

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

---

---

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

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended September 30, 2018

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-36418

---

### 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 October 17, 2018, there were 45,740,441 shares of Class A common stock, par value \$0.01 per share, and 10,493,358 shares of Class B common stock, par value \$0.01 per share, outstanding.

---

---

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b><u>Part I. Financial Information</u></b>	
Item 1. <a href="#">Financial Statements</a>	3
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	25
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	35
Item 4. <a href="#">Controls and Procedures</a>	35
<b><u>Part II. Other Information</u></b>	
Item 1. <a href="#">Legal Proceedings</a>	36
Item 1A. <a href="#">Risk Factors</a>	36
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	36
Item 3. <a href="#">Defaults Upon Senior Securities</a>	36
Item 4. <a href="#">Mine Safety Disclosures</a>	36
Item 5. <a href="#">Other Information</a>	36
Item 6. <a href="#">Exhibits</a>	37
<a href="#">Signatures</a>	38

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Condensed Consolidated Financial Statements (Unaudited)**

	<b><u>Page</u></b>
<a href="#">Condensed Consolidated Statements of Financial Condition as of September 30, 2018 and December 31, 2017</a>	4
<a href="#">Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017</a>	5
<a href="#">Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017</a>	6
<a href="#">Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017</a>	7
<a href="#">Condensed Consolidated Statements of Changes in Equity for the nine months ended September 30, 2018 and 2017</a>	8
<a href="#">Notes to Condensed Consolidated Financial Statements</a>	9

**Moelis & Company**

**Condensed Consolidated Statements of Financial Condition**

(Unaudited)

(dollars in thousands, except per share amounts)

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 86,894	\$ 213,191
Restricted cash	774	703
Receivables:		
Accounts receivable, net of allowance for doubtful accounts of \$1,516 and \$1,433 as of September 30, 2018 and December 31, 2017, respectively	54,679	56,725
Accrued and other receivables	26,845	4,868
Total receivables	81,524	61,593
Deferred compensation	9,682	8,848
Investments at fair value (cost basis \$144,803 and \$96,351 as of September 30, 2018 and December 31, 2017, respectively)	144,937	96,108
Equity method investments	59,752	58,848
Equipment and leasehold improvements, net	12,004	10,458
Deferred tax asset	412,897	234,000
Prepaid expenses and other assets	14,555	15,319
Total assets	<u>\$ 823,019</u>	<u>\$ 699,068</u>
<b>Liabilities and Equity</b>		
Compensation payable	\$ 142,290	\$ 145,152
Accounts payable and accrued expenses	16,902	18,323
Amount due pursuant to tax receivable agreement	323,226	177,148
Deferred revenue	6,580	4,948
Other liabilities	7,076	9,241
Total liabilities	<u>496,074</u>	<u>354,812</u>
Commitments and Contingencies (See Note 12)		
Class A common stock, par value \$0.01 per share (1,000,000,000 shares authorized, 46,908,723 issued and 45,717,246 outstanding at September 30, 2018; 1,000,000,000 authorized, 34,163,042 issued and 33,455,626 outstanding at December 31, 2017)	469	342
Class B common stock, par value \$0.01 per share (1,000,000,000 shares authorized, 10,493,358 issued and outstanding at September 30, 2018; 1,000,000,000 authorized, 19,912,230 issued and outstanding at December 31, 2017)	105	199
Treasury stock, at cost; 1,191,477 and 707,416 shares as of September 30, 2018 and December 31, 2017, respectively	(47,880)	(23,188)
Additional paid-in-capital	668,406	487,163
Retained earnings (accumulated deficit)	(250,594)	(139,918)
Accumulated other comprehensive income (loss)	(34)	352
Total Moelis & Company equity	370,472	324,950
Noncontrolling interests	(43,527)	19,306
Total equity	<u>326,945</u>	<u>344,256</u>
Total liabilities and equity	<u>\$ 823,019</u>	<u>\$ 699,068</u>

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

**Moelis & Company**

**Condensed Consolidated Statements of Operations**

(Unaudited)

(dollars in thousands, except per share amounts)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Revenues</b>	\$ 207,723	\$ 170,041	\$ 647,546	\$ 515,448
<b>Expenses</b>				
Compensation and benefits	120,701	99,694	375,987	302,228
Occupancy	4,976	4,393	14,109	12,670
Professional fees	5,871	4,494	18,129	13,674
Communication, technology and information services	7,414	6,427	21,864	18,636
Travel and related expenses	9,385	7,294	31,796	21,990
Depreciation and amortization	1,135	891	3,290	2,570
Other expenses	5,329	6,969	18,745	18,059
Total expenses	<u>154,811</u>	<u>130,162</u>	<u>483,920</u>	<u>389,827</u>
<b>Operating income (loss)</b>	52,912	39,879	163,626	125,621
Other income and (expenses)	1,090	14,955	2,963	32,888
Income (loss) from equity method investments	527	2,791	3,641	4,565
<b>Income (loss) before income taxes</b>	54,529	57,625	170,230	163,074
Provision for income taxes	9,641	14,354	18,231	30,900
<b>Net income (loss)</b>	44,888	43,271	151,999	132,174
Net income (loss) attributable to noncontrolling interests	12,439	24,066	50,535	77,961
Net income (loss) attributable to Moelis & Company	<u>\$ 32,449</u>	<u>\$ 19,205</u>	<u>\$ 101,464</u>	<u>\$ 54,213</u>
<b>Weighted-average shares of Class A common stock outstanding</b>				
Basic	<u>45,203,781</u>	<u>32,505,940</u>	<u>41,211,843</u>	<u>29,094,514</u>
Diluted	<u>53,141,198</u>	<u>39,784,633</u>	<u>49,173,904</u>	<u>35,872,847</u>
<b>Net income (loss) per share attributable to holders of shares of Class A common stock</b>				
Basic	<u>\$ 0.72</u>	<u>\$ 0.59</u>	<u>\$ 2.46</u>	<u>\$ 1.86</u>
Diluted	<u>\$ 0.61</u>	<u>\$ 0.48</u>	<u>\$ 2.06</u>	<u>\$ 1.51</u>
<b>Dividends declared per share of Class A common stock</b>	<u>\$ 1.97</u>	<u>\$ 0.37</u>	<u>\$ 4.41</u>	<u>\$ 2.11</u>

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 September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net income	\$ 44,888	\$ 43,271	\$ 151,999	\$ 132,174
Unrealized gain (loss) on investments	—	(39)	—	(144)
Foreign currency translation adjustment, net of tax	(707)	991	(871)	2,378
Other comprehensive income (loss)	(707)	952	(871)	2,234
Comprehensive income (loss)	44,181	44,223	151,128	134,408
Less: Comprehensive income attributable to noncontrolling interests	12,223	24,549	50,367	79,109
Comprehensive income (loss) attributable to Moelis & Company	<u>\$ 31,958</u>	<u>\$ 19,674</u>	<u>\$ 100,761</u>	<u>\$ 55,299</u>

