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, 2019

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)**	**46-4500216** **(I.R.S. Employer Identification No.)**
399 Park Avenue, 5th Floor, New York NY **(Address of principal executive offices)**	**10022** **(Zip Code)**

(212) 883-3800
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title	Trading Symbol	Name of Exchange on which registered
Class A Common Stock	MC	New York Stock Exchange (NYSE)

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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

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

As of October 17, 2019, there were 49,348,474 shares of Class A common stock, par value $0.01 per share, and 10,397,915 shares of Class B common stock, par value $0.01 per share, outstanding.

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Financial Statements (Unaudited)

Moelis & Company

Condensed Consolidated Statements of Financial Condition

(Unaudited)

(dollars in thousands, except per share amounts)

	September 30, 2019	December 31, 2018
Assets		
Cash and cash equivalents	$ 48,943	$ 261,100
Restricted cash	699	671
Receivables:		
Accounts receivable, net of allowance for doubtful accounts of $3,932 and $1,975 as of September 30, 2019 and December 31, 2018, respectively	96,332	54,412
Accrued and other receivables	18,587	14,199
Total receivables	114,919	68,611
Deferred compensation	8,830	8,788
Investments	159,697	143,924
Right-of-use assets	47,910	–
Equipment and leasehold improvements, net	14,282	12,731
Deferred tax asset	393,437	402,859
Prepaid expenses and other assets	17,520	15,691
Total assets	$ 806,237	$ 914,375
Liabilities and Equity		
Compensation payable	$ 65,447	$ 197,741
Accounts payable and accrued expenses	6,393	19,784
Amount due pursuant to tax receivable agreement	311,432	311,246
Deferred revenue	3,985	7,074
Lease liabilities	54,188	–
Other liabilities	212	6,777
Total liabilities	441,657	542,622
Commitments and Contingencies (See Note 12)		
Class A common stock, par value $0.01 per share (1,000,000,000 shares authorized, 51,848,658 issued and 49,376,053 outstanding at September 30, 2019; 1,000,000,000 authorized, 47,031,095 issued and 45,604,980 outstanding at December 31, 2018)	518	470
Class B common stock, par value $0.01 per share (1,000,000,000 shares authorized, 10,397,915 issued and outstanding at September 30, 2019; 1,000,000,000 authorized, 10,493,358 issued and outstanding at December 31, 2018)	104	105
Treasury stock, at cost; 2,472,605 and 1,426,115 shares as of September 30, 2019 and December 31, 2018, respectively	(98,734)	(56,661)
Additional paid-in-capital	827,758	697,938
Retained earnings (accumulated deficit)	(316,122)	(237,782)
Accumulated other comprehensive income (loss)	412	291
Total Moelis & Company equity	413,936	404,361
Noncontrolling interests	(49,356)	(32,608)
Total equity	364,580	371,753
Total liabilities and equity	$ 806,237	$ 914,375

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

Moelis & Company

Condensed Consolidated Statements of Operations

(Unaudited)

(dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues	$ 231,700	$ 207,723	$ 523,006	$ 647,546
Expenses				
Compensation and benefits	141,697	120,701	316,343	375,987
Occupancy	4,802	4,976	14,386	14,109
Professional fees	4,401	5,871	14,922	18,129
Communication, technology and information services	7,844	7,414	23,683	21,864
Travel and related expenses	10,909	9,385	31,699	31,796
Depreciation and amortization	1,284	1,135	3,729	3,290
Other expenses	6,480	5,329	20,453	18,745
Total expenses	177,417	154,811	425,215	483,920
Operating income (loss)	54,283	52,912	97,791	163,626
Other income and (expenses)	14,301	1,617	21,413	6,604
Income (loss) before income taxes	68,584	54,529	119,204	170,230
Provision (benefit) for income taxes	13,886	9,641	10,662	18,231
Net income (loss)	54,698	44,888	108,542	151,999
Net income (loss) attributable to noncontrolling interests	14,083	12,439	24,898	50,535
Net income (loss) attributable to Moelis & Company	$ 40,615	$ 32,449	$ 83,644	$ 101,464
Weighted-average shares of Class A common stock outstanding				
Basic	51,079,746	45,203,781	49,796,867	41,211,843
Diluted	55,468,728	53,141,198	55,145,248	49,173,904
Net income (loss) per share attributable to holders of shares of Class A common stock				
Basic	$ 0.80	$ 0.72	$ 1.68	$ 2.46
Diluted	$ 0.73	$ 0.61	$ 1.52	$ 2.06

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

Moelis & Company

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 54,698	$ 44,888	$ 108,542	$ 151,999
Foreign currency translation adjustment, net of tax	(322)	(707)	161	(871)
Other comprehensive income (loss)	(322)	(707)	161	(871)
Comprehensive income (loss)	54,376	44,181	108,703	151,128
Less: Comprehensive income attributable to noncontrolling interests	14,016	12,223	24,938	50,367
Comprehensive income (loss) attributable to Moelis & Company	$ 40,360	$ 31,958	$ 83,765	$ 100,761

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

Moelis & Company

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(dollars in thousands)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities		
Net income (loss)	$ 108,542	$ 151,999
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Bad debt expense	2,254	415
Depreciation and amortization	3,729	3,290
Equity-based compensation	97,505	88,776
Deferred tax provision	10,262	6,333
Gain on partial sale of equity method investment	(12,631)	—
Other	(4,228)	1,015
Changes in assets and liabilities:		
Accounts receivable	(44,437)	1,526
Accrued and other receivables	(4,408)	(18,724)
Prepaid expenses and other assets	(2,985)	636
Deferred compensation	(89)	(870)
Compensation payable	(132,164)	(2,768)
Accounts payable and accrued expenses	(13,261)	(1,247)
Deferred revenue	(3,089)	1,640
Dividends received	2,848	2,737
Other liabilities	888	(2,168)
Net cash provided by (used in) operating activities	8,736	232,590
Cash flows from investing activities		
Purchase of investments	(121,590)	(148,027)
Proceeds from sales of investments	89,859	98,860
Note payments received from employees	—	366
Purchase of equipment and leasehold improvements	(5,532)	(4,888)
Proceeds from partial sale of equity method investment	28,264	—
Net cash provided by (used in) investing activities	(8,999)	(53,689)
Cash flows from financing activities		
Dividends and distributions	(178,122)	(286,145)
Proceeds from exercise of stock options	7,866	6,781
Treasury stock purchases	(42,073)	(24,692)
Class A partnership units and other equity purchased	—	(293)
Net cash provided by (used in) financing activities	(212,329)	(304,349)
Effect of exchange rate fluctuations on cash, cash equivalents, and restricted cash	463	(778)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(212,129)	(126,226)
Cash, cash equivalents, and restricted cash, beginning of period	261,771	213,894
Cash, cash equivalents, and restricted cash, end of period	$ 49,642	$ 87,668
Supplemental cash flow disclosure:		
Cash paid during the period for:		
Income taxes	$ 13,731	$ 15,850
Other non-cash activity		
Dividend equivalents issued	$ 28,688	$ 44,727
Class A Partnership Units or other equity converted into Class A Common Stock	$ 712	$ 39,987
Cumulative Effect Adjustment upon Adoption of ASU 2014-09	$ —	$ 3,155
Forfeiture of fully-vested Group LP units or other equity units	$ 2,397	$ 677

