

## Section 1: 10-Q (10-Q)

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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, 2017

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 20, 2017, there were 26,684,363 shares of Class A common stock, par value \$0.01 per share, and 25,781,317 shares of Class B common stock, par value \$0.01 per share, outstanding.



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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Condensed Consolidated Financial Statements (Unaudited)**

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

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 156,327	\$ 318,926
Restricted cash	628	659
Receivables:		
Accounts receivable, net of allowance for doubtful accounts of \$717 and \$475 as of March 31, 2017 and December 31, 2016, respectively	34,504	23,158
Other receivables	4,712	7,293
Total receivables	39,216	30,451
Deferred compensation	10,661	8,701
Investments at fair value (cost basis \$28,591 and \$33,593 as of March 31, 2017 and December 31, 2016, respectively)	28,220	33,383
Equity method investments	23,977	20,873
Equipment and leasehold improvements, net	9,338	8,397
Deferred tax asset	273,285	167,791
Prepaid expenses and other assets	13,389	9,619
Total assets	<u>\$ 555,041</u>	<u>\$ 598,800</u>
<b>Liabilities and Equity</b>		
Compensation payable	\$ 46,055	\$ 131,591
Accounts payable and accrued expenses	18,056	14,326
Dividends payable	—	68,066
Amount due pursuant to tax receivable agreement	198,454	120,936
Deferred revenue	9,496	2,971
Other liabilities	9,779	9,469
Total liabilities	<u>281,840</u>	<u>347,359</u>
<b>Commitments and Contingencies (See Note 12)</b>		
Class A common stock, par value \$0.01 per share (1,000,000,000 shares authorized, 27,192,692 issued and 26,599,717 outstanding at March 31, 2017; 1,000,000,000 authorized, 20,948,998 issued and 20,561,108 outstanding at December 31, 2016)	272	210
Class B common stock, par value \$0.01 per share (1,000,000,000 shares authorized, 25,781,317 issued and outstanding at March 31, 2017; 1,000,000,000 authorized, 31,138,193 issued and outstanding at December 31, 2016)	258	311
Treasury stock, at cost; 592,975 and 387,890 shares as of March 31, 2017 and December 31, 2016, respectively	(18,464)	(10,930)
Additional paid-in-capital	355,005	291,026
Retained earnings (accumulated deficit)	(70,754)	(68,229)
Accumulated other comprehensive income (loss)	(297)	(543)
Total Moelis & Company equity	266,020	211,845
Noncontrolling interests	7,181	39,596
Total equity	<u>273,201</u>	<u>251,441</u>
Total liabilities and equity	<u>\$ 555,041</u>	<u>\$ 598,800</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)**

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenues</b>	\$ 173,258	\$ 126,364
<b>Expenses</b>		
Compensation and benefits	101,726	74,668
Occupancy	4,180	4,558
Professional fees	5,241	2,236
Communication, technology and information services	5,471	5,296
Travel and related expenses	6,591	6,131
Depreciation and amortization	857	736
Other expenses	6,158	3,848
Total expenses	130,224	97,473
<b>Operating income (loss)</b>	43,034	28,891
Other income and (expenses)	238	103
Income (loss) from equity method investments	3,104	2,069
<b>Income (loss) before income taxes</b>	46,376	31,063
Provision for income taxes	6,997	5,444
<b>Net income (loss)</b>	39,379	25,619
Net income (loss) attributable to noncontrolling interests	24,101	18,649
Net income (loss) attributable to Moelis & Company	\$ 15,278	\$ 6,970
Weighted-average shares of Class A common stock outstanding		
Basic	26,160,969	20,376,718
Diluted	32,921,576	22,402,820
Net income (loss) per share attributable to holders of shares of Class A common stock		
Basic	\$ 0.58	\$ 0.34
Diluted	\$ 0.46	\$ 0.31
Dividends declared per share of Class A common stock	\$ 0.37	\$ 1.10

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

**Moelis & Company**  
**Condensed Consolidated Statements of Comprehensive Income**

(Unaudited)

(dollars in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net income	\$ 39,379	\$ 25,619
Unrealized gain (loss) on investments	(125)	22
Foreign currency translation adjustment, net of tax	649	(88)
Other comprehensive income (loss)	524	(66)
Comprehensive income (loss)	39,903	25,553
Less: Comprehensive income attributable to noncontrolling interests	24,379	18,608
Comprehensive income (loss) attributable to Moelis & Company	<u>\$ 15,524</u>	<u>\$ 6,945</u>