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

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

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 151,999	\$ 132,174
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Bad debt expense	415	1,521
Depreciation and amortization	3,290	2,570
(Income) loss from equity method investments	(3,641)	(4,565)
Equity-based compensation	88,776	72,912
Deferred tax provision	6,333	13,746
Gain on equity method investment	—	(31,971)
Other	4,656	4,067
Changes in assets and liabilities:		
Accounts receivable	1,526	(28,588)
Accrued and other receivables	(18,724)	(4,594)
Prepaid expenses and other assets	636	(7,079)
Deferred compensation	(870)	(321)
Compensation payable	(2,768)	(21,644)
Accounts payable and accrued expenses	(1,247)	(4,864)
Deferred revenue	1,640	876
Dividends received	2,737	11,672
Other liabilities	(2,168)	(628)
Net cash provided by (used in) operating activities	<u>232,590</u>	<u>135,284</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(148,027)	(171,764)
Proceeds from sales of investments	98,860	88,750
Note payments received from employees	366	705
Notes issued to employees	—	(400)
Purchase of equipment and leasehold improvements	(4,888)	(4,553)
Net cash provided by (used in) investing activities	<u>(53,689)</u>	<u>(87,262)</u>
<b>Cash flows from financing activities</b>		
Dividends and distributions	(286,145)	(232,284)
Payments under tax receivable agreement	—	(5,032)
Proceeds from exercise of stock options	6,781	5,571
Payments to settle employee tax obligations on share-based awards	(24,692)	(9,832)
Class A partnership units and other equity purchased	(293)	(229)
Net cash provided by (used in) financing activities	<u>(304,349)</u>	<u>(241,806)</u>
Effect of exchange rate fluctuations on cash, cash equivalents, and restricted cash	(778)	2,588
Net increase (decrease) in cash, cash equivalents, and restricted cash	(126,226)	(191,196)
Cash, cash equivalents, and restricted cash, beginning of period	213,894	319,585
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 87,668</u>	<u>\$ 128,389</u>
<b>Supplemental cash flow disclosure:</b>		
<b>Cash paid during the period for:</b>		
Income taxes	\$ 15,850	\$ 26,196
Dividends paid, declared in the prior year	\$ —	\$ 68,066
<b>Other non-cash activity:</b>		
Dividend equivalents issued	\$ 44,727	\$ 20,911
Class A Partnership Units or other equity converted into Class A Common Stock	\$ 39,987	\$ 52,240
Cumulative Effect Adjustment upon Adoption of ASU 2016-09	\$ —	\$ 658
Cumulative Effect Adjustment upon Adoption of ASU 2014-09	\$ 3,155	\$ —
Forfeiture of fully-vested Group LP units or other equity units	\$ 677	\$ 36

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





**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, 2018</b>	34,163,042	19,912,230	(707,416)	\$ 342	\$ 199	\$ (23,188)	\$ 487,163	\$ (139,918)	\$ 352	\$ 19,306	\$ 344,256
<b>Cumulative Effect Adjustment upon Adoption of ASU 2014-09</b>	—	—	—	—	—	—	—	3,155	—	—	3,155
<b>Cumulative Effect Adjustment upon Adoption of ASU 2016-01</b>	—	—	—	—	—	—	—	(317)	317	—	—
<b>Balance as of January 1, 2018, as adjusted</b>	34,163,042	19,912,230	(707,416)	\$ 342	\$ 199	\$ (23,188)	\$ 487,163	\$ (137,080)	\$ 669	\$ 19,306	\$ 347,411
Net income (loss)	—	—	—	—	—	—	—	101,464	—	50,535	151,999
Equity-based compensation	3,004,647	—	—	30	—	—	87,812	—	—	934	88,776
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	(703)	(168)	(871)
Dividends declared (\$4.41 per share of Class A Common Stock) and distributions	—	—	—	—	—	—	44,727	(214,978)	—	(115,894)	(286,145)
Treasury Stock Purchases	—	—	(484,061)	—	—	(24,692)	—	—	—	—	(24,692)
Exercise of Stock options	348,280	—	—	3	—	—	6,778	—	—	—	6,781
Issuance of Class A common stock and cancellation of Class B common stock in connection with offerings and other exchanges	9,392,754	(9,392,754)	—	94	(94)	—	37,257	—	—	2,437	39,694
Equity-based payments to non-employees	—	—	—	—	—	—	4,669	—	—	—	4,669
Other	—	(26,118)	—	—	—	—	—	—	—	(677)	(677)
<b>Balance as of September 30, 2018</b>	<u>46,908,723</u>	<u>10,493,358</u>	<u>(1,191,477)</u>	<u>\$ 469</u>	<u>\$ 105</u>	<u>\$ (47,880)</u>	<u>\$ 668,406</u>	<u>\$ (250,594)</u>	<u>\$ (34)</u>	<u>\$ (43,527)</u>	<u>\$ 326,945</u>
<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)	—	—	—	—	—	—	—	54,213	—	77,961	132,174
Equity-based compensation	1,602,236	—	—	16	—	—	71,228	—	—	1,668	72,912
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	1,086	1,148	2,234
Dividends declared (\$2.11 per share of Class A Common Stock) and distributions	—	—	—	—	—	—	20,911	(80,923)	—	(104,206)	(164,218)
Treasury Stock Purchases	—	—	(264,710)	—	—	(9,832)	—	—	—	—	(9,832)
Exercise of Stock options	256,270	—	—	2	—	—	5,569	—	—	—	5,571
Issuance of Class A common stock and cancellation of Class B common stock in connection with offerings and other exchanges	11,092,457	(11,092,457)	—	111	(111)	—	57,035	—	—	(5,024)	52,011
Equity-based payments to non-employees	—	—	—	—	—	—	4,066	—	—	—	4,066
Other	(86)	—	—	—	—	—	55	—	—	—	55
<b>Balance as of September 30, 2017</b>	<u>33,899,875</u>	<u>20,045,736</u>	<u>(652,600)</u>	<u>\$ 339</u>	<u>\$ 200</u>	<u>\$ (20,762)</u>	<u>\$ 454,745</u>	<u>\$ (99,136)</u>	<u>\$ 543</u>	<u>\$ 11,143</u>	<u>\$ 347,072</u>

## 1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## [Table of Contents](#)

**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 assessment of whether revenues from variable consideration should be constrained due to the probability of a significant revenue reversal;
- the measurement and realization of deferred taxes;
- the measurement of amount due pursuant to tax receivable agreement;
- the measurement and vesting of equity-based compensation; and
- other matters that affect the reported amounts and disclosures of contingencies in the financial statements.

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

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

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

The Company’s restricted cash is comprised of collateral deposits primarily held by certain non-U.S. subsidiaries. These deposits are required for certain direct debit accounts and are also used to satisfy future medical claims. A reconciliation of the Company’s cash, cash equivalents and restricted cash as of September 30, 2018 and 2017, is presented below.

	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
Cash	\$ 52,373	\$ 59,271
Cash equivalents	34,521	68,329
Restricted cash	774	789
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 87,668</u>	<u>\$ 128,389</u>

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

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

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

## [Table of Contents](#)

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

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

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

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

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

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

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

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

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

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

Effective September 30, 2018, the Company early adopted ASU 2018-13. As a result, the Company removed its disclosures of the amounts of and reasons for transfers between level 1 and level 2 fair value investments. Level 3 fair value investments that are acquired in the future will not require disclosures of the valuation process but will require disclosure of unrealized gains and losses and the range and weighted average of significant unobservable inputs used to determine the fair value of the level 3 investment.

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

**Equipment and Leasehold Improvements** —Office equipment and furniture and fixtures are stated at cost less accumulated depreciation, which is determined using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years,

## [Table of Contents](#)

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

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

Complications that may terminate or delay a transaction include failure to agree upon final terms with the counterparty, failure to obtain required regulatory consents, failure to obtain board or stockholder approvals, failure to secure financing, adverse market conditions or unexpected operating or financial problems related to either party to the transaction. In these circumstances, we often do not receive advisory fees that would have been received if the transaction had been completed, despite the fact that we may have devoted considerable time and resources to the transaction. Barriers to the completion of a restructuring transaction may include a lack of anticipated bidders for the assets of our client, the



## [Table of Contents](#)

inability of our client to restructure its operations, or indebtedness due to a failure to reach agreement with its creditors. In these circumstances, our fees are generally limited to monthly retainer fees and reimbursement of certain out-of-pocket expenses.

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

### *Adoption of ASU 2014-09*

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

The adoption of Topic 606 may result in the recognition of revenue in certain circumstances earlier as compared with the time prior to the adoption of Topic 606 where revenues were generally recognized upon the closing date of a transaction. In contrast, Topic 606 requires revenues from variable transaction fees to be recognized when all material conditions for completion have been met and it is probable that a significant revenue reversal will not occur in a future period. Revenues subject to this timing difference in recognition will require significant judgment and could be material to any given reporting period.

