

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

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

OMB APPROVAL	
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8- 35643

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 4/01/16 AND ENDING 3/31/2017
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Houlihan Lokey Capital, Inc

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

10250 Constellation Blvd, 5th Floor

(No. and Street)

Los Angeles

CA

90067

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Ed Taniguchi

(310) 788-5397

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG LLP

(Name - if individual, state last, first, middle name)

2323 Ross Avenue

Dallas

TX

75201

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒

Certified Public Accountant

☐

Public Accountant

☐

Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OATH OR AFFIRMATION

I, Scott L. Beiser, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Houlihan Lokey Capital, Inc., as of March 31, 2017, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

see attached

Scott L. Beiser
Signature

President
Title

Notary Public

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

****For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

CALIFORNIA JURAT WITH AFFIANT STATEMENT

GOVERNMENT CODE § 8202

- ☒ See Attached Document (Notary to cross out lines 1-6 below)
☐ See Statement Below (Lines 1-6 to be completed only by document signer[s], *not* Notary)

[Large handwritten X across the body of the document]

 Signature of Document Signer No. 1

 Signature of Document Signer No. 2 (if any)

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California
 County of Los Angeles

Subscribed and sworn to (or affirmed) before me
 on this 30th day of May, 2017
 by Scott L. Becker
Date Month Year

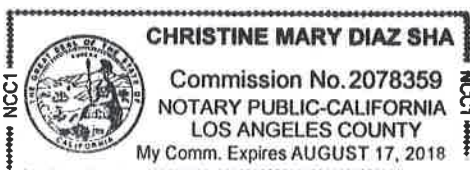
(1) _____

(and (2) _____),

Name(s) of Signer(s)

proved to me on the basis of satisfactory evidence
 to be the person(s) who appeared before me.

Signature _____
Signature of Notary Public



Seal
 Place Notary Seal Above

OPTIONAL

Though this section is optional, completing this information can deter alteration of the document or fraudulent reattachment of this form to an unintended document.

Description of Attached Document

Title or Type of Document: Annual Audited Report Form X-17A-5 Part III Hamilton Lohay Capital, Inc Document Date: no date

Number of Pages: 2 Signer(s) Other Than Named Above: no other signer

HOULIHAN LOKEY CAPITAL, INC.
(SEC I.D. No. 8-35643)

Statement of Financial Condition

March 31, 2017

(With Report of Independent Registered Public Accounting Firm Thereon)

HOULIHAN LOKEY CAPITAL, INC.

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KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

Report of Independent Registered Public Accounting Firm

The Stockholder
Houlihan Lokey Capital, Inc.:

We have audited the accompanying statement of financial condition of Houlihan Lokey Capital, Inc. (the Company) as of March 31, 2017 (the financial statement). The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Houlihan Lokey Capital, Inc. as of March 31, 2017, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas
May 30, 2017

HOULIHAN LOKEY CAPITAL, INC.

(SEC I.D. 8-35643)

Statement of Financial Condition

March 31, 2017

Assets

Cash and cash equivalents	\$ 166,130,476
Accounts receivable, net of allowance for doubtful accounts of \$6,917,158 (Note 4)	26,837,943
Unbilled work in process, net	31,682,284
Receivable from affiliate (Note 3)	233,205,607
Property and equipment – at cost, net of accumulated depreciation of \$140,983	49,471
Deferred income taxes (Note 6)	43,615,517
Other assets	312,328
	<hr/>
Total assets	\$ 501,833,626
	<hr/>

Liabilities and Stockholder's Equity

Liabilities:

Accounts payable and accrued expenses	\$ 2,231,306
Deferred income	2,715,674
	<hr/>
Total liabilities	4,946,980
	<hr/>

Commitments and contingencies (Note 5)

Stockholder's equity:

Common stock, \$0.01 par value. Authorized 1,000 shares; issued and outstanding 1,000 shares	10
Additional paid-in capital	49,171,518
Retained earnings	447,715,118
	<hr/>
Total stockholder's equity	496,886,646
	<hr/>
Total liabilities and stockholder's equity	\$ 501,833,626
	<hr/>

See accompanying notes to statement of financial condition.

HOULIHAN LOKEY CAPITAL, INC.
(SEC I.D. NO. 8-35643)

Notes to Financial Statements

March 31, 2017

(1) Organization and Description of Business

Nature of Operations

Houlihan Lokey Capital, Inc. (the Company) is a California corporation registered as a broker-dealer under Section 15(b) of the Securities Exchange Act. The Company is a wholly owned subsidiary of Houlihan Lokey, Inc., a California corporation (the Parent). The Parent has two other primary wholly owned subsidiaries: Houlihan Lokey Financial Advisors, Inc. and Houlihan Lokey EMEA, LLP, which is a corporation regulated by the Financial Services Authority in the United Kingdom.