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

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 39,379	\$ 25,619
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Bad debt expense	379	465
Depreciation and amortization	857	736
(Income) loss from equity method investments	(3,104)	(2,069)
Equity-based compensation	25,903	16,693
Deferred tax provision	(106)	221
Other	1,831	21
Changes in assets and liabilities:		
Accounts receivable	(11,707)	6,766
Other receivables	2,212	1,026
Prepaid expenses and other assets	(3,737)	434
Deferred compensation	(1,946)	(4,019)
Compensation payable	(85,706)	(95,298)
Accounts payable and accrued expenses	3,678	(4,448)
Deferred revenue	6,527	2,194
Dividends received	—	803
Other liabilities	310	228
Net cash provided by (used in) operating activities	<u>(25,230)</u>	<u>(50,628)</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(27,955)	(27,970)
Proceeds from sales of investments	33,000	18,000
Return of capital from equity method investments	—	9
Note payments received from employees	403	—
Notes issued to employees	—	(352)
Purchase of equipment and leasehold improvements	(1,798)	(989)
Change in restricted cash	37	25
Net cash provided by (used in) investing activities	<u>3,687</u>	<u>(11,277)</u>
<b>Cash flows from financing activities</b>		
Dividends and distributions	(129,154)	(92,844)
Payments under tax receivable agreement	(5,032)	—
Payments to settle employee tax obligations on share-based awards	(7,534)	(1,847)
Class A partnership units and other equity purchased	(101)	—
Net cash provided by (used in) financing activities	<u>(141,821)</u>	<u>(94,691)</u>
Effect of exchange rate fluctuations on cash and cash equivalents	765	(872)
Net increase (decrease) in cash and cash equivalents	(162,599)	(157,468)
Cash and cash equivalents, beginning of period	318,926	248,022
Cash and cash equivalents, end of period	<u>\$ 156,327</u>	<u>\$ 90,554</u>
<b>Supplemental cash flow disclosure:</b>		
<b>Cash paid during the period for:</b>		
Income taxes	\$ 11,369	\$ 9,468
Dividends paid, declared in the prior year	\$ 68,066	\$ —
<b>Other non-cash activity</b>		
Dividend equivalents issued	\$ 3,706	\$ 5,351
Class A Partnership Units or other equity converted into Class A Common Stock	\$ 22,181	\$ —
Cumulative Effect Adjustment upon Adoption of ASU 2016-09	\$ 658	\$ —
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								
<b>Balance as of January 1, 2017</b>	20,948,998	31,138,193	(387,890)	\$ 210	\$ 311	\$(10,930)	\$ 291,026	\$ (68,229)	\$ (543)	\$ 39,596	\$251,441
<b>Cumulative Effect Adjustment upon Adoption of ASU 2016-09</b>	—	—	—	—	—	—	4,855	(4,197)	—	—	658
<b>Balance as of January 1, 2017, as adjusted</b>	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)
<b>Balance as of March 31, 2017</b>	<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>
<b>Balance as of January 1, 2016</b>	20,536,740	31,229,236	(263,622)	\$ 205	\$ 312	\$(7,616)	\$ 190,703	\$ (15,338)	\$ 108	\$ 89,044	\$257,418
Net income (loss)	—	—	—	—	—	—	—	6,970	—	18,649	25,619
Equity-based compensation	186,516	(1,640)	—	2	—	—	15,794	—	—	897	16,693
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	(25)	(41)	(66)
Dividends declared (\$1.10 per share of Class A Common Stock) and distributions	—	—	—	—	—	—	5,351	(27,882)	—	(70,313)	(92,844)
Treasury stock purchases	—	—	(70,431)	—	—	(1,847)	—	—	—	—	(1,847)
Class A Partnership Units and other equity purchased or converted into Class A Common Stock	—	—	—	—	—	—	—	—	—	—	—
Net excess tax benefit from equity-based compensation	—	—	—	—	—	—	(89)	—	—	—	(89)
Other	—	—	—	—	—	—	34	—	—	—	34
<b>Balance as of March 31, 2016</b>	<u>20,723,256</u>	<u>31,227,596</u>	<u>(334,053)</u>	<u>\$ 207</u>	<u>\$ 312</u>	<u>\$(9,463)</u>	<u>\$ 211,793</u>	<u>\$ (36,250)</u>	<u>\$ 83</u>	<u>\$ 38,236</u>	<u>\$204,918</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:
  - 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 (German branch)
    - Moelis & Company UK LLP, DIFC Branch (Dubai branch)
  - 50% of Moelis Australia Holdings PTY Limited (“Moelis Australia Holdings”, or the “Australian JV”), a joint venture with Magic Trust Trustee PTY Limited (the “Trust”).
  - 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.

## 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 and combined audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

**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 realization of deferred taxes;
- the measurement of equity-based compensation; and
- other matters that affect the reported amounts and disclosures of contingencies in the financial statements.

**Cash and Cash Equivalents**—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.

As of March 31, 2017, the Company had cash equivalents of \$116,143 (December 31, 2016: \$246,933) invested primarily in government securities money market funds and U.S. Treasury Bills. Additionally, as of March 31, 2017, the Company had cash of \$40,184 (December 31, 2016: \$71,993) 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).

**Restricted Cash**—As of March 31, 2017 and December 31, 2016, the Company held cash of \$628 and \$659, respectively, in restricted collateral deposits primarily held by certain non-U.S. subsidiaries.

**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.

**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.

**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**—The Company recognizes revenues from providing advisory services when earned and collection is reasonably assured. Upfront fees are recognized over the estimated period that the related services are performed. Transaction-related fees are recognized when all services for a transaction have been provided, specified conditions have been met and the transaction closes. Underwriting revenues are recognized when the offering is deemed complete and is presented net of related expenses. Deferred revenues are recorded for fees received that have not yet been earned. Expenses are reflected on the condensed consolidated statements of operations, net of client reimbursements. Reimbursable expenses billed to clients totaled \$3,627 and \$3,251 for the three months ended March 31, 2017 and 2016, respectively.

**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.

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. See Note 7 for further discussion.

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.