For both of the three and nine month periods ended September 30, 2018, there were revenues of \$16,244 that met the criteria for recognition during the period although the transactions closed subsequent to the reporting period. In addition, there were revenues of \$36,867 related to transactions that closed during the three months ended September 30, 2018, that were recognized during the second quarter of 2018 under Topic 606. For the three and nine months ended September 30, 2018, there were \$4,356 and \$11,229 of reimbursable expenses recognized gross in revenues and expenses in accordance with Topic 606, respectively. Total compensation and benefits expense is determined by management primarily based on revenues earned, in addition to other performance and labor market conditions. Compensation and benefits expense has been adjusted in response to the adoption of Topic 606. The aforementioned adjustments had corresponding impacts to accrued and other receivables and compensation payable on our condensed consolidated statement of financial condition.

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

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

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

***Income Taxes*** —The Company accounts for income taxes in accordance with ASC 740, “*Accounting for Income Taxes*” (“ASC 740”), which requires the recognition of tax benefits or expenses on temporary differences between the financial reporting and tax bases of its assets and liabilities by applying the enacted tax rates in effect for the year in which the differences are expected to reverse. Such net tax effects on temporary differences are reflected on the Company’s condensed consolidated statements of financial condition as deferred tax assets and liabilities.

## [Table of Contents](#)

Deferred tax assets are reduced by a valuation allowance when the Company believes that it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized.

ASC 740-10 prescribes a two-step approach for the recognition and measurement of tax benefits associated with the positions taken or expected to be taken in a tax return that affect amounts reported in the financial statements. The Company has reviewed and will continue to review the conclusions reached regarding uncertain tax positions, which may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulations and interpretations thereof. For the three and nine months ended September 30, 2018 and 2017, no unrecognized tax benefit was recorded. To the extent that the Company's assessment of the conclusions reached regarding uncertain tax positions changes as a result of the evaluation of new information, such change in estimate will be recorded in the period in which such determination is made. The Company reports income tax-related interest and penalties relating to uncertain tax positions, if applicable, as a component of income tax expense. For the three and nine months ended September 30, 2018 and 2017, no such amounts were recorded.

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

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

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

### **3. RECENT ACCOUNTING PRONOUNCEMENTS**

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 increases the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments will retain lease classifications, distinguishing finance leases from operating leases, using criteria that is substantially similar for distinguishing capital leases from operating leases in previous guidance. 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 July 2018, the FASB also issued ASU No. 2018-11, "Leases" ("ASU 2018-11"). ASU 2018-11 allows entities the option to apply the requirements of ASU 2016-02 as of the adoption date, as opposed to the earliest comparative period presented. The Company anticipates it will apply ASU 2016-02 as of the date of adoption as permitted by ASU 2018-11. ASU 2016-02 and ASU 2018-11 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted.

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

In June 2018, the FASB issued ASU No. 2018-07, "Compensation—Stock Compensation" ("ASU 2018-07"). ASU 2018-07 simplifies accounting for share-based payment transactions resulting from acquiring goods and services from nonemployees. Awards granted to nonemployees after January 1, 2019, will be measured at grant date fair value, rather than fair value until settled. Upon adoption, any unsettled awards to nonemployees will be measured at fair value as of the adoption date. ASU 2018-07 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. Upon initial evaluation, we do not anticipate any material changes to our condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement" ("ASU 2018-13"). As of September 30, 2018, the Company has early adopted ASU 2018-13 and removed disclosures of the amounts of and reasons for transfers between level 1 and level 2 fair value investments. Level 3 fair value investments that are acquired in the future will not require disclosures of the valuation process but will require disclosure of unrealized gains and losses and the range and weighted average of significant unobservable inputs used to determine the fair value of the level 3 investment.

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



## Moelis Australia

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

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

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

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

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

For the three months ended September 30, 2018 and 2017, income of \$527 and \$2,806 was recorded on this investment, respectively, and for the nine months ended September 30, 2018 and 2017, income of \$3,641 and \$4,592 was recorded on this investment, respectively.

## 5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements, net consists of the following:

	September 30, 2018	December 31, 2017
Office equipment	\$ 12,300	\$ 9,639
Furniture and fixtures	3,954	3,424
Leasehold improvements	12,597	11,324
Total	28,851	24,387
Less accumulated depreciation and amortization	(16,847)	(13,929)
Equipment and leasehold improvements, net	\$ 12,004	\$ 10,458

Depreciation and amortization expenses for fixed assets totaled \$1,135 and \$891 for the three months ended September 30, 2018 and 2017, respectively, and \$3,290 and \$2,570 for the nine months ended September 30, 2018 and 2017, respectively.

## 6. FAIR VALUE MEASUREMENTS

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

## [Table of Contents](#)

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

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

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

The estimated fair values of government securities money markets, U.S. Treasury instruments, and government debt securities as of September 30, 2018 and December 31, 2017 are based on quoted prices for recent trading activity in identical or similar instruments. The Company generally invests in U.S. Treasury instruments with maturities of less than twelve months. See Note 2 for further information on the Company's fair value hierarchy.

The following table summarizes the levels of the fair value hierarchy into which the Company's financial assets fall as of September 30, 2018:

	<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	\$ 34,521	\$ —	\$ 34,521	\$ —
<i>Investments</i>				
Government debt securities (1)	1,817	—	1,817	—
U.S. treasury instruments	142,877	45,301	97,576	—
Common stock	243	243	—	—
Total financial assets	<u>\$ 179,458</u>	<u>\$ 45,544</u>	<u>\$ 133,914</u>	<u>\$ —</u>

(1) Consists of municipal bonds and agency bonds.

For the three and nine months ended September 30, 2018, unrealized losses of \$47 and \$20 were recognized in other income and expenses on the condensed consolidated statement of operations related to common stock held at the reporting date, respectively.

The following table summarizes the levels of the fair value hierarchy into which the Company's financial assets fall as of December 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 debt securities (1)	\$ 41,086	\$ —	\$ 41,086	\$ —
U.S. treasury instruments	39,978	—	39,978	—
Government securities money market	46,095	—	46,095	—
<i>Investments</i>				
Government debt securities (1)	39,910	—	39,910	—
U.S. treasury instruments	55,935	7,943	47,992	—
Common stock	263	263	—	—
Total financial assets	<u>\$ 223,267</u>	<u>\$ 8,206</u>	<u>\$ 215,061</u>	<u>\$ —</u>

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

For the three and nine months ended September 30, 2017, unrealized losses of \$39 and \$144 were recognized in unrealized gain loss on investments on the condensed consolidated statement of comprehensive income related to common stock held at the reporting date, respectively.

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

At the end of the reporting period, the Company reviews U.S. treasury instruments held to determine whether the securities are of the most recent issuance of that security with the same maturity (referred to as "on-the-run", which is the most liquid version of the maturity band). If a U.S. treasury instrument held at the end of the reporting period was from the most recent issuance it is classified as level 1, otherwise it is referred to as "off-the-run" and is classified as level 2.

## 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 and nine months ended September 30, 2018 and 2017 are presented below.