The Company offers financial services and financial advice to a broad clientele located throughout the United States of America, Europe, and Canada. The Company has offices in Los Angeles, San Francisco, Newport Beach, Chicago, New York City, Minneapolis, McLean (Virginia), Dallas, Atlanta and Miami. Together, the Company, its Parent, and the Parent's other subsidiaries form an organization that provides financial services to meet a wide variety of client needs. Specifically, the Company directs its services to the following areas:

Corporate Finance provides general advisory services on mergers & acquisitions and capital markets offerings. Corporate Finance advises public and private institutions on buy side and sell side transactions as well as leveraged loans, private mezzanine debt, high-yield debt, initial public offerings, follow-ons, convertibles, equity private placements, private equity and liability management transactions, and advises financial sponsors on all types of transactions.

Financial Restructuring provides advice to creditors and debtors in connection with recapitalization / deleveraging transactions implemented both through bankruptcy proceedings and through out-of-court exchanges, consent solicitations or other mechanisms, as well as in distressed mergers and acquisitions and capital markets activities. As part of these engagements, Financial Restructuring offers a wide range of advisory services to our clients, including: the structuring, negotiation, and confirmation of plans of reorganization; structuring and analysis of exchange offers; corporate viability assessment; litigation support and expert testimony; and procuring debtor in possession financing.

The Company exclusively concentrates its efforts toward the earning of professional fees. The Company does not handle customer investment accounts.

(2) Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statement has been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and in the format prescribed by Rule 17a-5 under the Securities Exchange Act of 1934 for brokers and dealers in securities.

(b) Use of Estimates

The preparation of the financial statement in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and

HOULIHAN LOKEY CAPITAL, INC.

(SEC I.D. NO. 8-35643)

Notes to Financial Statements

March 31, 2017

(2) Significant Accounting Policies (continued)

liabilities at the date of the financial statement. Management estimates and assumptions also affect the disclosure of contingent assets and liabilities at the reporting date. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts; income tax uncertainties; and other contingencies.

(c) *Cash and Cash Equivalents*

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Management monitors activity in these accounts to prevent a risk of loss. To date, the Company has not experienced any losses in its cash accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Although not classified as cash and cash equivalents, the Company's receivable from affiliates (Note 3) generally arises from the transfer of available cash from the Company to the Parent. The receivable is due on demand and is considered fully collectible.

(d) *Accounts Receivable*

The allowance for doubtful accounts on receivables reflects management's best estimate of probable inherent losses determined principally on the basis of historical experience. Amounts deemed to be uncollectible are written off against the allowance for doubtful accounts.

(e) *Revenue Recognition, Unbilled Work in Process, and Deferred Income*

Revenues consist primarily of professional service fees and interest income earned on related-party balances outstanding (Note 3).

The Company and its clients enter into agreements that outline the general terms and conditions of the specific engagements. The Company performs professional services in accordance with the engagement terms on both a fixed and contingent fee basis.

Revenue is recognized when earned and realizable. Revenues under fixed fee contracts are recognized based on management's estimates of the relative proportion of services provided through the financial reporting date to the total services required to be performed. The recognition of revenues under contingent fee contracts depends on whether the revenues relate to monthly retainers or success fees. Monthly retainers are generally recognized on a monthly basis, except in situations where there is uncertainty as to the timing of collection of the

HOULIHAN LOKEY CAPITAL, INC.
(SEC I.D. NO. 8-35643)

Notes to Financial Statements

March 31, 2017

(2) Significant Accounting Policies (continued)

amount due. Success fees are recognized only upon substantial completion of the contingencies stipulated by the engagement agreement. In some cases, approval of the Company's fees is required from the courts or other regulatory authority; in these circumstances, the recognition of revenue is often deferred until approval is granted; however, if the fee that is going to be collected from the client is fixed and determinable, and the collectability of the fee is reasonably assured, there are instances when revenue recognition prior to such approval is appropriate.

In those instances when the revenue recognized on a specific engagement exceeds both the amounts billed and the amounts collected, unbilled work in process is recorded. Billed receivables are recorded as accounts receivable in the accompanying statement of financial condition. Deferred income results when cash is received in advance of dates when revenues are recognized.

(f) *Property and Equipment*

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

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

(g) *Income Taxes*

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

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

HOULIHAN LOKEY CAPITAL, INC.

(SEC I.D. NO. 8-35643)

Notes to Financial Statements

March 31, 2017

(2) Significant Accounting Policies (continued)

(h) Fair Value of Financial Instruments

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The carrying value of cash and cash equivalents, accounts receivable, unbilled work in process, receivables from affiliates, accounts payable, accrued expenses, and deferred income approximates fair value due to the short maturity of these instruments.

(i) Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers, Deferral of Effective Date* which deferred the effective date of the new standard to annual and interim periods within that reporting period beginning after December 15, 2017 (year ended March 31, 2019 for the Company). The new standard is to be applied using either the retrospective or cumulative-effective transition method. We intend to adopt ASU 2014-09 on April 1, 2018 and although we have not yet selected a transition method, the Company is currently evaluating the impact of the new standard under both transition methods, but is unable to quantify the impact on the financial statements at this time.