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

Moelis & Company

Condensed Consolidated Statements of Changes in Equity

(Unaudited)

(dollars in thousands, except share amounts)

	Shares										
	Class A Common Stock	Class B Common Stock	Treasury Stock	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
Balance as of January 1, 2019	47,031,095	10,493,358	(1,426,115)	$ 470	$ 105	$ (56,661)	$ 697,938	$ (237,782)	$ 291	$ (32,608)	$ 371,753
Net income (loss)	—	—	—	—	—	—	—	13,570	—	2,607	16,177
Equity-based compensation	2,397,164	—	—	24	—	—	38,753	—	—	109	38,886
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	421	119	540
Dividends declared ($1.75 per share of Class A Common Stock) and distributions	—	—	—	—	—	—	19,484	(103,436)	—	(30,439)	(114,391)
Treasury Stock Purchases	—	—	(616,796)	—	—	(26,970)	—	—	—	—	(26,970)
Exercise of Stock options	29,439	—	—	—	—	—	492	—	—	—	492
Equity-based payments to non-employees	—	—	—	—	—	—	416	—	—	—	416
Other	—	—	—	—	—	—	(734)	—	—	974	240
Balance as of March 31, 2019	49,457,698	10,493,358	(2,042,911)	$ 494	$ 105	$ (83,631)	$ 756,349	$ (327,648)	$ 712	$ (59,238)	$ 287,143
Net income (loss)	—	—	—	—	—	—	—	29,459	—	8,208	37,667
Equity-based compensation	1,787,993	—	—	18	—	—	28,187	—	—	41	28,246
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	(45)	(12)	(57)
Dividends declared ($0.50 per share of Class A Common Stock) and distributions	—	—	—	—	—	—	4,514	(29,164)	—	(6,496)	(31,146)
Treasury Stock Purchases	—	—	(344,970)	—	—	(12,308)	—	—	—	—	(12,308)
Exercise of Stock options	321,662	—	(10,069)	3	—	(332)	5,372	—	—	—	5,043
Issuance of Class A common stock and cancellation of Class B common stock in connection with offerings and other exchanges	61,936	(61,936)	—	1	(1)	—	(1,580)	—	—	2,010	430
Equity-based payments to non-employees	—	—	—	—	—	—	111	—	—	—	111
Other	—	—	—	—	—	—	(1,550)	—	—	(721)	(2,271)
Balance as of June 30, 2019	51,629,289	10,431,422	(2,397,950)	$ 516	$ 104	$ (96,271)	$ 791,403	$ (327,353)	$ 667	$ (56,208)	$ 312,858
Net income (loss)	—	—	—	—	—	—	—	40,615	—	14,083	54,698
Equity-based compensation	99,443	—	—	1	—	—	30,342	—	—	30	30,373
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	(255)	(67)	(322)
Dividends declared ($0.50 per share of Class A Common Stock) and distributions	—	—	—	—	—	—	4,690	(29,384)	—	(7,891)	(32,585)
Treasury Stock Purchases	—	—	(74,655)	—	—	(2,463)	—	—	—	—	(2,463)
Exercise of Stock options	119,926	—	—	1	—	—	2,002	—	—	—	2,003
Equity-based payments to non-employees	—	—	—	—	—	—	102	—	—	—	102
Other	—	(33,507)	—	—	—	—	(781)	—	—	697	(84)
Balance as of September 30, 2019	51,848,658	10,397,915	(2,472,605)	$ 518	$ 104	$ (98,734)	$ 827,758	$ (316,122)	$ 412	$ (49,356)	$ 364,580

Condensed Consolidated Statements of Changes in Equity

(Unaudited)

(dollars in thousands, except share amounts)

	Shares										
	Class A Common Stock	Class B Common Stock	Treasury Stock	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
Balance as of January 1, 2018	34,163,042	19,912,230	(707,416)	$ 342	$ 199	$ (23,188)	$ 487,163	$ (139,918)	$ 352	$ 19,306	$ 344,256
Cumulative Effect Adjustment upon Adoption of ASU 2014-09	—	—	—	—	—	—	—	3,155	—	—	3,155
Cumulative Effect Adjustment upon Adoption of ASU 2016-01	—	—	—	—	—	—	—	(317)	317	—	—
Balance as of January 1, 2018, as adjusted	34,163,042	19,912,230	(707,416)	$ 342	$ 199	$ (23,188)	$ 487,163	$ (137,080)	$ 669	$ 19,306	$ 347,411
Net income (loss)	—	—	—	—	—	—	—	33,325	—	20,656	53,981
Equity-based compensation	2,210,079	—	—	22	—	—	31,764	—	—	458	32,244
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	1,069	610	1,679
Dividends declared ($1.97 per share of Class A Common Stock) and distributions	—	—	—	—	—	—	20,379	(90,631)	—	(66,777)	(137,029)
Treasury Stock Purchases	—	—	(414,327)	—	—	(20,789)	—	—	—	—	(20,789)
Exercise of Stock options	18,494	—	—	—	—	—	365	—	—	—	365
Issuance of Class A common stock and cancellation of Class B common stock in connection with offerings and other exchanges	4,689,295	(4,689,295)	—	47	(47)	—	24,328	—	—	(4,029)	20,299
Equity-based payments to non-employees	—	—	—	—	—	—	2,016	—	—	—	2,016
Balance as of March 31, 2018	41,080,910	15,222,935	(1,121,743)	$ 411	$ 152	$ (43,977)	$ 566,015	$ (194,386)	$ 1,738	$ (29,776)	$ 300,177
Net income (loss)	—	—	—	—	—	—	—	35,690	—	17,440	53,130
Equity-based compensation	751,997	—	—	8	—	—	25,839	—	—	244	26,091
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	(1,281)	(562)	(1,843)
Dividends declared ($0.47 per share of Class A Common Stock) and distributions	—	—	—	—	—	—	4,388	(23,560)	—	(10,944)	(30,116)
Treasury Stock Purchases	—	—	(60,842)	—	—	(3,383)	—	—	—	—	(3,383)
Exercise of Stock options	325,286	—	—	3	—	—	6,327	—	—	—	6,330
Issuance of Class A common stock and cancellation of Class B common stock in connection with offerings and other exchanges	18,242	(18,242)	—	—	—	—	1,666	—	—	74	1,740
Equity-based payments to non-employees	—	—	—	—	—	—	1,662	—	—	—	1,662
Other	—	(26,118)	—	—	—	—	—	—	—	(677)	(677)
Balance as of June 30, 2018	42,176,435	15,178,575	(1,182,585)	$ 422	$ 152	$ (47,360)	$ 605,897	$ (182,256)	$ 457	$ (24,201)	$ 353,111
Net income (loss)	—	—	—	—	—	—	—	32,449	—	12,439	44,888
Equity-based compensation	42,571	—	—	—	—	—	30,209	—	—	232	30,441
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	(491)	(216)	(707)
Dividends declared ($1.97 per share of Class A Common Stock) and distributions	—	—	—	—	—	—	19,960	(100,787)	—	(38,173)	(119,000)
Treasury Stock Purchases	—	—	(8,892)	—	—	(520)	—	—	—	—	(520)
Exercise of Stock options	4,500	—	—	—	—	—	86	—	—	—	86
Issuance of Class A common stock and cancellation of Class B common stock in connection with offerings and other exchanges	4,685,217	(4,685,217)	—	47	(47)	—	11,263	—	—	6,392	17,655
Equity-based payments to non-employees	—	—	—	—	—	—	991	—	—	—	991
Balance as of September 30, 2018	46,908,723	10,493,358	(1,191,477)	$ 469	$ 105	$ (47,880)	$ 668,406	$ (250,594)	$ (34)	$ (43,527)	$ 326,945

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

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, directly or indirectly:
  - 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, 2018.