<u>(dollars in thousands, except per share amounts)</u>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended</u>	
	<u>2018</u>	<u>2017</u>	<u>September 30,</u>	<u>2017</u>
<i>Numerator:</i>				
Net income (loss) attributable to holders of shares of Class A common stock—basic	\$ 32,449	\$ 19,205	\$ 101,464	\$ 54,213
Add (deduct) dilutive effect of:				
Noncontrolling interests related to Class A partnership units (a)	(a)	(a)	(a)	(a)
Net income (loss) attributable to holders of shares of Class A common stock—diluted	<u>\$ 32,449</u>	<u>\$ 19,205</u>	<u>\$ 101,464</u>	<u>\$ 54,213</u>
<i>Denominator:</i>				
Weighted average shares of Class A common stock outstanding—basic	45,203,781	32,505,940	41,211,843	29,094,514
Add (deduct) dilutive effect of:				
Noncontrolling interests related to Class A partnership units (a)	(a)	(a)	(a)	(a)
Weighted average number of incremental shares issuable from unvested restricted stock, RSUs and stock options, as calculated using the treasury stock method	(b) 7,937,417	(b) 7,278,693	(b) 7,962,061	(b) 6,778,333
Weighted average shares of Class A common stock outstanding—diluted	<u>53,141,198</u>	<u>39,784,633</u>	<u>49,173,904</u>	<u>35,872,847</u>
Net income (loss) per share attributable to holders of shares of Class A common stock				
Basic	<u>\$ 0.72</u>	<u>\$ 0.59</u>	<u>\$ 2.46</u>	<u>\$ 1.86</u>
Diluted	<u>\$ 0.61</u>	<u>\$ 0.48</u>	<u>\$ 2.06</u>	<u>\$ 1.51</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 68,043,680 and 64,139,312 for the three months ended September 30, 2018 and 2017, respectively, and 67,405,983 and 63,172,885 for the nine months ended September 30, 2018 and 2017, respectively. In computing the dilutive effect, if any, that the aforementioned exchange would have on net income (loss) per share, net income (loss) available to holders of Class A common stock would be adjusted due to the elimination of the noncontrolling interests in consolidated entities associated with the Group LP Class A partnership units (including any tax impact). For the three and nine months ended September 30, 2018 and 2017, such exchange is not reflected in diluted net income (loss) per share as the assumed exchange is not dilutive.
- (b) During the three and nine months ended September 30, 2018 and 2017, certain shares of Moelis & Company's Class A common stock assumed to be issued pursuant to certain RSUs as calculated using the treasury stock method were antidilutive and therefore have been excluded from the calculation of diluted net income (loss) per share attributable to Moelis & Company. During the three months ended September 30, 2018 and 2017, the additional weighted average amount of RSUs that would have been included in this calculation if the effect were dilutive would have been 0 and 25 units, respectively and 2,900 and 8 units for the nine months ended September 30, 2018 and 2017, 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 vested 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 was 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 September 30, 2018, partners held 13,053,465 Group LP partnership units, 230,026 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 \$232 and \$469 for the three months ended September 30, 2018 and 2017, respectively, and expenses of \$934 and \$1,668 for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, there was \$439 of unrecognized compensation expense related to unvested Class A partnership units which is expected to be recognized over a weighted-average period of 0.5 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 September 30, 2018, approximately \$20 million of shares may yet be purchased under the program.

### Restricted Stock and Restricted Stock Units (RSUs)

Pursuant to the Plan and in connection with the Company's annual compensation process and ongoing hiring process, the Company issues RSUs which generally vest over a service life of four to five years. For the three months ended September 30, 2018 and 2017, the Company recognized expense of \$29,710 and \$22,057, respectively, and expenses of \$86,443 and \$69,248 for the nine months ended September 30, 2018 and 2017, respectively, in relation to the vesting of RSUs.

The following table summarizes activity related to restricted stock and RSUs for the nine months ended September 30, 2018 and 2017.

	Restricted Stock & RSUs			
	2018		2017	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested Balance at January 1,	9,357,999	\$ 30.15	8,504,190	\$ 26.70
Granted	3,221,367	54.39	3,140,934	37.07
Forfeited	(121,397)	38.46	(75,433)	30.74
Vested	(3,174,379)	30.66	(2,118,588)	26.96
Unvested Balance at September 30,	9,283,590	\$ 37.29	9,451,103	\$ 29.87

## [Table of Contents](#)

As of September 30, 2018, the total compensation expense related to unvested restricted stock and RSUs not yet recognized was \$141,870. The weighted-average period over which this compensation expense is expected to be recognized at September 30, 2018 is 1.5 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:

	<b>Assumptions</b>
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 \$7.05, in aggregate, through September 30, 2018. As required under Section 5 of the Company's 2014 Omnibus Incentive Plan, the Compensation Committee of the Company's Board of Directors equitably reduced the exercise price of the Company's outstanding options to purchase common stock by \$7.05 from \$25.00 per share to \$17.95 per share.

The following table summarizes activity related to stock options for the nine months ended September 30, 2018 and 2017.

	<b>Stock Options Outstanding</b>			
	<b>2018</b>		<b>2017</b>	
	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price Per Share</b>
Outstanding at January 1,	2,436,232	\$ 17.95	2,822,728	\$ 17.95
Grants	—	—	—	—
Exercises	(348,280)	17.95	(256,270)	17.95
Forfeitures or expirations	(64,785)	17.95	(81,019)	17.95
Outstanding at September 30,	<u>2,023,167</u>	<u>\$ 17.95</u>	<u>2,485,439</u>	<u>\$ 17.95</u>

For the three months ended September 30, 2018 and 2017, the Company recognized expenses of \$499 and \$656, respectively, and expenses of \$1,399 and \$1,996 for the nine months ended September 30, 2018 and 2017, respectively, in relation to these stock options. As of September 30, 2018, the total compensation expense related to unvested stock options not yet recognized was \$1,150. The weighted-average period over which this compensation expense is expected to be recognized at September 30, 2018 is 0.6 years. Beginning in January of 2017, the Company accounts for forfeitures as they occur per the guidance in ASU 2016-09. See Note 2 for further discussion on this change in accounting policy.

## 9. STOCKHOLDERS EQUITY

### Class A Common Stock

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

<b>Date of Offering</b>	<b>Total Shares Offered</b>	<b>Total Increase in Shares Outstanding</b>
November, 2014	6,325,000	4,511,058
January, 2017	5,750,000	5,356,876
July, 2017	6,000,000	5,680,903
March, 2018	5,000,000	4,689,295
August, 2018	5,000,000	4,685,217
Total	<u>28,075,000</u>	<u>24,923,349</u>

## [Table of Contents](#)

As of September 30, 2018, 46,908,723 shares of Class A common stock were issued and 45,717,246 shares were outstanding, and as of December 31, 2017, 34,163,042 shares of Class A common stock were issued and 33,455,626 shares were outstanding. The changes in Class A common stock are due primarily to the IPO and offering transactions described above, in addition to the vesting of restricted stock units in connection with the Company's annual compensation process and ongoing hiring process.

### **Class B Common Stock**

#### *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). Shares of Class B common stock are generally not transferrable and, if transferred other than in the limited circumstances set forth in Moelis & Company's Amended and Restated Certificate of Incorporation, such shares shall automatically convert into a number of shares of Class A common stock, or dollar equivalent. Each share of Class B common stock may also be converted to a number of Class A shares at the option of the holder. Holders of shares of Class B common stock are entitled to receive dividends of the same type as any dividends payable on outstanding shares of Class A common stock at a ratio of .00055 to 1. In connection with each of the Company's follow-on offerings, the Company purchased shares of Class B common stock from Partner Holdings for cash, or Partner Holdings surrendered shares of Class B common stock for Class A common stock (at a ratio of .00055 to 1) and subsequently cancelled those shares. The Company did not retain any proceeds from the offerings.

<b>Date of Offering</b>	<b>Class B Stock Purchased / Surrendered</b>	<b>Purchase Cost (in thousands)</b>
November, 2014	4,507,453	\$ 28
January, 2017	5,356,876	101
July, 2017	5,680,903	128
March, 2018	4,689,295	135
August, 2018	4,685,217	158
Total	24,919,744	\$ 550

As of September 30, 2018, and December 31, 2017, 10,493,358 and 19,912,230 shares of Class B common stock were issued and outstanding, respectively, due primarily to the IPO, offering transactions, and Class B conversions described above.

### **Treasury Stock**

During the nine months ended September 30, 2018 and 2017, the Company repurchased 484,061 and 264,710 shares, respectively, from its employees for the purpose of settling tax liabilities incurred upon the vesting of RSUs. The result of the repurchases was an increase of \$24,692 and \$9,832, in the treasury stock balance on the Company's condensed consolidated statements of changes in equity as of September 30, 2018 and 2017, respectively.

### **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 September 30, 2018 and December 31, 2017, partners held 13,053,465 and 22,472,337 Group LP partnership units, respectively, representing a 22% and 40% noncontrolling interest in Moelis & Company, respectively.

### **Controlling Interests**

Moelis & Company operates and controls all of the business and affairs of Group LP and its operating entity subsidiaries indirectly through its equity interest in Group GP, and thus the 45,717,246 shares of Class A common stock outstanding at September 30, 2018 (33,455,626 as of December 31, 2017), represents the controlling interest.



