated statements of financial condition present accounts receivable balances net of allowance for doubtful accounts based on the Company's assessment of the collectability of customer accounts.

The Company maintains an allowance for doubtful accounts that, in management's opinion, provides for an adequate reserve to cover losses that may be incurred. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, age of the accounts receivable, and the current economic conditions that may affect a customer's ability to pay such amounts owed to the Company.

After concluding that a reserved accounts receivable is no longer collectible, the Company will charge-off the receivable. This is determined based on several factors including the age of the accounts receivable and the credit worthiness of the customer. This has the effect of reducing both the gross receivable and the allowance for doubtful accounts.

Equity-based Compensation

The Company recognizes the cost of employee services received in exchange for an equity instrument award. The cost is based on its grant-date fair value based on quoted market prices at the time of grant amortized over the service period required by the award's vesting terms.

For the purposes of calculating diluted net income (loss) per share to holders of Class A common stock, unvested service-based awards are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method.

The Company has a retirement plan whereby a retiring employee generally will not forfeit certain qualifying incentive RSUs granted during employment if at retirement the employee meets certain requirements. For qualifying awards issued prior to December 1, 2016, the employee must (i) be at least 54 years old and (ii) have provided at least 8 consecutive years of service to the Company. For qualifying awards issued on or after December 1, 2016, (i) the employee must be at least 56 years old, (ii) the employee must have provided at least 5 consecutive years of service to the Company and (iii) the total of (i) and (ii) must be equal to at least 65 years. Any such RSUs will continue to vest on their applicable vesting schedule, subject to noncompetition and other terms. Over time a greater number of employees may become retirement eligible and the related requisite service period over which we will expense these awards will be shorter than the stated vesting period. Any unvested RSUs prior to meeting the stated requisite service period or retirement eligibility date are eligible to receive dividends in kind; however, the right to dividends in kind will be forfeited if the underlying award does not vest.

Equity Method Investments

The Company accounts for its equity method investments under the equity method of accounting as the Company does not control these entities but has the ability to exercise significant influence. The amounts recorded on the condensed consolidated financial statements of financial condition reflects the Company's share of contributions made to, distributions received from, and the equity earnings and losses of, the investments. The Company reflects its share of gains and losses of the investment in income (loss) from equity method investments in the condensed consolidated statements of operations. Certain adjustments have been made to account for the Company's equity method investment in Moelis Australia Limited under US GAAP as Moelis Australia follows local accounting principles under Australian Accounting Standards.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, "Accounting for Income Taxes" ("ASC 740"), which requires the recognition of tax benefits or expenses on temporary differences between the financial reporting and tax bases of its assets and liabilities by applying the enacted tax rates in effect for the year in which the differences are expected to reverse. Such net tax effects on temporary differences are reflected on the Company's condensed consolidated statements of financial condition as deferred tax assets and liabilities. Deferred tax assets are reduced by a valuation allowance when the Company believes that it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized.

ASC 740-10 prescribes a two-step approach for the recognition and measurement of tax benefits associated with the positions taken or expected to be taken in a tax return that affect amounts reported in the financial statements. The Company has reviewed and will continue to review the conclusions reached regarding uncertain tax positions, which may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulations and interpretations thereof. For the three and months ended March 31, 2018 and 2017, no unrecognized tax benefit was recorded. To the extent that the Company's assessment of the conclusions reached regarding uncertain tax positions changes as a result of the evaluation of new information, such change in estimate will be recorded in the period in which such determination is made. The Company reports income tax-related interest and penalties relating to uncertain tax positions, if applicable, as a component of income tax expense. For the three months ended March 31, 2018 and 2017, no such amounts were recorded.

Recent Accounting Developments

For a discussion of recently issued accounting developments and their impact or potential impact on our financial statements, see Note 3—Recent Accounting Pronouncements, of the condensed consolidated financial statements included in this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and Qualitative disclosures about market risk are set forth above in "Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk and Credit Risk."