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 \$4.9 million as of January 1, 2017. The tax effect of this adjustment increased deferred tax assets and retained earnings by \$0.7 million. No prior periods were adjusted as a result of this change in accounting policy.

**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, 2017 and 2016, 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, 2017 and 2016, 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 May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 requires a company to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for services provided. The amendment requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, "Deferral of the Effective Date", which provides amendments that defer the effective date of ASU 2014-09 by one year. The amendments in this update are effective either retrospectively to each prior reporting period presented, or as a cumulative effect adjustment as of the date of adoption, during interim and annual periods beginning after December 15, 2017, with early adoption permitted beginning after December 15, 2016. The Company currently anticipates that it will adopt ASU 2014-09 using the modified retrospective approach, with a cumulative-effect adjustment upon adoption. Additionally, the adoption of ASU 2014-09 is expected to affect the timing of revenue recognition and the presentation of reimbursable expenses billed to clients in our condensed and consolidated statements of operations. We cannot currently estimate the impact of adopting ASU 2014-09, as we have not completed our evaluation of the pronouncement.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 enhances the reporting model for financial instruments by addressing certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. Key provisions require equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. In addition, the exit price notion must be used when measuring the fair value of financial instruments for disclosure purposes. ASU 2016-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after



December 15, 2017. Upon initial evaluation, the adoption of ASU 2016-01 will not have a material impact on the Company.

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 August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 provides more standardized guidance to improve consistency surrounding the classification of certain cash payments and receipts between the operating, investing, and financing sections of the statement of cash flows. These transactions include the settlement of certain debt instruments, distributions received from equity-method investees and other transactions. ASU 2016-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. Upon initial evaluation, the primary impact is selecting one of two acceptable accounting treatments for distributions received from equity method investments. The Company currently follows the nature of distribution approach, therefore, we do not anticipate the adoption of ASU 2016-15 to have a material impact on our condensed and consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes—Intra-Entity Transfers of Assets Other Than Inventory” (“ASU 2016-16”). ASU 2016-16 provides clearer guidance related to current and deferred income taxes driven by intra-entity asset transfers. Specifically, this ASU states that an entity should recognize the income tax consequences of intra-entity transfers of assets other than inventory when they occur whereas in the past, certain entities did not recognize these impacts until the asset was sold to a third party. ASU 2016-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. Upon initial evaluation, we do not expect the adoption of ASU 2016-16 to have a material impact on our condensed and consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows—Restricted Cash” (“ASU 2016-18”). ASU 2016-18 requires that entities include a reconciliation of changes in restricted cash in their cash flow statement. This will standardize the diversity in practice where some entities included such balances in their statement, while others omitted them. ASU 2016-18 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. Due to this new guidance, the Company will be required to include a reconciliation of changes in restricted cash in our condensed and consolidated statements of cash flows.

#### **4. EQUITY METHOD INVESTMENTS**

##### **Investment in Joint Venture**

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

For the three months ended March 31, 2017 and 2016, income of \$3,112 and \$373 was recorded on this investment, respectively.

On April 10, 2017, the Australian JV consummated their initial public offering and became listed on the Australian Securities Exchange. See Note 16 of the condensed consolidated financial statements included in this Form 10-Q for further information.

### Other Equity Method Investment

In June 2014, the Company made an investment of \$265 into a general partner entity which invests third-party funds and is controlled by a related party, Moelis Asset Management LP. The Company has determined that it should account for this investment as an equity method investment on its condensed consolidated financial statements. For the three months ended March 31, 2016, income of \$1,696 was recorded on this investment and the Company received cash distributions from this entity of \$812. The investment was substantially liquidated during 2016 and as of December 31, 2016, the Company's remaining investment in the entity was approximately \$30, which is primarily cash held in escrow for fees and potential contingencies.

## 5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements, net consists of the following:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Office equipment	\$ 12,548	\$ 12,489
Furniture and fixtures	3,262	3,255
Leasehold improvements	9,834	8,151
Total	25,644	23,895
Less accumulated depreciation and amortization	(16,306)	(15,498)
Equipment and leasehold improvements, net	<u>\$ 9,338</u>	<u>\$ 8,397</u>

Depreciation and amortization expenses for fixed assets totaled \$857 and \$736 for the three months ended March 31, 2017 and 2016, 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 and U.S. Treasury Bills as of March 31, 2017 and December 31, 2016 are based on quoted prices for recent trading activity in identical or similar instruments. The Company generally invests in U.S. Treasury Bills with maturities of less than twelve months. See Note 2 for further information on the Company’s fair value hierarchy.

In 2015 the Company received convertible notes as compensation for its services and classified this investment as available-for-sale. The convertible notes did not have readily determinable market values and were categorized accordingly as level 3. The fair value of the convertible notes was recorded at the initial transaction price at which such notes were purchased by third party investors in the capital market transaction on which the Company provided services. In July 2016, the issuer of the convertible notes consummated its initial public offering and the notes converted into common stock of the issuer at a discounted conversion rate equal to the principal value of the notes plus accrued interest. The common stock is classified as available-for-sale and the subsequent measurement of its fair value is recorded based upon the quoted price in its active market. Unrealized changes in fair value are reflected in other comprehensive income in the condensed consolidated financial statements.