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 assessment of probable lease terms and the measurement of the present value of such obligations;
- 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 U.S. Treasury instruments and government securities money markets.

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, 2019 and 2018, is presented below.

	September 30,	
	2019	2018
Cash	$ 38,387	$ 52,373
Cash equivalents	10,556	34,521
Restricted cash	699	774
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 49,642	$ 87,668

Additionally, as of December 31, 2018, the Company held cash of $59,705 and cash equivalents of $201,395.

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.

Included in the accounts receivable balances at September 30, 2019 and December 31, 2018 were $21,290 and $26,738 of long term receivables related to private funds advisory capital raising engagements, which are generally paid in installments over a period of three to four years. These long term receivables generated interest income of $241 and $181 for the three months ended September 30, 2019 and 2018, respectively, and $761 and $388 for the nine months ended September 30, 2019 and 2018, respectively.

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

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

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

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

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

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

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

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

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

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

Effective January 1, 2018, the Company adopted ASU 2016-01 using the modified retrospective approach. As a result, a cumulative adjustment was recorded which decreased retained earnings and increased accumulated other comprehensive income by $317 as of January 1, 2018. 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 within investments 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 other income and expenses in the condensed consolidated statements of operations using the most recently available earnings data. Certain US GAAP adjustments have been made to account for the Company's equity method investments when the investee uses an accounting standard other than US GAAP.

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

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

Deferred Tax Asset and Amount Due Pursuant to Tax Receivable Agreement —In conjunction with the IPO, the Company was treated for U.S. federal income tax purposes as having directly purchased Class A partnership units in Group LP from the existing unitholders. Additional Group LP Class A partnership units may be exchanged for shares of Class A common stock in the Company. The initial purchase and future exchanges are expected to result in an increase in the tax basis of Group LP's assets attributable to the Company's interest in Group LP. These increases in the tax basis of Group LP's assets attributable to the Company's interest in Group LP would not have been available but for the initial purchase and future exchanges. Such increases in tax basis are likely to increase (for tax purposes) depreciation and amortization deductions and therefore reduce the amount of income tax the Company would otherwise be required to pay in the future. As a result, the Company records a deferred tax asset for such increase in tax basis.

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

Revenue and Expense Recognition—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. 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 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, "Revenue from Contracts with Customers", 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. Prior to adoption, client expenses were recorded net of reimbursements. 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 as of January 1, 2018. 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.

Total compensation and benefits expense is determined by management primarily based on revenues earned, in addition to other performance and labor market conditions. Variable compensation and benefits expense has been adjusted in response to the adoption of Topic 606.

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.

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

Effective January 1, 2019, the Company adopted ASU 2018-07, "Compensation—Stock Compensation" ("ASU 2018-07") using the modified retrospective method. The adoption of this new standard generally requires the accounting for equity-based payments to nonemployees to be consistent with the accounting for employees. As a result, the Company will recognize the cost of services received from a nonemployee in exchange for an equity instrument based on the award's grant-date fair value. Unsettled equity-based payments to nonemployees have been remeasured at fair value as of the adoption date. No adjustment to the opening balance of retained earnings was required.

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

ASC 740-10 prescribes a two-step approach for the recognition and measurement of tax benefits associated with the positions taken or expected to be taken in a tax return that affect amounts reported in the financial statements. The Company has reviewed and will continue to review the conclusions reached regarding uncertain tax positions, which may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulations and interpretations thereof. For the three and nine months ended September 30, 2019 and 2018, 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, 2019 and 2018, no such amounts were recorded.

Leases — The Company maintains operating leases for corporate offices and an aircraft. The Company determines if a contract contains a lease at inception. Operating leases are recorded as right-of-use ("ROU") assets and lease liabilities on the condensed consolidated statements of financial condition. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease liabilities are recognized at the lease commencement date and are measured at the present value of anticipated lease payments over the lease term. The operating lease ROU assets are equal to the lease liabilities, adjusted for certain lease incentives, accrued rents, and prepaid rents. Typically, our borrowing rate is used to determine the present value of lease payments because the implicit rate is not readily determinable. Our lease terms may include options to extend or terminate the lease. These options are factored into our present value calculations when it is reasonably certain that such options will be exercised. Operating lease expense is recognized on a straight-line basis over the lease term.

Adoption of ASU 2016-02

In February 2016, the FASB issued Accounting Standards Update 2016-02—Leases ("ASU 2016-02") to improve transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Additionally, in July 2018, the FASB issued ASU 2018-11 which permits entities to apply the requirements of ASU 2016-02 as of the adoption date, as opposed to the earliest comparative period disclosed.

The Company adopted both standards as of January 1, 2019, and is applying the requirements of ASU 2016-02 as of the adoption date instead of the earliest comparative period disclosed. In addition, we elected to use certain practical expedients to assist in our transition and are not reassessing the identification and classification of leases upon adoption. Upon adoption, the Company recorded lease liabilities and corresponding ROU assets of $63,252. The ROU assets were adjusted for prepaid rent and accrued rent, which reduced our opening balances of prepaid expenses and other assets and other liabilities by $1,666 and $7,139, respectively. The adoption of ASU 2016-02 did not have a material impact to our condensed consolidated statements of operations.

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 June 2016, the FASB issued Accounting Standards Update No. 2016-13, ""Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 replaces the incurred loss impairment methodology for financial instruments with the current expected credit loss (CECL) model which requires estimates of future credit losses based on reasonable supporting information, such as historical experience and current conditions. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application is permitted. Upon initial evaluation, we do not anticipate any material changes to our condensed consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, "Goodwill and Other —Internal Use Software" ("ASU 2018-15"). ASU 2018-15 clarifies the appropriate accounting for implementation, setup, and other upfront costs for cloud computing service contracts. The amendment aligns the requirements for capitalizing implementation costs incurred in cloud computing arrangements with the requirements for capitalizing costs to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. Upon initial evaluation, the Company expects to capitalize future implementation costs of certain cloud computing arrangements, but does not anticipate such amounts to be material to our condensed consolidated financial statements.