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Controls

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

In the ordinary course of business, from time to time the Company and its affiliates are involved in judicial or regulatory proceedings, arbitration or mediation concerning matters arising in connection with the conduct of its businesses, including contractual and employment matters. In addition, government agencies and self-regulatory organizations conduct periodic examinations and initiate administrative proceedings regarding the Company's business, including, among other matters, compliance, accounting and operational matters, that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer, investment advisor, or its directors, officers or employees. In view of the inherent difficulty of determining whether any loss in connection with such matters is probable and whether the amount of such loss can be reasonably estimated, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot estimate the amount of such loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that it is not currently party to any material pending proceedings, individually or in the aggregate, the resolution of which would have a material effect on the Company.

Item 1A. Risk Factors

There have been no material changes to the Risk Factors described in Part I "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission ("SEC") as supplemented by the additional risk factor described in Part II Item 1A, "Risk Factors."

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

None.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan Or Programs(2)
January 1 - January 31	4,829	\$ 50.32	\$ —	\$ 20.0 million
February 1 - February 28	385,072	50.04	—	20.0 million
March 1 - March 31	24,426	52.50	—	20.0 million
Total	414,327	\$ 50.19	\$ —	\$ 20.0 million

- (1) Includes treasury transactions arising from net settlement of equity awards to satisfy minimum tax obligations.
- (2) In the first quarter of 2015, the Board of Directors authorized the repurchase of up to \$25 million of shares of Class A common stock of the Company and/or Class A partnership units of Group LP with no expiration date. Under this share repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of shares repurchased will

be opportunistic and measured in nature and will depend on a variety of factors, including price and market conditions.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on April 22, 2014)
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the SEC on April 22, 2014)
10.1	Master Services Agreement by and between Moelis & Company Group LP, Moelis Asset Management LP and certain subsidiaries of Moelis Asset Management LP (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 25, 2017)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer of the Registrant in accordance with Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Rule 13a-14(a) Certification of Chief Financial Officer of the Registrant in accordance with Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Section 1350 Certification of Chief Executive Officer of the Registrant in accordance with Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Section 1350 Certification of Chief Financial Officer of the Registrant in accordance with Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

* Document has been furnished, is not deemed filed and is not to be incorporated by reference into any of the Registrant's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934 irrespective of any general incorporation language contained in any such filing.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized this 3rd day of May, 2018.

MOELIS & COMPANY

/s/ Kenneth Moelis

Kenneth Moelis
Chief Executive Officer

/s/ Joseph Simon

Joseph Simon
Chief Financial Officer

[\(Back To Top\)](#)

Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth Moelis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ending March 31, 2018, of Moelis & Company as filed with the Securities and Exchange Commission on the date hereof;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the above registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors:
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 3, 2018

/s/ Kenneth Moelis
Kenneth Moelis
Chief Executive Officer

[\(Back To Top\)](#)

Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph Simon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ending March 31, 2018, of Moelis & Company as filed with the Securities and Exchange Commission on the date hereof;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the above registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors:
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 3, 2018

/s/ Joseph Simon
Joseph Simon
Chief Financial Officer

[\(Back To Top\)](#)

Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

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

Pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Kenneth Moelis, Chief Executive Officer of Moelis & Company (the "Company"), certifies with respect to the Quarterly Report of the Company on Form 10-Q for the quarterly period ended March 31, 2018 (the "Report") that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 3, 2018

/s/ Kenneth Moelis
Kenneth Moelis
Chief Executive Officer

[\(Back To Top\)](#)

Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

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

Pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Joseph Simon, Chief Financial Officer of Moelis & Company (the "Company"), certifies with respect to the Quarterly Report of the Company on Form 10-Q for the quarterly period ended March 31, 2018 (the "Report") that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 3, 2018

/s/ Joseph Simon
Joseph Simon
Chief Financial Officer

[\(Back To Top\)](#)