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets:</b>				
<i>Included in cash and cash equivalents</i>				
Government securities money market	\$ 116,143	\$ —	\$ 116,143	\$ —
<i>Investments</i>				
U.S. treasury bills	27,957	27,957	—	—
Common stock	263	263	—	—
<b>Total financial assets</b>	<u>\$ 144,363</u>	<u>\$ 28,220</u>	<u>\$ 116,143</u>	<u>\$ —</u>

The following table summarizes the levels of the fair value hierarchy into which the Company’s financial assets fall as of December 31, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets:</b>				
<i>Included in cash and cash equivalents</i>				
U.S. treasury bills	\$ 44,999	\$ —	\$ 44,999	\$ —
Government securities money market	201,934	—	201,934	—
<i>Investments</i>				
U.S. treasury bills	32,995	—	32,995	—
Convertible notes	388	388	—	—
<b>Total financial assets</b>	<u>\$ 280,316</u>	<u>\$ 388</u>	<u>\$ 279,928</u>	<u>\$ —</u>

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 bills 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 bill 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, 2017, there were no transfers between levels related to U.S. treasury bills. During the three months ended March 31, 2016, there was a transfer of \$19,999 from level 1 to level 2 related to a U.S. Treasury bill initially acquired when it was on-the-run and classified as level 1, but subsequently transferred to level 2 as a result of it becoming 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, 2017 and 2016 are presented below.

<b>(dollars in thousands, except per share amounts)</b>	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<i>Numerator:</i>		
Net income (loss) attributable to holders of shares of Class A common stock—basic	\$ 15,278	\$ 6,970
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	<u>\$ 15,278</u>	<u>\$ 6,970</u>
<i>Denominator:</i>		
Weighted average shares of Class A common stock outstanding—basic	26,160,969	20,376,718
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	6,760,607 (b)	2,026,102 (b)
Weighted average shares of Class A common stock outstanding—diluted	<u>32,921,576</u>	<u>22,402,820</u>
Net income (loss) per share attributable to holders of shares of Class A common stock		
Basic	<u>\$ 0.58</u>	<u>\$ 0.34</u>
Diluted	<u>\$ 0.46</u>	<u>\$ 0.31</u>

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 62,321,050 and 56,273,530 for the three months ended March 31, 2017 and 2016, 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 months ended March 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, the additional weighted average amount of RSUs that would have been included in this calculation if the effect were dilutive would have been 896 and 37,950 units, respectively. Additionally, during the three months ended March 31, 2017 and 2016, the additional weighted average amount of options that would have been included in this calculation if the effect were dilutive would have been 0 and 2,933,468 options, 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, 2017, partners held 28,341,424 Group LP partnership units, 575,111 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 \$688 and \$897 for the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017, there was \$2,822 of unrecognized compensation expense related to unvested Class A partnership units which is expected to be recognized over a weighted-average period of 1.2 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, 2017, 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, 2017 and 2016, the Company recognized expenses of \$24,463 and \$14,853, 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, 2017 and 2016.

	Restricted Stock & RSUs			
	2017		2016	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested Balance at January 1,	8,504,190	\$ 26.70	5,123,481	\$ 28.67
Granted	2,569,302	37.03	3,459,111	24.06
Forfeited	(29,491)	29.12	(24,096)	27.36
Vested	(1,041,696)	26.82	(179,348)	31.01
Unvested Balance at March 31,	10,002,305	\$ 29.50	8,379,148	\$ 26.84

As of March 31, 2017, the total compensation expense related to unvested restricted stock and RSUs not yet recognized was \$157,529. The weighted-average period over which this compensation expense is expected to be recognized at March 31, 2017 is 2.0 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 \$1.00, \$0.80 and \$1.25 per share to common stock holders of record as of November 10, 2014, February 19, 2016 and December 23, 2016. 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 \$3.05 from \$25.00 per share to \$21.95 per share.

The following table summarizes activity related to stock options for the three months ended March 31, 2017 and 2016.

	<b>Stock Options Outstanding</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Number</b>	<b>Weighted Average Exercise Price</b>	<b>Number</b>	<b>Weighted Average Exercise Price</b>
	<b>Outstanding</b>	<b>Per Share</b>	<b>Outstanding</b>	<b>Per Share</b>
Outstanding at January 1,	2,822,728	\$ 21.95	3,081,203	\$ 21.95
Grants	—	—	—	—
Exercises	—	—	—	—
Forfeiture or expirations	(35,500)	21.95	(54,000)	21.95
Outstanding at March 31,	<u>2,787,228</u>	<u>\$ 21.95</u>	<u>3,027,203</u>	<u>\$ 21.95</u>

For the three months ended March 31, 2017 and 2016, the Company recognized expenses of \$752 and \$943, respectively, in relation to these stock options. The weighted-average period over which this compensation expense is expected to be recognized at March 31, 2017 is 1.6 years. As of March 31, 2017, the total compensation expense related to unvested stock options not yet recognized was \$5,263. 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

#### *IPO and Reorganization*

In April 2014, the Company issued 15,263,653 shares of Class A common stock as follows:

- 7,699,851 shares in connection with the reorganization;
- 7,475,000 shares in connection with the IPO; and
- 88,802 shares in connection with the settlement of appreciation rights issued in prior years.

#### *Follow-on Offerings*

In November 2014, the Company completed an offering of 6,325,000 shares of Class A common stock by the Company and selling stockholders. The Company conducted the offering to facilitate organized liquidity and increase the public float of its Class A common stock. In connection with the offering, the shares of Class A common stock outstanding of the Company increased by 4,511,058 shares. The Company did not retain any proceeds from the sale of its Class A common stock.