In March 2019, the FASB issued Accounting Standards Update No. 2019-01, "Leases" ("ASU 2019-01"). ASU 2019-01 enhances the guidance in ASC 842 surrounding the fair value of underlying assets for lessors, presentation of sales-type and direct financing leases on the statement of cash flows, and transition guidance surrounding accounting changes and error corrections. ASU 2019-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application is permitted. Upon initial evaluation, we do not anticipate any material changes to our condensed consolidated financial statements.

4. EQUITY METHOD INVESTMENT

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. 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 and continues to be accounted for under the equity method of accounting. Certain estimates and adjustments have been made to account for the Company's equity method investment in Moelis Australia under US GAAP. Please see Note 4 of the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for additional information.

On February 20, 2019 and February 20, 2018, Moelis Australia declared dividends, of which the Company received $2,848 and $2,737 on March 6, 2019 and March 7, 2018, respectively. The Company accounted for the dividends as a return on investment and reduced the carrying value of the investment in Moelis Australia by $2,848 and $2,737, respectively.

On September 2, 2019, the Company sold 12.5 million shares of Moelis Australia common stock. This transaction resulted in a gain of $12,631, recorded in other income and expenses on the condensed consolidated statements of operations. As a result, the Company's ownership interest in Moelis Australia was reduced. The Company also announced the sale of 8.0 million shares of Moelis Australia common stock to MOE pursuant to a selective buyback, expected to settle in November 2019.

The balances of the Company's equity method investment as of September 30, 2019 and December 31, 2018 were $46,897 and $63,274, respectively, and are included within investments on the condensed consolidated statements of financial condition. The Company's share of earnings on this investment is recorded in other income and expenses on the condensed consolidated statements of operations.

5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements, net consists of the following:

	September 30, 2019	December 31, 2018
Office equipment	$ 13,521	$ 11,517
Furniture and fixtures	5,033	4,533
Leasehold improvements	16,536	13,813
Total	35,090	29,863
Less accumulated depreciation and amortization	(20,808)	(17,132)
Equipment and leasehold improvements, net	$ 14,282	$ 12,731

Depreciation and amortization expenses for fixed assets totaled $1,284 and $1,135 for the three months ended September 30, 2019 and 2018, respectively, and $3,729 and $3,290 for the nine months ended September 30, 2019 and 2018, respectively.

6. FAIR VALUE MEASUREMENTS

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

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

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

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

The estimated fair values of government securities money markets, U.S. Treasury instruments, and government debt securities as of September 30, 2019 and December 31, 2018 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, 2019:

	Total	Level 1	Level 2	Level 3
Financial assets:				
Included in cash and cash equivalents				
Government securities money market	$ 10,556	$ —	$ 10,556	$ —
Investments				
U.S. treasury instruments	112,618	82,488	30,130	—
Common stock	182	182	—	—
Total financial assets	$ 123,356	$ 82,670	$ 40,686	$ —

For the three and nine months ended September 30, 2019, unrealized gains of $33 and $32 were recognized in other income and expenses on the condensed consolidated statement of operations related to common stock held at the reporting date. The cost basis of the financial assets recorded at fair value included in investments on the condensed consolidated statement of financial condition was $112,981 as of September 30, 2019.

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

	Total	Level 1	Level 2	Level 3
Financial assets:				
Included in cash and cash equivalents				
U.S. treasury instruments	$ 110,529	$ 100,500	$ 10,029	$ —
Government securities money market	90,866	—	90,866	—
Investments				
Government debt securities (1)	1,105	—	1,105	—
U.S. treasury instruments	79,395	7,977	71,418	—
Common stock	150	150	—	—
Total financial assets	$ 282,045	$ 108,627	$ 173,418	$ —

(1) Consists of municipal bonds and agency bonds.

For the three and nine months ended September 30, 2018, unrealized losses of $47 and unrealized gains of $20 were recognized in other income and expenses on the condensed consolidated statement of operations related to common stock held at the reporting date. The cost basis of the financial assets recorded at fair value included in investments on the condensed consolidated statement of financial condition was $80,717 as of December 31, 2018.

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, 2019 and 2018 are presented below.

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands, except per share amounts)	**2019**		**2018**		**2019**		**2018**	
Numerator:								
Net income (loss) attributable to holders of shares of Class A common stock—basic	$ 40,615		$ 32,449		$ 83,644		$ 101,464	
Add (deduct) dilutive effect of:								
Noncontrolling interests related to Class A partnership units		(a)		(a)		(a)		(a)
Net income (loss) attributable to holders of shares of Class A common stock—diluted	$ 40,615		$ 32,449		$ 83,644		$ 101,464	
Denominator:								
Weighted average shares of Class A common stock outstanding—basic	51,079,746		45,203,781		49,796,867		41,211,843	
Add (deduct) dilutive effect of:								
Noncontrolling interests related to Class A partnership units		(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	4,388,982	(b)	7,937,417	(b)	5,348,381	(b)	7,962,061	(b)
Weighted average shares of Class A common stock outstanding—diluted	55,468,728		53,141,198		55,145,248		49,173,904	
Net income (loss) per share attributable to holders of shares of Class A common stock								
Basic	$ 0.80		$ 0.72		$ 1.68		$ 2.46	
Diluted	$ 0.73		$ 0.61		$ 1.52		$ 2.06	

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 68,459,164 and 68,043,680 for the three months ended September 30, 2019 and 2018, respectively, and 68,163,860 and 67,405,983 for the nine months ended September 30 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, the additional weighted average amount of RSUs that would have been included in this calculation if the effect were dilutive would have been 51,426 and 0 units, respectively and 1,465,962 and 2,900 units for the nine months ended September 30 2019 and 2018, 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, 2019, partners held 12,958,022 Group LP partnership units, 36,634 of which were unvested and will continue to vest over their service life.

In relation to the vesting of Class A partnership units, the Company recognized compensation expenses of $30 and $232 for the three months ended September 30, 2019 and 2018, respectively and $180 and $934 for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, there was $70 of unrecognized compensation expense related to unvested Class A partnership units which is expected to be recognized over a weighted-average period of 0.6 years, using the graded vesting method.

2014 Omnibus Incentive Plan

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

In the first quarter of 2015, the Board of Directors authorized the repurchase of up to $25 million of shares of Class A common stock of the Company and/or Class A partnership units of Group LP with no expiration date. Under this share repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of shares repurchased will be opportunistic and measured in nature and will depend on a variety of factors, including price and market conditions. In February 2019, the Board of Directors authorized the repurchase of up to $100 million of shares of Class A common stock and/or Class A partnership units of Group LP with no expiration date. This new authorization replaced the former repurchase program and the remaining authorization under the program was eliminated. 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. The remaining balance of shares authorized for repurchase under the program was $93.5 million as of September 30, 2019.

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, 2019 and 2018, the Company recognized expense of $30,343 and $29,710, respectively, and $96,719 and $86,443 for the nine months ended September 30, 2019 and 2018, respectively.

The following table summarizes activity related to restricted stock and RSUs for the nine months ended September 30, 2019 and 2018.