## 10. RELATED-PARTY TRANSACTIONS

*Aircraft Lease*— On August 30, 2014, a related party, Moelis & Company Manager LLC ("Manager"), acquired an aircraft with funds received solely from its managing member (Mr. Moelis). The aircraft is used and operated by the Company pursuant to a dry lease with Manager which terminates on December 31, 2019. The terms of the dry lease are comparable to the market rates of leasing from an independent third party. Pursuant to this dry lease arrangement, the lessee is obligated to bear its share of the costs of operating the aircraft. For the three months ended September 30, 2018 and 2017, the Company incurred \$468 and \$468 in aircraft lease costs to be paid to Manager, respectively, and \$1,404 and \$1,404 in aircraft costs for the nine months ended September 30, 2018 and 2017, respectively. In addition, Mr. Moelis is the other lessee of the aircraft and shares the operating and related costs of the plane in proportion to his respective use pursuant to a cost sharing and operating agreement.

*Promissory Notes* —As of September 30, 2018, there were \$189 of unsecured promissory notes from employees held by the Company (December 31, 2017: \$552). Any outstanding balances are reflected in accrued and other receivables on the condensed consolidated statements of financial condition. The notes held as of September 30, 2018 and December 31, 2017 bear a fixed interest rate of 4.00%. During the nine months ended September 30, 2018 and 2017, the Company received \$366 and \$705 of principal repayments and recognized interest income of \$11 and \$20, 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 \$170 and \$264 for the three months ended September 30, 2018 and 2017, respectively, and \$479 and \$868 for the nine months ended September 30, 2018 and 2017, respectively. The amount of the fee is based upon the estimated usage and related expense of all shared services between the Company and Moelis Asset Management LP during the relevant period, and will be assessed periodically by Management as per the terms of the agreement. As of September 30, 2018 and December 31, 2017, the Company had no balances due from Moelis Asset Management LP.

*Moelis Australia* —As of September 30, 2018 and December 31, 2017, the Company had net balances due from Moelis Australia of \$187 and \$128, respectively, which are reflected in accrued and other receivables on the condensed consolidated statements of financial condition. These balances consist of amounts due to or from Moelis Australia for advisory services performed as well as billable expenses incurred by the Company on behalf of Moelis Australia during the period. The relationship between the Company and Moelis Australia is governed by a services agreement.

*Revenues* —From time to time, the Company enters into advisory transactions with Moelis Asset Management LP and its affiliates. The Company earned revenues associated with such transactions of \$0 and \$94 for the three months ended September 30, 2018 and 2017, respectively, and revenues of \$242 and \$1,240 for the nine months ended September 30, 2018 and 2017, respectively.

## 11. REGULATORY REQUIREMENTS

Under the SEC Uniform Net Capital Rule (SEC Rule 15c3-1) Alternative Standard under Section (a)(1)(ii), the minimum net capital requirement is \$250. At September 30, 2018, Moelis U.S. had net capital of \$92,669, which was \$92,419 in excess of its required net capital. At December 31, 2017, Moelis U.S. had net capital of \$29,259 which was \$29,009 in excess of its required net capital.

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

At September 30, 2018, the aggregate regulatory net capital of Moelis UK was \$56,157 which exceeded the minimum requirement by \$56,098. At December 31, 2017, the aggregate regulatory net capital of Moelis UK was \$50,498, which exceeded the minimum requirement by \$50,439.

## 12. COMMITMENTS AND CONTINGENCIES

*Bank Line of Credit* — In April 2017 the Company renewed its revolving credit facility which extended the maturity date to June 30, 2019. In May 2018, the facility was revised and the commitment amount increased to \$65,000.

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 September 30, 2018 and December 31, 2017, the Company had no borrowings under the credit facility.

As of September 30, 2018, the Company's available credit under this facility was \$60,272 as a result of the issuance of an aggregate amount of \$4,728 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.

## [Table of Contents](#)

**Leases** —The Company maintains operating leases with expiration dates that extend through 2029. The Company incurred expense relating to its operating leases of \$3,963 and \$3,866 for the three months ended September 30, 2018 and 2017, respectively, and expenses of \$11,864 and \$11,302 for the nine months ended September 30, 2018 and 2017, respectively. In addition, during the second quarter of 2016, the Company decided to sublet a portion of its growth space in the U.K. which required a sublease loss reserve to be recognized for the estimated net economics of such sublet. The expense related to the aforementioned sublease loss reserve, which is remeasured at each reporting period for the three months ended September 30, 2018 and 2017, was \$0 and \$19, respectively, and \$0 and \$169 for the nine months ended September 30, 2018 and 2017, respectively.

The future minimum rental payments required under the operating leases in place at September 30, 2018, are as follows:

<b>Fiscal year ended</b>	<b>Operating Leases</b>		<b>Sublease Income</b>		<b>Net Minimum Payments</b>	
2018	\$	4,861	\$	(109)	\$	4,752
2019		20,082		(545)		19,537
2020		13,928		(871)		13,057
2021		8,756		(871)		7,885
2022		8,544		(871)		7,673
Thereafter		19,579		(2,178)		17,401
<b>Total</b>	<b>\$</b>	<b>75,750</b>	<b>\$</b>	<b>(5,445)</b>	<b>\$</b>	<b>70,305</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 September 30, 2018 and 2017, in the amounts of \$568 and \$491, respectively, and \$1,732 and \$1,497 for the nine months ended September 30, 2018 and 2017, respectively.

### 14. INCOME TAXES

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

The Company's provision for income taxes and effective tax rate were \$9,641 and 18% and \$14,354 and 25% for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, the Company's provision for income taxes and effective tax rate were \$18,231 and 11% and \$30,900 and 19% respectively. The income tax provision for the aforementioned periods primarily reflects the Company's allocable share of earnings from Group LP at the prevailing U.S. federal, state, and local corporate income tax rates and the effect of the allocable earnings to noncontrolling interests being subject to UBT and certain other foreign, state, and local entity-level taxes.



## [Table of Contents](#)

The Company recorded an increase in the net deferred tax asset of \$178,897 for the nine months ended September 30, 2018, 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 Company's follow-on offerings in March and August 2018. Approximately \$171,506 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 \$145,780) of the tax benefits associated with this portion of the deferred tax asset are payable to such exchanging partners over the next 15 years and recorded as amount due pursuant to tax receivable agreement in the condensed consolidated statements of financial condition. The remaining tax benefit is allocable to the Company and is recorded in additional paid-in-capital. The Company also recorded an increase in the deferred tax asset related to deferred equity compensation, which was principally offset by the vesting and delivery of equity awards during the first half of 2018.

On December 22, 2017, the U.S. enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). The Tax Act made broad and complex changes to the U.S. tax code including, but not limited to, reducing the U.S. federal corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the tax legislation enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete or a reasonable estimate if such accounting is incomplete. The Company recorded a provisional amount related to its analysis of the impact of the Tax Act in its consolidated statements of financial condition for the year ended December 31, 2017. The impact of the Tax Act may differ from the estimated amounts recorded due to, among other things, further refinement of the Company's calculations, changes in interpretations and assumptions the Company has made in conjunction with the release of additional regulatory guidance that may be issued, and actions the Company may take as a result of Tax Act. The Company will finalize its analysis in the fourth quarter and no material adjustment to the provisional estimate has been recorded as of September 30, 2018.