On January 11, 2017, the Company completed an offering of 5,750,000 shares of Class A common stock in order to facilitate organized liquidity and increase the public float of its Class A common stock. In connection with the offering, the shares of Class A common stock outstanding of the Company increased by 5,356,876 shares. The Company did not retain any proceeds from the sale of its Class A common stock.

As of March 31, 2017, 27,192,692 shares of Class A common stock were issued and 26,599,717 shares were outstanding. As of December 31, 2016, 20,948,998 shares of Class A common stock were issued and 20,561,108 shares were outstanding, due primarily to the IPO and offering transactions described above.

## **Class B Common Stock**

### *IPO and Reorganization*

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), and the aggregate number of shares of Class B common stock may be converted to Class A common stock. 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.

### *Follow-on Offerings*

In connection with the offering in November 2014, Partner Holdings surrendered 2,998,322 shares of Class B common stock and was issued 1,658 shares of Class A common stock at a conversion ratio of .00055 to 1. The Company also purchased 1,509,131 shares of Class B common stock from Partner Holdings for cash of \$28 and subsequently cancelled those shares. The Company did not retain any proceeds from the offering.

In connection with the offering in January 2017, the Company purchased 5,356,876 shares of Class B common stock from Partner Holdings for cash of \$101 and subsequently cancelled those shares.

As of March 31, 2017 and December 31, 2016, 25,781,317 and 31,138,193 shares of Class B common stock were issued and outstanding, respectively, due primarily to the IPO and offering transactions described above.

## **Treasury Stock**

During the three months ended March 31, 2017 and 2016, the Company repurchased 205,085 and 70,431 shares, respectively, pursuant to the Company's share repurchase program and shares repurchased 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 \$7,534 and \$1,847, respectively, in the treasury stock balance on the Company's condensed consolidated statement of financial condition as of March 31, 2017 and December 31, 2016.

## **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, 2017 and December 31, 2016, partners held 28,341,424 and 33,698,300 Group LP partnership units, respectively, representing a 52% and 62% 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 26,599,717 shares of Class A common stock outstanding at March 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, 2017 and 2016, the Company incurred \$468 and \$312 in aircraft lease costs to be paid to Manager, respectively. In addition, there are two other lessees of the aircraft; one of whom is Mr. Moelis and the other is Moelis Asset Management LP. These lessees share the lease, operating and related costs of the plane in proportion to their respective use pursuant to a cost sharing and operating agreement.

*Promissory Notes*—As of March 31, 2017, there were \$522 of unsecured promissory notes from employees held by the Company (December 31, 2016: \$922). Any outstanding balances are reflected in other receivables on the condensed consolidated statements of financial condition. The notes held as of March 31, 2017 and December 31, 2016 bear a fixed interest rate of 4.00%. During each of the three months ended March 31, 2017 and 2016, the Company received \$403 and \$0 of principal repayments and recognized interest income of \$7 and \$3, 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 \$313 and \$362 for the three months ended March 31, 2017 and 2016, 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, 2017 and December 31, 2016, the Company had no balance due from Moelis Asset Management LP.

*Joint Venture*—As of March 31, 2017 and December 31, 2016, the Company had a net balance due to the Australian JV of \$116 and \$38, respectively, which are reflected in other receivables on the condensed consolidated statements of financial condition. These balances consist of amounts due from the Australian JV for advisory services performed as well as billable expenses incurred by the Company on behalf of the Australian JV during the period. The relationship between the Company and the Australian JV is governed by a services agreement.

*Other Equity Method Investment*—In June of 2014, the Company made an investment of \$265 into an entity controlled by a related party, Moelis Asset Management LP. The Company has determined that it should account for this investment as an equity method investment on the condensed consolidated financial statements. For the three months ended March 31, 2016, income of \$1,696 was recorded on this investment and the Company received cash distributions from this entity of \$812. The investment was substantially liquidated during 2016. See Note 4 of the condensed consolidated financial statements included in this Form 10-Q for further information.

*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 \$1,019 and \$400 for the three months ended March 31, 2017 and 2016, 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, 2017, Moelis U.S. had net capital of \$95,639, which was \$95,389 in excess of its required net capital. At December 31, 2016, Moelis U.S. had net capital of \$76,871 which was \$76,621 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, 2017, the aggregate regulatory net capital of Moelis UK was \$10,445 which exceeded the minimum requirement by \$10,391. At December 31, 2016, the aggregate regulatory net capital of Moelis UK was \$8,827, which exceeded the minimum requirement by \$8,774.

## 12. COMMITMENTS AND CONTINGENCIES

**Bank Line of Credit**—In May 2015 the Company renewed its unsecured revolving credit facility which increased the commitment amount and extended the maturity date to June 30, 2017. As of March 31, 2017, 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, 2017 and December 31, 2016, the Company had no borrowings under the credit facility.

As of March 31, 2017, the Company's available credit under this facility was \$33,157 as a result of the issuance of an aggregate amount of \$6,843 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 \$3,756 and \$3,752 for the three months ended March 31, 2017 and 2016, respectively. The amount for the three months ended March 31, 2016 includes a reduction in occupancy expense of \$245, related to sublease agreements which expired in October 2016. 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 operating leases for the three months ended March 31, 2017, includes \$150 related to the aforementioned sublease loss reserve, which is remeasured at each reporting period.