	Restricted Stock & RSUs			
	2019		2018	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested Balance at January 1,	8,761,224	$ 37.59	9,357,999	$ 30.15
Granted	4,060,788	45.16	3,221,367	54.39
Forfeited	(153,487)	45.05	(121,397)	38.46
Vested	(4,172,237)	34.75	(3,174,379)	30.66
Unvested Balance at September 30,	8,496,288	$ 42.17	9,283,590	$ 37.29

As of September 30, 2019, the total compensation expense related to unvested restricted stock and RSUs not yet recognized was $150,101. The weighted-average period over which this compensation expense is expected to be recognized at September 30, 2019 is 1.6 years.

Stock Options

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

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

The Company paid special dividends of $8.30, in aggregate, through September 30, 2019. 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 $8.30 from $25.00 per share to $16.70 per share.

The following table summarizes activity related to stock options for the nine months ended September 30, 2019 and 2018.

	Stock Options Outstanding					
	2019			2018		
	Number Outstanding		Weighted Average Exercise Price Per Share	Number Outstanding		Weighted Average Exercise Price Per Share
Outstanding at January 1,	2,017,067	$	16.70	2,436,232	$	16.70
Exercises	(471,027)		16.70	(348,280)		16.70
Forfeitures or expirations	(3,000)		16.70	(64,785)		16.70
Outstanding at September 30,	1,543,040	$	16.70	2,023,167	$	16.70

For the three months ended September 30, 2019 and 2018, the Company recognized expenses of $0 and $499, respectively, and $606 and $1,399 for the nine months ended September 30, 2019 and 2018, respectively, in relation to these stock options. As of April 2019, all stock options were fully vested.

9. STOCKHOLDERS EQUITY

Class A Common Stock

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

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

As of September 30, 2019, 51,848,658 shares of Class A common stock were issued and 49,376,053 shares were outstanding, and as of December 31, 2018, 47,031,095 shares of Class A common stock were issued and 45,604,980 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 exercise of stock options and vesting of restricted stock units in connection with the Company's annual compensation process and ongoing hiring process.

Class B Common Stock

In conjunction with Moelis & Company's IPO of its Class A common stock, the Company issued 36,158,698 shares of Class B common stock. Moelis & Company Partner Holdings LP ("Partner Holdings") holds all shares of Class B common stock, enabling it initially to exercise majority voting control over the Company. The economic rights of Class B common stock are based on the ratio of the Class B subscription price to the initial public offering price of shares of Class A common stock (.00055 to 1). Shares of Class B common stock are generally not transferrable and, if transferred other than in the limited circumstances set forth in Moelis & Company's Amended and Restated Certificate of Incorporation, such shares shall automatically convert into a number of shares of Class A common stock, or dollar equivalent. Each share of Class B common stock may also be converted to a number of Class A shares at the option of the holder. Holders of shares of Class B common stock are entitled to receive dividends of the same type as any dividends payable on outstanding shares of Class A common stock at a ratio of .00055 to 1.

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

As of September 30, 2019, and December 31, 2018, 10,397,915 and 10,493,358 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, 2019 and 2018, the Company repurchased 1,046,490 and 484,061 shares, respectively. Pursuant to the Company's share repurchase program, shares repurchased from its employees for the purpose of settling tax liabilities incurred upon the vesting of RSUs and exercise of stock options. The result of the repurchases was an increase of $42,073 and $24,692, in the treasury stock balance on the Company's condensed consolidated statements of changes in equity as of September 30, 2019 and 2018, 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, 2019 and December 31, 2018, partners held 12,958,022 and 13,053,465 Group LP partnership units, respectively, representing a 21% and 22% 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 49,376,053 shares of Class A common stock outstanding at September 30, 2019 (45,604,980 as of December 31, 2018), 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. 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. 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. On July 12, 2019, the Company terminated its aircraft dry lease with Manager, the lessor, and Mr. Moelis, the other lessee (the “Old Lease”) and the related cost sharing agreement with Mr. Moelis, which were set to expire by their terms on December 31, 2019, and entered into a new dry lease with Manager, the lessor, and Mr. Moelis, the other lessee (the “New Lease”) and cost sharing agreement with Mr. Moelis, which terminate on December 31, 2022. The terms of the New Lease and new cost sharing agreement are substantially similar to the Old Lease and related cost sharing agreement.

For the three months ended September 30, 2019 and 2018, the Company incurred $413 and $468 in aircraft lease costs to be paid to Manager, respectively, and $1,349 and $1,404 for the nine months ended September 30, 2019 and 2018, respectively.

Promissory Notes —As of September 30, 2019, there were $189 of unsecured promissory notes from employees held by the Company (December 31, 2018: $189). 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, 2019 and December 31, 2018 bear a fixed interest rate of 4.00%. During the nine months ended September 30, 2019 and 2018, the Company received $0 and $366 of principal repayments and recognized interest income of $6 and $11, 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 $60 and $170 for the three months ended September 30, 2019 and 2018, respectively, and $188 and $479 for the nine months ended September 30, 2019 and 2018, 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, 2019 and December 31, 2018, there were no balances due from Moelis Asset Management LP.

Moelis Australia —As of September 30, 2019 and December 31, 2018, the Company had $50 due from and $1,673 due to Moelis Australia, 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 for each of the three months ended September 30, 2019 and 2018, respectively, and $210 and $242 for the nine months ended September 30, 2019 and 2018, 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, 2019, Moelis U.S. had net capital of $54,509, which was $54,259 in excess of its required net capital. At December 31, 2018, Moelis U.S. had net capital of $63,099 which was $62,849 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, 2019, the aggregate regulatory net capital of Moelis UK was $21,763 which exceeded the minimum requirement by $21,709. At December 31, 2018, the aggregate regulatory net capital of Moelis UK was $23,041, which exceeded the minimum requirement by $22,984.

12. COMMITMENTS AND CONTINGENCIES

Bank Line of Credit — In June 2019, the Company renewed its revolving credit facility which extended the maturity date to June 30, 2020. 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, 2019 and December 31, 2018, the Company had no borrowings under the credit facility.

As of September 30, 2019, the Company's available credit under this facility was $60,040 as a result of the issuance of an aggregate amount of $4,960 of various standby letters of credit, which were required in connection with certain office lease and other agreements. The Company incurs a 1% per annum fee on the outstanding balance of issued letters of credit.

Leases —The Company maintains operating leases for corporate offices and an aircraft with various expiration dates, some of which extend through 2029. Some leases include options to terminate or to extend the lease terms. The Company records lease liabilities measured at the present value of anticipated lease payments over the lease term, including options to extend or terminate the lease when it is reasonably certain such options will be exercised. The implicit discount rates used to determine the present value of the Company's leases are not readily determinable, thus the Company uses its borrowing rate, which was determined with reference to our available credit line. See below for additional information about the Company's leases.

($ in thousands)	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
Supplemental Income Statement Information:				
Operating lease cost	$ 3,970		$ 12,270	
Supplemental Cash Flow Information:				
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 4,818		$ 14,655	
Other Information				
Weighted-average remaining lease term - operating leases	4.95	years	4.95	years
Weighted-average discount rate - operating leases	4.00	%	4.00	%
Right-of-use assets obtained in exchange for lease obligations (e.g. new leases commenced during the period):	$ 6,445		$ 7,617	

For the three and nine months ended September 30, 2018, the Company incurred expense relating to its operating leases of $3,963 and $11,864, respectively.