## 15. REVENUES AND BUSINESS INFORMATION

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

Since the financial markets are global in nature, the Company generally manages its business based on the operating results of the enterprise taken as whole, not by geographic region. The following table disaggregates the revenues and assets based on the location of the office that generates the revenues or holds the assets, and therefore may not be reflective of the geography in which our clients are located. No client accounted for more than 10% of revenues in either of the three or nine month periods ended September 30, 2018, and 2017.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:				
United States	\$ 172,168	\$ 131,306	\$ 544,407	\$ 420,412
Europe	30,651	24,939	67,983	63,595
Rest of World	4,904	13,796	35,156	31,441
Total	<u>\$ 207,723</u>	<u>\$ 170,041</u>	<u>\$ 647,546</u>	<u>\$ 515,448</u>
			<u>September 30,</u>	<u>December 31,</u>
			<u>2018</u>	<u>2017</u>
Assets:				
United States			\$ 685,563	\$ 519,933
Europe			43,787	83,834
Rest of World			93,669	95,301
Total			<u>\$ 823,019</u>	<u>\$ 699,068</u>

As of September 30, 2018, and December 31, 2017, the Company had deferred revenues of \$6,580 and \$4,948, respectively. These amounts primarily consist of upfront fees and retainers for our services. During the nine months ended September 30, 2018, \$4,817 of revenues were recognized from the opening balance of deferred revenues.

Due to the factors that may delay or terminate a transaction (see Note 2), the Company does not estimate constrained transaction fees for revenue recognition. In accordance with ASC 606-10-50-14A, quantitative disclosures of constrained variable consideration are not provided for remaining performance obligations. In addition, remaining performance obligations related to retainers, upfront fees and announcement fees are typically associated with contracts that have durations of one year or less. In accordance with ASC 606-10-50-14, the Company does not disclose the expected timing and amount of revenues remaining related to such contracts.

**16. SUBSEQUENT EVENTS**

On October 19, 2018, the Board of Directors of Moelis & Company declared a dividend of \$0.47 per share to be paid on November 14, 2018 to shareholders of record as of November 1, 2018.

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

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

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

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

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

### **Executive Overview**

Moelis & Company is a leading global independent investment bank that provides innovative strategic advice and solutions to a diverse client base, including corporations, governments and financial sponsors. We assist our clients in achieving their strategic goals by offering comprehensive integrated financial advisory services across all major industry sectors. With 19 geographical locations in the Americas, Europe, the Middle East, Asia and Australia, we advise clients around the world on their most critical decisions, including mergers and acquisitions, recapitalizations and restructurings, capital markets and other corporate finance matters. Our ability to provide confidential, independent advisory 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 September 30, 2018, we served our clients globally with 588 advisory bankers. We continue to grow our firm organically through internal promotions and hiring highly talented Managing Directors who all help to expand our sector, regional and product expertise.

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. The M&A market data for announced and completed transactions during the three and nine months ended September 30, 2018, referenced throughout this Form 10-Q was obtained from Thomson Financial as of October 3, 2018.

For the first nine months of 2018, we earned revenues of \$647.5 million, an increase of 26% from the \$515.4 million earned during the same period in 2017. This compares favorably with a 6% decrease in the number of global completed M&A transactions greater than \$100 million and a 3% decrease in volume for the same period. The increase in revenues was driven by significant growth in our M&A activity and higher average fees earned per completed transaction.

In the U.S., which has been a particularly strong driver of our revenues, we are observing many companies pursue M&A as they seek to obtain a competitive advantage in their business models. In addition, based on historical experience, we believe the current economic backdrop (technological disruption, shareholder activism, record pools of capital being deployed by private equity firms and sovereign wealth funds, positive economic growth, high corporate cash balances, relatively low interest rates and availability of credit), provides a solid foundation for sustained M&A activity. Restructuring activity continues to be a steady contributor of our business despite the low default environment.

## [Table of Contents](#)

As our team of investment banking professionals expands and continues to gain traction, we expect global collaboration of our bankers will deepen and continue to resonate with clients.

### Results of Operations

The following is a discussion of our results of operations for the three and nine months ended September 30, 2018 and 2017.

(\$ in thousands)	Three Months Ended		Variance 2018 vs 2017	Nine Months Ended		Variance 2018 vs 2017
	September 30,			September 30,		
	2018	2017		2018	2017	
Revenues	\$ 207,723	\$ 170,041	22%	\$ 647,546	\$ 515,448	26%
Expenses:						
Compensation and benefits	120,701	99,694	21%	375,987	302,228	24%
Non-compensation expenses	34,110	30,468	12%	107,933	87,599	23%
Total operating expenses	154,811	130,162	19%	483,920	389,827	24%
Operating income (loss)	52,912	39,879	33%	163,626	125,621	30%
Other income and (expenses)	1,090	14,955	-93%	2,963	32,888	-91%
Income (loss) from equity method investments	527	2,791	-81%	3,641	4,565	-20%
Income (loss) before income taxes	54,529	57,625	-5%	170,230	163,074	4%
Provision for income taxes	9,641	14,354	-33%	18,231	30,900	-41%
Net income (loss)	\$ 44,888	\$ 43,271	4%	\$ 151,999	\$ 132,174	15%

N/M = Not meaningful

### Revenues

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

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

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

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

As a result of the adoption of accounting standards update 2014-09, revenues of \$16.2 million were recognized in the third quarter of 2018 related to certain transactions that met the material conditions for recognition, but closed during the fourth quarter. Under our previous revenue recognition policy which was in effect prior to January 1, 2018, these revenues would have been recognized in the fourth quarter of 2018. In addition, revenues of \$36.9 million were recognized in the second quarter of 2018 related to transactions that closed during the third quarter of 2018. Under our previous revenue recognition policy, these revenues would have been recognized in the third quarter of 2018.

## [Table of Contents](#)

### *Three Months Ended September 30, 2018 versus 2017*

Revenues were \$207.7 million for the three months ended September 30, 2018 as compared with \$170.0 million for the same period in 2017, representing an increase of 22%. The increase in revenues was primarily driven by significant growth in our M&A activity, an increase in our restructuring activity and higher average fees earned per completed transaction.

For the three months ended September 30, 2018 and 2017 we earned revenues from 129 and 121 clients, respectively, and the number of clients who paid fees equal to or greater than \$1 million increased to 51 clients from 40 clients for the same period of 2017.

### *Nine Months Ended September 30, 2018 versus 2017*

Revenues were \$647.5 million for the nine months ended September 30, 2018 as compared with \$515.4 million for the same period in 2017, representing an increase of 26%. The increase in revenues was primarily driven by significant growth in our M&A activity and higher average fees earned per completed transaction.

For the nine months ended September 30, 2018 and 2017 we earned revenues from 246 and 251 clients, respectively, and the number of clients who paid fees equal to or greater than \$1 million increased to 150 clients from 131 clients for the same period of 2017.

## **Operating Expenses**

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

(\$ in thousands)	Three Months Ended			Nine Months Ended		
	September 30,		Variance	September 30,		Variance
	2018	2017	2018 vs 2017	2018	2017	2018 vs 2017
Expenses:						
Compensation and benefits	\$ 120,701	\$ 99,694	21%	\$ 375,987	\$ 302,228	24%
<i>% of revenues</i>	58%	59%		58%	59%	
Non-compensation expenses	\$ 34,110	\$ 30,468	12%	\$ 107,933	\$ 87,599	23%
<i>% of revenues</i>	16%	18%		17%	17%	
Total operating expenses	\$ 154,811	\$ 130,162	19%	\$ 483,920	\$ 389,827	24%
<i>% of revenues</i>	75%	77%		75%	76%	

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

### *Three Months Ended September 30, 2018 versus 2017*

Operating expenses were \$154.8 million for the three months ended September 30, 2018 and represent 75% of revenues, compared with \$130.2 million for the same period in 2017 which represented 77% of revenues. The increase in operating expenses was generally in-line with the growth in revenues and was primarily driven by increased compensation, including higher equity amortization as compared to the prior year, and the absence of contra expenses related to client reimbursements.

### *Nine Months Ended September 30, 2018 versus 2017*

Operating expenses were \$483.9 million for the nine months ended September 30, 2018 and represented 75% of revenues, compared with \$389.8 million for the same period in 2017 which represented 76% of revenues. The increase in operating expenses was generally in-line with the growth in revenues and was primarily driven by increased compensation, including higher equity amortization as compared to the prior year, and the absence of contra expenses related to client reimbursements.