The future minimum rental payments required under the operating leases in place at March 31, 2017, are as follows:

<b>Fiscal year ended</b>	<b>Operating Leases</b>	<b>Sublease Income</b>	<b>Net Minimum Payments</b>
2017	\$ 13,624	\$ —	\$ 13,624
2018	17,861	(383)	17,478
2019	17,844	(522)	17,322
2020	11,338	(835)	10,503
2021	6,007	(835)	5,172
Thereafter	15,717	(2,924)	12,793
<b>Total</b>	<b>\$ 82,391</b>	<b>\$ (5,499)</b>	<b>\$ 76,892</b>

**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, 2017 and 2016, in the amounts of \$516 and \$506, 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 are primarily made up of individual partners and members 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 \$6,997 and 15% and \$5,444 and 18% for the three months ended March 31, 2017 and 2016, respectively. The income tax provision for the aforementioned periods primarily reflects the Company's allocable share of earnings from Group LP at 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 taxes. The decrease in effective tax rate is primarily attributable to the recognition of excess tax benefits from equity-based compensation as a component of income tax expense under ASU 2016-09.

The Company recorded an increase in the net deferred tax asset of \$105,494 for the three months ended March 31, 2017, which was primarily attributable to the step-up in tax basis in Group LP assets resulting from the redemption of Class A partnership units in connection with the follow-on offering in January 2017, and an increase in deferred compensation. Approximately \$97,117 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 \$82,550) 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 and combined statements of financial condition. The remaining tax benefit is allocable to the Company and is recorded in additional paid-in-capital.

### **15. 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 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 comprehensive 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.

There were no clients that accounted for more than 10% of revenues for the three months ended March 31, 2017 and two clients that accounted for more than 10% of revenues for the same period in 2016. 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 sets forth the geographical distribution of 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.

	Three Months Ended	
	March 31,	
	2017	2016
Revenues:		
United States	\$138,402	\$106,733
Europe	22,019	10,794
Rest of World	12,837	8,837
Total	<u>\$173,258</u>	<u>\$126,364</u>

  

	March 31,	December 31,
	2017	2016
Assets:		
United States	\$ 471,993	\$ 506,748
Europe	26,369	31,341
Rest of World	56,679	60,711
Total	<u>\$ 555,041</u>	<u>\$ 598,800</u>

## 16. SUBSEQUENT EVENTS

The Board of Directors of Moelis & Company declared a quarterly dividend on April 21, 2017, of \$0.37 per share to be paid on May 24, 2017 to Class A common stockholders of record on May 10, 2017.

On April 10, 2017, the Australian JV consummated their initial public offering and became listed on the Australian Securities Exchange. The Australian JV issued 25 million shares in the offering, a 20% stake in the company, for approximately \$44.1 million. The Company will recognize a gain of approximately \$15.2 million in connection with the offering during the second quarter of 2017, recorded in other income and expenses on the condensed consolidated statement of operations. Since the Company did not purchase any of the offered shares, the Company's ownership interest in the Australian JV decreased from 50% to 40%. In connection with the offering, the Australian JV agreed to terminate an asset management related revenue sharing agreement resulting in a payment of \$9.6 million, of which the Company will recognize its share in income from equity method investments during the second quarter of 2017. Also, in connection with the offering and new shareholders agreement, the Company and the Australian JV terminated a put option enabling the key senior Australian executive to sell his shares held in the Australian JV back to the Company, and a call option held by the Company to purchase additional shares in the Australian JV. On March 20, 2017, the Australian JV declared a dividend of approximately \$23.3 million, of which the Company received its share of \$11.7 million on April 18, 2017. The Company accounted for the dividend as a return on investment and reduced the carrying value of the investment in the Australian JV by approximately \$11.7 million in the second quarter of 2017.

## **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, 2016.

### **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 17 offices located in North and South America, 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 Ríos, S.C. (“ADR”) in 2016. We also added regional capabilities in the U.S., opening offices in Boston in 2007, Chicago in 2008, Houston and the San Francisco Bay Area 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, 2017, we served our clients globally with 441 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 in the three months ended March 31, 2017, referenced throughout this Form 10-Q was obtained from Thomson Financial as of April 04, 2017.

For the first three months of 2017, we earned revenues of \$173.3 million, or an increase of 37% from the \$126.4 million earned during the same period in 2016. This compares favorably with an 11% decrease in the number of global completed M&A transactions greater than \$100 million and a 19% decrease in volume in the same period. Our increase in revenues for the quarter reflects a greater number of transaction completions and total clients advised, and we achieved growth across all major regions including the U.S., Europe and rest of world. Specific to M&A, we have seen a recent pick up in middle market and sponsor-related transactions. In fact, the number of global market completions was up 13% year over year for transactions sized between \$500 million and \$2 billion, and the number of announcements was up 25%, and we are benefiting from this activity.

In the U.S., which has been a particularly strong driver of our revenues, we are witnessing many companies pursue M&A in order to grow revenues and/or drive greater efficiencies by reducing costs. Based on historical experience, we believe the current economic backdrop (high corporate cash balances, relatively low interest rates and availability of credit), provides a solid foundation for M&A.

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, 2017 and 2016.