The future minimum rental payments required under the operating leases in place at September 30, 2019, are as follows:

Fiscal year ended	Operating Leases	Sublease Income	Net Minimum Payments
2019	$ 3,824	$ (205)	$ 3,619
2020	15,622	(822)	14,800
2021	10,479	(822)	9,657
2022	10,268	(822)	9,446
2023	7,237	(822)	6,415
Thereafter	12,411	(1,233)	11,178
Total Payments	$ 59,841	$ (4,726)	$ 55,115
Present Value Adjustment	$ 5,653		
Total	$ 54,188		

During the first quarter of 2019, the Company entered into a lease agreement related to its headquarters in New York. The new lease expands our current workspace at 399 Park Ave in New York and has an initial term that expires in 2036. Commencement of the lease is anticipated to occur in the fourth quarter of 2019.

In accordance with ASC 840, the future minimum rental payments under the operating leases in place at December 31, 2018 are as follows:

Fiscal year ended	Operating Leases	Sublease Income	Net Minimum Payments
2019	$ 19,742	$ (530)	$ 19,212
2020	13,836	(849)	12,987
2021	8,682	(849)	7,833
2022	8,471	(849)	7,622
2023	7,090	(849)	6,241
Thereafter	12,349	(1,273)	11,076
Total	$ 70,170	$ (5,199)	$ 64,971

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, 2019 and 2018, in the amounts of $686 and $568, respectively, and $2,054 and $1,732 for the nine months ended September 30, 2019 and 2018, respectively.

14. INCOME 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, except for the New York City unincorporated business tax ("UBT") and certain other foreign, state, and local taxes. 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 $13,886 and 20%, and $9,641 and 18%, for the three months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, the Company's provision for income taxes and effective tax rate were $10,662 and 9%, and $18,231 and 11%, respectively. The income tax provision for the aforementioned periods primarily reflects the slight increase in tax due to the small increase in the Company's allocable share of earnings from Group LP being subject to the prevailing U.S. federal, state, and local corporate income tax rates, offset by the effect of the excess tax benefit recognized in connection with the delivery of equity-based compensation. The excess tax benefits for the three months ended September 30, 2019 and 2018 were $381 and $135, respectively, and $13,948 and $12,940 for the nine months ended September 30, 2019 and 2018, respectively.

The Company recorded a decrease in the net deferred tax asset of $9,422 for the nine months ended September 30, 2019, which was primarily attributable to the amortization of step-up in tax basis in Group LP assets and the vesting and delivery of equity-based awards, partially offset by an increase in the deferred tax asset from the equity award amortization expense in the current period.

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
United States	$ 191,795	$ 172,168	$ 446,721	$ 544,407
Europe	31,729	30,651	54,450	67,983
Rest of World	8,176	4,904	21,835	35,156
Total	$ 231,700	$ 207,723	$ 523,006	$ 647,546

	September 30, 2019	December 31, 2018
Assets:		
United States	$ 682,534	$ 756,053
Europe	47,936	55,064
Rest of World	75,767	103,258
Total	$ 806,237	$ 914,375

As of September 30, 2019, and December 31, 2018, the Company had deferred revenues of $3,985 and $7,074, respectively. These amounts primarily consist of upfront fees and retainers for our services. During the nine months ended September 30, 2019, $5,319 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 30, 2019, the Board of Directors of Moelis & Company declared a dividend of $0.50 per share to be paid on December 13, 2019 to shareholders of record as of November 11, 2019.

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, 2018.

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, 2019, we served our clients globally with 617 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, 2019 and 2018, referenced throughout this Form 10-Q was obtained from Thomson Financial as of October 4, 2019, and October 3, 2018.

For the first nine months of 2019, we earned revenues of $523.0 million, a decrease of 19% from the $647.5 million earned during the same period in 2018. This compares with a 9% decrease in the number of global completed M&A transactions with value greater than $100 million and a 2% decrease in volume for the same period. The decrease in revenues was primarily driven by fewer transaction completions compared to the prior year period.

In the U.S., which has been a particularly strong driver of our revenues, we are observing many companies pursue M&A as they seek to obtain a competitive advantage in their business models. 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, high corporate cash balances, relatively low interest rates and availability of credit), provides a solid foundation for sustained M&A activity. However in the first nine months of 2019, the M&A market slowed with completions down 9% versus the prior year period as equity market volatility and trade-war tensions have impacted the deal-making environment. In Europe, we continue to see slower activity, partially attributable to geo-political issues such as the U.K.'s exit from the EU. Lastly, restructuring activity continues to be a steady contributor to our business despite the low default environment.

Our team of investment banking professionals continues to gain traction and we expect global collaboration among them to deepen and the advice provided to resonate with clients. Our current conversations with clients remain strong, and we continue to experience demand for independent advice as clients evaluate their strategic alternatives.

Results of Operations

The following is a discussion of our results of operations for the three and nine months ended September 30, 2019 and 2018.

	Three Months Ended September 30,			Nine Months Ended September 30,		
($ in thousands)	**2019**	**2018**	**Variance**	**2019**	**2018**	**Variance**
Revenues	$ 231,700	$ 207,723	12%	$ 523,006	$ 647,546	-19%
Expenses:						
Compensation and benefits	141,697	120,701	17%	316,343	375,987	-16%
Non-compensation expenses	35,720	34,110	5%	108,872	107,933	1%
Total operating expenses	177,417	154,811	15%	425,215	483,920	-12%
Operating income (loss)	54,283	52,912	3%	97,791	163,626	-40%
Other income and (expenses)	14,301	1,617	N/M	21,413	6,604	N/M
Income (loss) before income taxes	68,584	54,529	26%	119,204	170,230	-30%
Provision (benefit) for income taxes	13,886	9,641	44%	10,662	18,231	-42%
Net income (loss)	$ 54,698	$ 44,888	22%	$ 108,542	$ 151,999	-29%

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

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

Three Months Ended September30, 2019 versus 2018

Revenues were $231.7 million for the three months ended September 30, 2019 as compared with $207.7 million for the same period in 2018, representing an increase of 12%. The increase in revenues was driven by higher average fees earned per completed transaction as compared with the prior year period and continued significant growth in restructuring activity over the prior year period.

For the three months ended September 30, 2019 and 2018 we earned revenues from 116 and 129 clients, respectively, and the number of clients who paid fees equal to or greater than $1 million decreased to 42 clients from 51 clients for the same period of 2018.

Nine Months Ended September 30, 2019 versus 2018

Revenues were $523.0 million for the nine months ended September 30, 2019 as compared with $647.5 million for the same period in 2018, representing a decrease of 19%. The decrease in revenues was primarily driven by fewer transaction completions during the period, partially offset by higher average fees earned per completed transaction.

For the nine months ended September 30, 2019 and 2018 we earned revenues from 203 and 246 clients, respectively, and the number of clients who paid fees equal to or greater than $1 million decreased to 105 clients from 150 clients for the same period of 2018.