### *Compensation and Benefits Expenses*

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

## [Table of Contents](#)

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 September 30, 2018 versus 2017*

For the three months ended September 30, 2018, compensation-related expenses of \$120.7 million represented 58% of revenues, compared with \$99.7 million of compensation-related expenses which represented 59% of revenues in the prior year period. The increase in compensation expenses was primarily driven by greater revenues and equity amortization during 2018 as compared with 2017.

Our fixed compensation costs, which are primarily the sum of base salaries, payroll taxes and benefits and the amortization of previously issued equity and contingent cash awards, were \$80.5 million and \$66.4 million for the three months ended September 30, 2018 and 2017, respectively. The increase in fixed compensation costs relates to increased headcount and higher equity amortization as compared to the prior year. The aggregate amount of discretionary cash bonus expenses, which generally represents the excess amount of total compensation over base compensation and amortization of equity and contingent cash awards, was \$40.2 million and \$33.3 million for the three months ended September 30, 2018 and 2017, respectively. The combination of the discretionary and fixed compensation expenses represents the overall compensation expense pool. The increase in discretionary cash bonus expense is primarily related to higher revenues earned, partially offset by the increase in fixed compensation expense.

### *Nine Months Ended September 30, 2018 versus 2017*

For the nine months ended September 30, 2018, compensation related expenses of \$376.0 million and represent 58% of revenues, compared with \$302.2 million which represented 59% of revenues in the prior year period. The increase in compensation expenses was primarily driven by greater revenues and equity amortization during 2018 as compared with 2017.

Our fixed compensation costs, which are primarily the sum of base salaries, payroll taxes and benefits and the amortization of previously issued equity and contingent cash awards, were \$234.8 million and \$196.6 million for the nine months ended September 30, 2018 and 2017, respectively. The increase in fixed compensation costs relates increased headcount and higher equity amortization as compared to the prior year. The aggregate amount of discretionary cash bonus expenses, which generally represents the excess amount of total compensation over base compensation and amortization of equity and contingent cash awards, was \$141.2 million and \$105.6 million for the nine months ended September 30, 2018 and 2017, respectively. The combination of the discretionary and fixed compensation expenses represents the overall compensation expense pool. The increase in discretionary cash bonus expense is primarily related to higher revenues earned, partially offset by the increase in fixed compensation expense.

### *Non-Compensation Expenses*

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

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

### *Three Months Ended September 30, 2018 versus 2017*

For the three months ended September 30, 2018, non-compensation expenses of \$34.1 million represented 16% of revenues, compared with \$30.5 million which represented 18% of revenues in the prior year period. The increase in non-compensation expense was primarily due to increased headcount and the absence of contra expenses related to client reimbursements.



## [Table of Contents](#)

### *Nine Months Ended September 30, 2018 versus 2017*

For the nine months ended September 30, 2018, non-compensation expenses of \$107.9 million represented 17% of revenues, compared with \$87.6 million which represented 17% of revenues in the prior year period. The increase in non-compensation expense was primarily due to increased headcount and the absence of contra expenses related to client reimbursements.

### ***Income (Loss) From Equity Method Investments***

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

### *Moelis Australia*

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

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

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

### *Three Months Ended September 30, 2018 versus 2017*

Income (loss) from equity method investments related to our share of gains and losses of Moelis Australia was income of \$0.5 million and \$2.8 million for the three months ended September 30, 2018 and 2017, respectively.

### *Nine Months Ended September 30, 2018 versus 2017*

Income (loss) from equity method investments related to our share of gains and losses of Moelis Australia was income of \$3.6 million and \$4.6 million for the nine months ended September 30, 2018 and 2017, respectively.

### ***Provision for Income Taxes***

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

## [Table of Contents](#)

### *Three Months Ended September 30, 2018 versus 2017*

The Company's provision for income taxes and effective tax rates were \$9.6 million and 18% and \$14.4 million and 25% for the three months ended September 30, 2018 and 2017, respectively. The income tax provision and effective tax rate for the aforementioned periods primarily reflect the Company's allocable share of earnings from Group LP at the prevailing U.S. federal, state, and local corporate income tax rate and the effect of the allocable earnings to noncontrolling interests being subject to UBT and certain other foreign, state, and local entity-level taxes. The decrease in the effective tax rate is primarily attributable to the reduction in the U.S. federal corporate income tax rate from 35% to 21% beginning in 2018 as a result of the enactment of the Tax Cuts and Jobs Act in 2017. The decrease in effective tax rate was partially offset by the increase in tax due to the increase in the allocable share of earnings subject to the corporate income tax rate as a result of the Company's follow-on offerings in March and August 2018.

### *Nine Months Ended September 30, 2018 versus 2017*

The Company's provision for income taxes and effective tax rates were \$18.2 million and 11% and \$30.9 million and 19% for the nine months ended September 30, 2018 and 2017, respectively. The income tax provision and effective tax rate for the aforementioned periods primarily reflect the Company's allocable share of earnings from Group LP at the prevailing U.S. federal, state, and local corporate income tax rate and the effect of the allocable earnings to noncontrolling interests being subject to UBT and certain other foreign, state, and local entity-level taxes. The decrease in the effective tax rate is primarily attributable to the reduction in the U.S. federal corporate income tax rate from 35% to 21% beginning in 2018 as a result of the enactment of the Tax Cuts and Jobs Act in 2017 and the excess tax benefit recognized in connection with the delivery of share based compensation, partially offset by the increase in tax due to the increase in the allocable share of earnings subject to the corporate income tax rate as a result of the Company's follow-on offerings in March and August 2018.

## **Liquidity and Capital Resources**

Our current assets have historically comprised cash, short-term liquid investments and receivables related to fees earned from providing advisory services. Our current liabilities are primarily comprised of accrued expenses, including accrued employee compensation. We pay a significant portion of incentive compensation during the first two months of each calendar year with respect to the prior year's results. We also distribute estimated partner tax payments primarily in the first quarter of each year in respect of the prior year's operating results. Therefore, levels of cash generally decline during the first quarter of each year after incentive compensation has been paid to our employees and estimated tax payments have been distributed to partners. Cash before dividends and share buybacks 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 September 30, 2018 and December 31, 2017, the Company had cash equivalents of \$34.5 million and \$127.2 million, respectively, invested in U.S. Treasury instruments, government debt securities and government securities money market funds. Additionally, as of September 30, 2018 and December 31, 2017, the Company had cash of \$52.4 million and \$86.0 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 various types of government debt securities that are classified as investments on our condensed consolidated statements of financial condition as they have original maturities of three months or more from the date of purchase. As of September 30, 2018 and December 31, 2017, the Company held \$144.7 million and \$95.8 million of government debt securities 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 September 30, 2018 and December 31, 2017 accounts receivable were \$54.7 million and \$56.7 million, respectively, net of allowances of \$1.5 million and \$1.4 million, respectively.

To provide for additional working capital and other general corporate purposes, we maintain a \$65.0 million revolving credit facility that matures on June 30, 2019. Advances on the facility bear interest at the greater of a fixed rate of 3.50% per annum or at the Company's option of (i) LIBOR plus 1% or (ii) Prime minus 1.50%. As of September 30, 2018, the Company had no borrowings under the credit facility.

As of September 30, 2018, the Company's available credit under this facility was \$60.3 million as a result of the issuance of an aggregate amount of \$4.7 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.



## [Table of Contents](#)

The Board of Directors of Moelis & Company declared a dividend of \$0.47 per share to be paid on November 14, 2018 to Class A common stockholders of record on November 1, 2018. During the nine months ended September 30, 2018 the Company paid aggregate dividends of \$4.41 per share, which included two special dividend of \$1.50 per share and three regular quarterly dividends of \$0.47 per share.

### ***Regulatory Capital***

We actively monitor our regulatory capital base. Our principal subsidiaries are subject to regulatory requirements in their respective jurisdictions to ensure general financial soundness and liquidity. This requires, among other things, that we comply with certain minimum capital requirements, record-keeping, reporting procedures, experience and training requirements for employees and certain other requirements and procedures. These regulatory requirements may restrict the flow of funds to and from affiliates. See Note 11 of the condensed consolidated financial statements as of September 30, 2018 for further information. These regulations differ in the United States, United Kingdom, Hong Kong and other countries in which we operate a registered broker-dealer. The license under which we operate in each such country is meant to be appropriate to conduct an advisory business. We believe that we provide each of our subsidiaries with sufficient capital and liquidity, consistent with their business and regulatory requirements.