(\$ in thousands)	Three Months Ended		Variance 2017 vs 2016
	March 31,		
	2017	2016	
Revenues	\$ 173,258	\$ 126,364	37%
Expenses:			
Compensation and benefits	101,726	74,668	36%
Non-compensation expenses	28,498	22,805	25%
Total operating expenses	130,224	97,473	34%
Operating income (loss)	43,034	28,891	49%
Other income and (expenses)	238	103	131%
Income (loss) from equity method investments	3,104	2,069	50%
Income (loss) before income taxes	46,376	31,063	49%
Provision for income taxes	6,997	5,444	29%
Net income (loss)	\$ 39,379	\$ 25,619	54%

### 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. 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 or 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 revenues by the type of advice we provide (M&A, recapitalizations and restructurings or other corporate finance matters) because of the complexity of the transactions on which we may earn revenues 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, 2017 versus 2016*

Revenues were \$173.3 million for the three months ended March 31, 2017 as compared with \$126.4 million for the same period in 2016, representing an increase of 37%. The increase in revenues was primarily driven by an increased





number of transaction completions and total clients advised. For the three months ended March 31, 2017 and 2016 we earned revenues from 141 and 126 clients, respectively, and the number of clients who paid fees equal to or greater than \$1 million increased to 46 clients from 28 clients for the same period of 2016.

***Operating Expenses***

The following table sets forth information relating to our operating expenses, which are reported net of reimbursements by our clients:

(\$ in thousands)	Three Months Ended		Variance 2017 vs 2016
	March 31,		
	2017	2016	
Expenses:			
Compensation and benefits	\$101,726	\$74,668	36%
<i>% of revenues</i>	59%	59%	
Non-compensation expenses	\$ 28,498	\$22,805	25%
<i>% of revenues</i>	16%	18%	
Total operating expenses	\$130,224	\$97,473	34%
<i>% of revenues</i>	75%	77%	

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. Expenses are recorded on the condensed consolidated statements of operations, net of any expenses reimbursed by clients.

*Three Months Ended March 31, 2017 versus 2016*

Operating expenses were \$130.2 million for the three months ended March 31, 2017 and represented 75% of revenues, compared with \$97.5 million for the same period in 2016 which represented 77% of revenues. The increase in operating expenses was primarily driven by increased discretionary cash bonus expense in-line with the growth in revenues and an additional tranche of equity amortization as compared to prior year as well as higher non-compensation expense.

*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, 2017 versus 2016*

For the three months ended March 31, 2017, compensation-related expenses of \$101.7 million represented 59% of revenues, compared with \$74.7 million of compensation-related expenses which also represented 59% of revenues in the prior year period. The increase in compensation expenses was primarily driven by a combination of greater revenue and increased equity amortization during 2017 as compared with 2016.

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 \$67.5 million and \$56.3 million for the three months ended March 31, 2017 and 2016, respectively. The increase in fixed compensation costs relates to an additional tranche of 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 \$34.2 million and \$18.4 million for the three months ended March 31, 2017 and 2016, 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. Reimbursed client expenses are netted within the appropriate non-compensation expense line.

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' evolving needs.

*Three Months Ended March 31, 2017 versus 2016*

For the three months ended March 31, 2017, non-compensation expenses of \$28.5 million represented 16% of revenues, compared with \$22.8 million which represented 18% of revenues in the prior year period. The increase in non-compensation expense is primarily due to increased professional fees and other expenses driven by greater transaction related charges and incremental business development activities.

***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.

*Investment in Joint Venture*

On April 1, 2010, we entered into the Australian JV, investing a combination of cash and certain net assets in exchange for a 50% interest in the Australian JV. The remaining 50% of the Australian JV is owned by an Australian

trust established by and for the benefit of Australian executives. The Australian JV'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 the Australian JV can vary significantly period to period. The Australian JV has offices in Sydney and Melbourne.

On April 10, 2017, the Australian JV consummated their initial public offering and became listed on the Australian Securities Exchange. See Note 16 of the condensed consolidated financial statements included in this Form 10-Q for further information.

*Three Months Ended March 31, 2017 versus 2016*

Income (loss) from equity method investments related to our share of gains and losses of the Australian JV, was income of \$3.1 million and \$0.4 million for the three months ended March 31, 2017 and 2016, respectively. During the three months ended March 31, 2017, the Australian JV's revenues increased by 152% million compared with the same period in 2016. Operating expenses increased approximately 83% during the three months ended March 31, 2017 when compared with the same period in 2016.

*Other Equity Method Investment*

In June 2014, the Company made an investment into a general partner entity which invests third-party funds and is controlled by a related party, Moelis Asset Management LP. The Company determined that it should account for this investment as an equity method investment on its condensed consolidated financial statements. The investment was substantially liquidated during the year ended December 31, 2016.

*Three Months Ended March 31, 2016*

Income (loss) from equity method investments related to our investment in an entity which invests in funds was income of \$1.7 million for the three months ended March 31, 2016.

***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 are primarily made up of individual partners and members 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, 2017 versus 2016*

The Company's provision for income taxes and effective tax rates were \$7.0 million and 15% and \$5.4 million and 18% for the three months ended March 31, 2017 and 2016, 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 taxes. The decrease in effective tax rate is primarily attributable to the excess tax benefits arising from the settlement of employee equity-based compensation in accordance with ASU 2016-09.