Operating Expenses

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

($ in thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Variance	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Variance
Expenses:						
Compensation and benefits	$ 141,697	$ 120,701	17%	$ 316,343	$ 375,987	-16%
% of revenues	61%	58%		60%	58%	
Non-compensation expenses	$ 35,720	$ 34,110	5%	$ 108,872	$ 107,933	1%
% of revenues	15%	16%		21%	17%	
Total operating expenses	$ 177,417	$ 154,811	15%	$ 425,215	$ 483,920	-12%
% of revenues	77%	75%		81%	75%	

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

Three Months Ended September 30, 2019 versus 2018

Operating expenses were $177.4 million for the three months ended September 30, 2019 and represent 77% of revenues, compared with $154.8 million for the same period in 2018 which represented 75% of revenues. The increase in operating expenses was primarily driven by increased compensation expense due to greater quarterly revenues as compared to the prior year period.

Nine Months Ended September 30, 2019 versus 2018

Operating expenses were $425.2 million for the nine months ended September 30, 2019 and represented 81% of revenues, compared with $483.9 million for the same period in 2018 which represented 75% of revenues. The decrease in operating expenses was primarily driven by lower compensation expense due to lower year-to-date revenues as compared to the prior year period.

Compensation and Benefits Expenses

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

Our compensation expenses consist of base salary and benefits, annual incentive compensation payable as cash bonus awards, including certain amounts subject to clawback and contingent upon a required period of service ("contingent cash awards") and amortization of equity-based compensation awards. Base salary and benefits are paid ratably throughout the year. Equity awards are amortized into compensation expenses on a graded basis (based upon the fair value of the award at the time of grant) during the service period over which the award vests, which is typically four or five years. The awards are recorded within equity as they are expensed. Contingent cash awards are amortized into compensation expenses over the required service period. Cash bonuses, which are accrued each quarter, are discretionary and dependent upon a number of factors including the performance of the Company and are generally paid during the first two months of each calendar year with respect to prior year performance. The equity component of the annual incentive award is determined with reference to the Company's estimate of grant date fair value, which in turn determines the number of equity awards granted subject to a vesting schedule.

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

Three Months Ended September 30, 2019 versus 2018

For the three months ended September 30, 2019, compensation related expenses of $141.7 million represented 61% of revenues, compared with $120.7 million of compensation-related expenses which represented 58% of revenues in the prior year period. The increase in compensation expenses was primarily driven by greater quarterly revenues compared to the prior year period.

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 $83.0 million and $80.5 million for the three months ended September 30, 2019 and 2018, respectively. The increase in fixed compensation costs relates to increased headcount as compared to the prior year period. 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 $58.7 million and $40.2 million for the three months ended September 30, 2019 and 2018, 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 quarterly revenues earned during the three months ended September 30, 2019 compared to the same period in 2018.

Nine Months Ended September 30, 2019 versus 2018

For the nine months ended September 30, 2019, compensation related expenses of $316.3 million and represent 60% of revenues, compared with $376.0 million which represented 58% of revenues in the prior year period. The decrease in compensation expenses was primarily driven by decreased revenues which resulted in lower bonus expense, partially offset by higher equity amortization during the first nine months of 2019 compared to the same period in the prior year.

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 $252.3 million and $234.8 million for the nine months ended September 30, 2019 and 2018, 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 $64.0 million and $141.2 million for the nine months ended September 30, 2019 and 2018, respectively. The combination of the discretionary and fixed compensation expenses represents the overall compensation expense pool. The decrease in discretionary cash bonus expense is primarily related to lower year-to-date revenues earned during the first nine months of 2019 compared to the same period in 2018.

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. 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, 2019 versus 2018

For the three months ended September 30, 2019, non-compensation expenses of $35.7 million represented 15% of revenues, compared with $34.1 million which represented 16% of revenues in the prior year period. The decrease in non-compensation expense as a percentage of revenues is primarily the result of an increase in revenues for the period. The increase in non-compensation expense was primarily related to increased travel and related expenses incurred during the period.

Nine Months Ended September 30, 2019 versus 2018

For the nine months ended September 30, 2019, non-compensation expenses of $108.9 million represented 21% of revenues, compared with $107.9 million which represented 17% of revenues in the prior year period. Non-compensation expenses increased marginally compared with the same period of 2018, and increased as a percentage of revenues primarily as a result of a decline in revenues for the year-to-date period.

Other Income and (Expenses)

Other income and expenses consists of earnings from equity method investments, gains and losses on investments, interest income and expense, and other infrequent gains or losses.

Three & Nine Months Ended September 30, 2019 versus 2018

On September 2, 2019, the Company sold 12.5 million shares of Moelis Australia common stock. This transaction was the first monetization of the Company's ownership in Moelis Australia, an investment in which our bankers have actively been engaged with since the beginning. The sale resulted in a gain of $12.6 million, recorded in other income and expenses on the condensed consolidated statements of operations. As a result, the Company's ownership interest in Moelis Australia was reduced. The Company also announced the sale of 8.0 million shares of Moelis Australia common stock to MOE pursuant to a selective buyback, expected to settle in November 2019.

Provision for Income 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, except for New York City UBT and certain other foreign, state, and local income taxes. In connection with the Company's reorganization and IPO, the Company became subject to U.S. corporate, federal, state, and local income tax on its allocable share of results of operations from Group LP.

Three Months Ended September 30, 2019 versus 2018

The Company's provision for income taxes and effective tax rates were $13.9 million and 20%, and $9.6 million and 18%, for the three months ended September 30, 2019 and 2018, respectively. The income tax provision and effective tax rate for the aforementioned periods primarily reflect the slight increase in the Company's allocable share of earnings from Group LP at the prevailing U.S. federal, state, and local corporate income tax rate.

Nine Months Ended September 30, 2019 versus 2018

The Company's provision for income taxes and effective tax rates were $10.7 million and 9%, and $18.2 million and 11%, for the nine months ended September 30, 2019 and 2018, 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 impact of the excess tax benefit recognized in connection with equity-based compensation delivered at a price above the grant date price.

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, 2019 and December 31, 2018, the Company had cash equivalents of $10.6 million and $201.4 million, respectively, invested in U.S. Treasury instruments and government securities money market. Additionally, as of September 30, 2019 and December 31, 2018, the Company had cash of $38.4 million and $59.7 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, 2019 and December 31, 2018, the Company held $112.6 million and $80.5 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, 2019 and December 31, 2018 accounts receivable were $96.3 million and $54.4 million, respectively, net of allowances of $3.9 million and $2.0 million, respectively. Included in the accounts receivable balances at September 30, 2019 and December 31, 2018 were $21.3 million and $26.7 million of long term receivables related to private funds advisory capital raising engagements, which are generally paid in installments over a period of three to four years.

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, 2020. 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, 2019, the Company had no borrowings under the credit facility.

As of September 30, 2019, the Company's available credit under this facility was $60.0 million as a result of the issuance of an aggregate amount of $5.0 million of various standby letters of credit, which were required in connection with certain office leases and other agreements. The Company incurs a 1% per annum fee on the outstanding balances of issued letters of credit.