HOULIHAN LOKEY CAPITAL, INC.

(SEC I.D. NO. 8-35643)

Notes to Financial Statements

March 31, 2017

(2) Significant Accounting Policies (continued)

and has not made an election on the transition method. We anticipate completing our evaluation in the year ended March 31, 2018.

(j) Subsequent Events

The Company has evaluated events and transactions that have occurred subsequent to March 31, 2017 through May 30, 2017 for potential recognition and disclosure in the financial statement.

(3) Related-Party Transactions

The Parent performs certain management, accounting, legal, regulatory, and other administrative services for the benefit of the Company. The Parent charges the Company a management fee for these services. For the year ended March 31, 2017, the management fee expense incurred by the Company related to these services was \$73,368,509. The Parent and its affiliates pay for all expenses of the Company and are reimbursed for such payments by the Company, including income taxes. The Company's current income tax payable balance is reflected in Receivable from affiliate because the Parent will make these payments. The Company is also allocated a portion of the Parent and affiliates' operating expenses, such as employee compensation, depreciation, rent, and other costs under an expense sharing agreement and based on the full-time equivalent schedule then in effect. The receivable from affiliate generally arises from cumulative cash transferred by the Company to the Parent. Intercompany charges and reimbursements are generally settled through the receivable from affiliate account. The receivable from affiliate is due on demand and bears interest at the prevailing prime interest rate; such rate was 4.00% at March 31, 2017.

(4) Allowance for Uncollectible Accounts

Balance – April 1, 2016	\$	2,435,274
Provision for bad debt		2,921,048
Recovery of uncollectible accounts		1,560,836
Balance – March 31, 2017	\$	<u>6,917,158</u>

(5) Commitments and Contingencies

The Company has been named in legal actions arising in the ordinary course of business. In the opinion of management, the amount of losses, if any, from these actions is not likely to have a material effect on the financial position of the Company.

HOULIHAN LOKEY CAPITAL, INC.
(SEC I.D. NO. 8-35643)

Notes to Financial Statements

March 31, 2017

(6) Income Taxes

Deferred income taxes arise principally from temporary differences between book and tax recognition of income, expenses, and losses relating to financing and other transactions. The deferred income taxes on the accompanying statement of financial condition at March 31, 2017 comprise the following:

Deferred tax assets:

Deferred compensation	\$ 47,947,093
Accrued expenses	1,611,354
Provision for bad debt	<u>3,231,240</u>
Total deferred tax assets	\$ <u>52,789,687</u>

Deferred tax liabilities:

Work in process	<u>(9,174,170)</u>
Total deferred tax liabilities	(9,174,170)

Net deferred tax assets \$ 43,615,517

A valuation allowance is required when it is more likely than not that some portion of the deferred tax assets will not be realized. The Company has determined that it is more likely than not that the assets will be realized. Accordingly, no valuation allowance has been recognized.

As of March 31, 2017, the Company had recorded liabilities for interest and penalties related to uncertain tax positions in the amount of \$444,496, net of any future tax benefit of such interest, respectively. Unrecognized tax positions totaled \$3,085,807 as of March 31, 2017. If the income tax impacts from these tax positions are ultimately realized, such realization would affect the income tax provision and effective tax rate.

A reconciliation of the unrecognized tax position for the year ended March 31, 2017 is as follows:

Unrecognized tax position at the beginning of the year	\$ 410,728
Increases related to prior year tax positions	<u>2,675,079</u>
Unrecognized tax position at the end of the year	\$ <u>3,085,807</u>

In the next 12 months, certain uncertain tax positions may reverse as the related statutes expire.

As of March 31, 2017, all of the federal income tax returns filed since 2014 by ORIX USA which include the Company as a subsidiary or filed by the Company are still subject to adjustment upon audit. ORIX USA is currently under federal income

HOULIHAN LOKEY CAPITAL, INC.

(SEC I.D. NO. 8-35643)

Notes to Financial Statements

March 31, 2017

(6) Income Taxes (continued)

tax audit by the Internal Revenue Service for the year ended March 31, 2013. The Company also files combined and separate income tax returns in many states, and these returns remain open for adjustments to the Company's federal income tax returns. Additionally, ORIX USA is currently under California audit for the years ended March 31, 2012, March 31, 2013 and March 31, 2014, as well as under Minnesota audit for the years ended March 31, 2013, March 31, 2014, March 31, 2015 and March 31, 2016.

(7) Reserve Requirements for Brokers or Dealers

The Company does not carry the accounts of its customers and, accordingly, is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 based on section (k)(2)(i). Because of such exemption, the Company is not required to prepare a determination of reserve requirements for brokers or dealers.

(8) Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. At March 31, 2017, the Company had net capital of \$161,183,496, which was \$160,933,496 in excess of its required net capital of \$250,000.