### ***Tax Receivable Agreement***

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

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

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

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

### **Cash Flows**

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

[Table of Contents](#)

(\$ in thousands)	Nine Months Ended September 30,	
	2018	2017
<b>Cash Provided By (Used In)</b>		
Operating Activities:		
Net income (loss)	\$ 151,999	\$ 132,174
Non-cash charges	99,829	58,280
Other operating activities	(19,238)	(55,170)
Total operating activities	232,590	135,284
Investing Activities	(53,689)	(87,262)
Financing Activities	(304,349)	(241,806)
Effect of exchange rate changes	(778)	2,588
Net increase (decrease) in cash	(126,226)	(191,196)
Cash, cash equivalents, and restricted cash, beginning of period	213,894	319,585
Cash, cash equivalents, and restricted cash, end of period	\$ 87,668	\$ 128,389

*Nine months ended September 30, 2018*

Cash, cash equivalents and restricted cash were \$87.7 million at September 30, 2018, a decrease of \$126.2 million from \$213.9 million at December 31, 2017. Operating activities resulted in a net inflow of \$232.6 million primarily attributable to cash collected from clients net of cash operating expenses, including discretionary bonuses paid during the period. Investing activities resulted in a net outflow of \$53.7 million primarily attributable to net purchases of investments. Financing activities resulted in a net outflow of \$304.3 million primarily related to the payment of dividends and tax distributions.

*Nine months ended September 30, 2017*

Cash, cash equivalents and restricted cash were \$128.4 million at September 30, 2017, a decrease of \$191.2 million from \$319.6 million at December 31, 2016. Operating activities resulted in a net inflow of \$135.3 million primarily attributable to cash collected from clients net of cash operating expenses, including discretionary bonuses paid during the period. Investing activities resulted in a net outflow of \$87.3 million primarily attributable to net purchases of investments. Financing activities resulted in a net outflow of \$241.8 million primarily related to the payment of dividends and tax distributions.

**Contractual Obligations**

The following table sets forth information relating to our contractual obligations as of September 30, 2018:

(\$ in thousands)	Total	Payment Due by Period			
		Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Operating leases (net of \$5,445 of committed sublease income)	\$ 70,305	\$ 19,434	\$ 23,760	\$ 14,718	\$ 12,393
Amount due pursuant to Tax Receivable Agreement	323,226	11,177	29,839	52,612	229,598
<b>Total</b>	<b>\$ 393,531</b>	<b>\$ 30,611</b>	<b>\$ 53,599</b>	<b>\$ 67,330</b>	<b>\$ 241,991</b>

As of September 30, 2018, the Company has a total payable of \$323.2 million due pursuant to the tax receivable agreement in the condensed consolidated financial statements which represents management’s best estimate of the amounts currently expected to be owed under the tax receivable agreement. Payments made under the tax receivable agreement are required to be made within 225 days of the filing of our tax returns. Because we generally expect to receive the tax savings prior to making the cash payments to the eligible selling holders of Group LP partnership units, we do not expect the cash payments to have a material impact on our liquidity. There were no payments made pursuant to the tax receivable agreement during the first nine months of 2018.

**Off-Balance Sheet Arrangements**

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

## **Market Risk and Credit Risk**

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

### *Risks Related to Cash and Short-Term Investments*

Our cash and cash equivalents include all short-term highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less from the date of purchase. We invest most of our cash in highly-rated municipal bonds, U.S. government agency debt securities and U.S. treasury instruments. Cash is maintained in U.S. and non-U.S. bank accounts. Most U.S. and U.K. account balances exceed the FDIC and FSCS coverage limits. In addition to cash and cash equivalents, we hold various types of government debt securities that are classified as investments on our consolidated 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 September 30, 2018 and 2017, the net impact of the fluctuation of foreign currencies in other comprehensive income (loss) in the condensed statements of comprehensive income was a loss of \$0.7 million and a gain of \$1.0 million, respectively, and a loss of \$0.9 million and a gain of \$2.4 million for the nine months ended September 30, 2018 and 2017, 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*

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

## [Table of Contents](#)

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

### ***Accounts Receivable and Allowance for Doubtful Accounts***

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

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

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

### ***Equity-based Compensation***

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

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

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

### ***Equity Method Investments***

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

### ***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

## [Table of Contents](#)

analyses of tax laws, regulations and interpretations thereof. For the three and nine months ended September 30, 2018 and 2017, no unrecognized tax benefit was recorded. To the extent that the Company's assessment of the conclusions reached regarding uncertain tax positions changes as a result of the evaluation of new information, such change in estimate will be recorded in the period in which such determination is made. The Company reports income tax-related interest and penalties relating to uncertain tax positions, if applicable, as a component of income tax expense. For the three and nine months ended September 30, 2018 and 2017, no such amounts were recorded.

### ***Recent Accounting Developments***

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

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

### **Item 4. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

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

#### ***Changes in Internal Controls***

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

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

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

**Item 1A. Risk Factors**

Except as set forth below, there have been no material changes to the Risk Factors described in Part I "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission ("SEC").

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

None.

*Issuer Purchases of Equity Securities*

<b>Period</b>	<b>Total Number of Shares Purchased(1)</b>	<b>Average Price Paid per Share</b>	<b>Shares Purchased as Part of Publicly Announced Plans or Programs(2)</b>	<b>Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan Or Programs(2)</b>
July 1 - July 31	3,353	\$ 63.70	\$ —	\$ 20.0 million
August 1 - August 31	—	—	—	20.0 million
September 1 - September 30	5,539	55.40	—	20.0 million
Total	8,892	\$ 58.53	\$ —	\$ 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.

## [Table of Contents](#)

### Item 6. Exhibits

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">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)</a>
3.2	<a href="#">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)</a>
10.1	<a href="#">Master Services Agreement by and between Moelis &amp; 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)</a>
31.1	<a href="#">Rule 13a-14(a) Certification of Chief Executive Officer of the Registrant in accordance with Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Rule 13a-14(a) Certification of Chief Financial Officer of the Registrant in accordance with Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1*	<a href="#">Section 1350 Certification of Chief Executive Officer of the Registrant in accordance with Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2*	<a href="#">Section 1350 Certification of Chief Financial Officer of the Registrant in accordance with Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

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



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized this 31<sup>st</sup> day of October, 2018.

MOELIS & COMPANY

/s/ Kenneth Moelis

Kenneth Moelis  
*Chief Executive Officer*

/s/ Joseph Simon

Joseph Simon  
*Chief Financial Officer*

38

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

## Section 2: EX-31.1 (EX-31.1)

**Exhibit 31.1**

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

I, Kenneth Moelis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ending September 30, 2018, of Moelis & Company as filed with the Securities and Exchange Commission on the date hereof;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the above registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors:
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*Chief Executive Officer*

October 31, 2018

/s/ Kenneth Moelis



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

## Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

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

I, Joseph Simon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ending September 30, 2018, of Moelis & Company as filed with the Securities and Exchange Commission on the date hereof;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the above registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors:
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*Chief Financial Officer*

October 31, 2018

/s/ Joseph Simon  
Joseph Simon  
*Chief Financial Officer*

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

## Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

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

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

period ended September 30, 2018 (the “Report”) that, to the best of his knowledge:

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

*Chief Executive Officer*

October 31, 2018

/s/ Kenneth Moelis

Kenneth Moelis

*Chief Executive Officer*

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

## **Section 5: EX-32.2 (EX-32.2)**

**Exhibit 32.2**

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

Pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Joseph Simon, Chief Financial Officer of Moelis & Company (the “Company”), certifies with respect to the Quarterly Report of the Company on Form 10-Q for the quarterly period ended September 30, 2018 (the “Report”) that, to the best of his knowledge:

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

*Chief Financial Officer*

October 31, 2018

/s/ Joseph Simon

Joseph Simon

*Chief Financial Officer*

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