The Board of Directors of Moelis & Company declared a dividend of $0.50 per share to be paid on December 13, 2019 to shareholders of record on November 11, 2019. During the nine months ended September 30, 2019 the Company paid aggregate dividends of $2.75 per share, which included a special dividend of $1.25 per share and three regular quarterly dividends of $0.50 per share.

In February 2019, the Board of Directors authorized the repurchase of up to $100 million of shares of Class A common stock and/or Class A partnership units of Group LP with no expiration date. This new authorization replaced the former repurchase program and the remaining authorization under the program was eliminated. During the nine months ended September 30, 2019 and 2018, the Company repurchased 1,046,490 and 484,061 shares, respectively, pursuant to the Company's share repurchase program and shares repurchased from its employees for the purpose of settling tax liabilities incurred upon the vesting of RSUs and exercise of stock options. The remaining balance of shares authorized for repurchase under the program was $93.5 million as of September 30, 2019.

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, 2019 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:

	Nine Months Ended	
($ in thousands)	**2019**	**2018**
Cash Provided By (Used In)		
Operating Activities:		
Net income (loss)	$ 108,542	$ 151,999
Non-cash charges	96,891	99,829
Other operating activities	(196,697)	(19,238)
Total operating activities	8,736	232,590
Investing Activities	(8,999)	(53,689)
Financing Activities	(212,329)	(304,349)
Effect of exchange rate changes	463	(778)
Net increase (decrease) in cash	(212,129)	(126,226)
Cash, cash equivalents, and restricted cash, beginning of period	261,771	213,894
Cash, cash equivalents, and restricted cash, end of period	$ 49,642	$ 87,668

Nine months ended September 30, 2019

Cash, cash equivalents and restricted cash were $49.6 million at September 30, 2019, a decrease of $212.1 million from $261.8 million at December 31, 2018. Operating activities resulted in a net inflow of $8.7 million primarily attributable to cash collected from clients offset by discretionary bonuses paid during the period. Investing activities resulted in a net outflow of $9.0 million primarily attributable to net purchases of investments partially offset by proceeds from the sale of shares of Moelis Australia. Financing activities resulted in a net outflow of $212.3 million primarily related to the payment of dividends and tax distributions and treasury stock buybacks.

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.

Contractual Obligations

The following table sets forth information relating to our contractual obligations as of September 30, 2019:

	Payment Due by Period				
($ in thousands)	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Operating leases (net of $4,726 of committed sublease income) (1)	$ 55,115	$ 15,946	$ 19,272	$ 12,676	$ 7,221
Amount due pursuant to Tax Receivable Agreement	311,432	13,533	46,677	36,240	214,982
Total	$ 366,547	$ 29,479	$ 65,949	$ 48,916	$ 222,203

(1) The above table excludes payments for a lease agreement related to the Company's headquarters in New York. The new lease expands our current workspace at 399 Park Ave in New York and has an initial term that expires in 2036. Commencement of the lease is anticipated to occur in the fourth quarter of 2019.

As of September 30, 2019, the Company has a total payable of $311.4 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 2019.

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, 2019 and 2018, the net impact of the fluctuation of foreign currencies in other comprehensive income (loss) in the condensed statements of comprehensive income were losses of $0.3 million and $0.7 million, respectively, and a gain of $0.2 million and a loss of $0.9 million for the nine months ended September 30, 2019 and 2018, 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.

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.

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 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 nine months ended September 30, 2019 and 2018, 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 nine months ended September 30, 2019 and 2018, no such amounts were recorded.

Leases

The Company maintains operating leases for corporate offices and an aircraft. The Company determines if a contract contains a lease at inception. Operating leases are recorded as right-of-use ("ROU") assets and lease liabilities on the condensed consolidated statements of financial condition. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease liabilities are recognized at the lease commencement date and are measured at the present value of anticipated lease payments over the lease term. The operating lease ROU assets are equal to the lease liabilities, adjusted for certain lease incentives, accrued rents, and prepaid rents. Typically, our borrowing rate is used to determine the present value of lease payments because the implicit rate is not readily determinable. Our lease terms may include options to extend or terminate the lease. These options are factored into our present value calculations when it is reasonably certain that such options will be exercised. Operating lease expense is recognized on a straight-line basis over the lease term.

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, 2018 as filed with the Securities and Exchange Commission ("SEC").

Employee misconduct, which is difficult to detect and deter, could harm us by impairing our ability to attract and retain clients and talent and by subjecting us to legal liability and reputational harm.

There have been a number of highly-publicized cases involving fraud or other misconduct by employees in the financial services industry, and there is a risk that our employees engage in misconduct that adversely affects our business. For example, on October 21, 2019, a former junior employee, who left our firm in 2014, was publicly charged with insider trading on two transactions announced in 2013 that we advised on. Our business often requires that we deal with confidential matters of great significance to our clients. Our employees' improper use or disclosure of confidential information provided by our clients could subject us to regulatory investigations or sanctions and we could suffer serious harm to our reputation, financial position, the trading price of our common stock, current client relationships and ability to attract future clients. In addition, our financial professionals and other employees are responsible for following proper measures to maintain the confidentiality of information we hold. If an employee's failure to do so results in the improper release of confidential information, we could be subject to reputational harm and legal liability, which could impair our ability to attract and retain clients and in turn materially adversely affect our business. We also face the risk that our employees engage in work place misconduct, such as sexual harassment or discrimination, despite our implementation of policies and training to prevent and detect misconduct. In addition to impairing our ability to attract and retain clients, such misconduct may also impair our ability to attract and retain talent resulting in a materially adverse affect on our business. It is not always possible to deter employee misconduct despite the precautions we take to prevent and detect misconduct. If our employees engage in misconduct, our business could be materially adversely affected.

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

Unregistered Sales

None.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan Or Programs(2)
July 1 - July 31	10,517	$ 32.75	10,517	$ 94.6 million
August 1 - August 31	56,736	32.96	34,145	93.6 million
September 1 - September 30	7,402	33.55	1,862	93.5 million
Total	74,655	$ 32.99	46,524	$ 93.5 million

(1) Includes treasury transactions arising from net settlement of equity awards to satisfy minimum tax obligations.

(2) In February 2019, the Board of Directors authorized the repurchase of up to $100 million of shares of Class A common stock and/or Class A partnership units of Group LP with no expiration date. Under this share repurchase program, shares may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of shares repurchased will be opportunistic and measured in nature and will depend on a variety of factors, including price and market conditions.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on April 22, 2014)
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the SEC on April 22, 2014)
10.1	Master Services Agreement by and between Moelis & Company Group LP, Moelis Asset Management LP and certain subsidiaries of Moelis Asset Management LP (incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K filed on February 27, 2019)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer of the Registrant in accordance with Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Rule 13a-14(a) Certification of Chief Financial Officer of the Registrant in accordance with Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Section 1350 Certification of Chief Executive Officer of the Registrant in accordance with Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Section 1350 Certification of Chief Financial Officer of the Registrant in accordance with Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized this 31st day of October, 2019.

MOELIS & COMPANY

/s/ Kenneth Moelis
Kenneth Moelis
Chief Executive Officer

/s/ Joseph Simon
Joseph Simon
Chief Financial Officer