## **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. As of March 31, 2017 and December 31, 2016, the Company had cash equivalents of \$116.1 million and \$246.9 million, respectively, invested in U.S. Treasury Bills and government securities money market funds. Additionally, as of March 31, 2017 and December 31, 2016, the Company had cash of \$40.2 million and \$72.0 million, 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 U.S. treasury bills 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. As of March 31, 2017 and December 31, 2016, the Company held \$28.0 million and \$33.0 million of U.S. Treasury Bills classified as investments, 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, 2017 and December 31, 2016 accounts receivable were \$34.5 million and \$23.2 million, respectively, net of allowances of \$0.7 million and \$0.5 million, respectively.

To provide for additional working capital and other general corporate purposes, we maintain a \$40.0 million unsecured revolving credit facility that matures on June 30, 2017. 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, 2017, the Company had no borrowings under the credit facility.

As of March 31, 2017, the Company's available credit under this facility was \$33.2 million as a result of the issuance of an aggregate amount of \$6.8 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 \$0.37 per share to be paid on May 24, 2017 to Class A common stockholders of record on May 10, 2017. During the three months ended March 31, 2017 the Company paid aggregate dividends of \$1.62 per share, which included a special dividend of \$1.25 per share along with the regular quarterly dividend of \$0.37 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, 2017 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,	
	2017	2016
<b>Cash Provided By (Used In)</b>		
Operating Activities:		
Net income (loss)	\$ 39,379	\$ 25,619
Non-cash charges	25,760	16,067
Other operating activities	(90,369)	(92,354)
Total operating activities	(25,230)	(50,668)
Investing Activities	3,687	(11,277)
Financing Activities	(141,821)	(94,651)
Effect of exchange rate changes	765	(872)
Net increase (decrease) in cash	(162,599)	(157,468)
Cash and cash equivalents, beginning of period	318,926	248,022
Cash and cash equivalents, end of period	\$ 156,327	\$ 90,554

*Three months ended March 31, 2017*

Cash and cash equivalents were \$156.3 million at March 31, 2017, a decrease of \$162.6 million from \$318.9 million of cash and cash equivalents 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.

*Three months ended March 31, 2016*

Cash and cash equivalents were \$90.6 million at March 31, 2016, a decrease of \$157.4 million from \$248.0 million of cash and cash equivalents at December 31, 2015. Operating activities resulted in a net outflow of \$50.7 million primarily attributable to discretionary bonuses earned in 2015 and paid in 2016. Investing activities resulted in a net outflow of \$11.3 million primarily attributable to the purchase of investments, partially offset by proceeds from sales of investments. Financing activities resulted in a net outflow of \$94.7 million primarily related to the payment of a special and quarterly dividend and tax distributions.

**Contractual Obligations**

The following table sets forth information relating to our contractual obligations as of March 31, 2017:

(\$ in thousands)	Payment Due by Period				
	Total	Less than	1 –	3 –	More than
		1 Year	3 Years	5 Years	5 Years
Operating leases (net of \$5,499 of committed sublease income)	\$ 76,892	\$ 13,624	\$34,800	\$15,675	\$ 12,793
Amount due pursuant to Tax Receivable Agreement	198,454	—	14,329	19,701	164,424
<b>Total</b>	<b>\$275,346</b>	<b>\$ 13,624</b>	<b>\$49,129</b>	<b>\$35,376</b>	<b>\$ 177,217</b>

As of March 31, 2017, the Company has a total payable of \$198.5 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. A payment of \$5,032 due pursuant to the tax receivable agreement was made during the first quarter of 2017.

### **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 U.S. Treasury Bills and government securities money market funds. 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 U.S. Treasury Bills 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, 2017 and 2016, 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 \$0.6 and a loss of \$0.1 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 earned and collection is reasonably assured. Upfront fees and retainers are recognized over the estimated period during which the related services are to be performed. Transaction-related fees are recognized when all services for a transaction have been provided, specified conditions have been met and the transaction closes. Deferred revenues are recorded for fees received that have not yet been earned. Expenses are recorded on the condensed consolidated financial statements, net of client reimbursements.

### ***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



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.

### ***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, 2017 and 2016, 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, 2017 and 2016, 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, 2016 as filed with the Securities and Exchange Commission ("SEC").

**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	10,598	\$ 34.27	\$ —	\$ 20.0 million
February 1 - February 28	172,372	36.89	—	20.0 million
March 1 - March 31	22,115	36.75	—	20.0 million
Total	205,085	\$ 36.74	\$ —	\$ 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**

<b>Exhibit Number</b>	<b>Description</b>
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

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\* 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 4<sup>th</sup> day of May, 2017.

MOELIS & COMPANY

/s/ Kenneth Moelis

Kenneth Moelis  
*Chief Executive Officer*

/s/ Joseph Simon

Joseph Simon  
*Chief Financial Officer*

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## 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, 2017, 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 4, 2017

/s/ Kenneth Moelis  
Kenneth Moelis  
Chief Executive Officer

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## 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, 2017, 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 4, 2017

/s/ Joseph Simon  
Joseph Simon  
Chief Financial Officer

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## 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, 2017 (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 4, 2017

/s/ Kenneth Moelis  
Kenneth Moelis  
Chief Executive Officer

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## 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, 2017 (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 4, 2017

/s/ Joseph Simon  
Joseph Simon  
Chief Financial Officer

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