

# **Houlihan Lokey Capital, Inc.**

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

## **Financial Statement**

**For the Fiscal Year Ended March 31, 2021**

(With Report of Independent Registered Public Accounting Firm Thereon)

**HOULIHAN LOKEY CAPITAL, INC.**  
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Suite 1500  
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## **Report of Independent Registered Public Accounting Firm**

To the Stockholder and the Board of Directors of Houlihan Lokey, Inc.  
Houlihan Lokey Capital, Inc.:

### *Opinion on the Financial Statement*

We have audited the accompanying statement of financial condition of Houlihan Lokey Capital, Inc. (the Company) as of March 31, 2021, and the related notes (collectively, the financial statement). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of March 31, 2021, in conformity with U.S. generally accepted accounting principles.

### *Basis for Opinion*

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

*KPMG LLP*

We have served as the Company's auditor since 2006.

Los Angeles, California  
May 21, 2021

**HOULIHAN LOKEY CAPITAL, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**(SEC I.D. NO. 8-35643)**

	<b>March 31, 2021</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 75,901,039
Investment securities	35,000,314
Accounts receivable, net of allowance for credit losses of \$3,207,730 (Note 7)	45,390,190
Unbilled work in progress, net of allowance for credit losses of \$2,243,138 (Note 7)	63,115,305
Receivable from affiliate (Note 4)	938,173,268
Property and equipment - at cost, net of accumulated depreciation of \$150,547	5,129
Deferred income taxes (Note 9)	68,099,968
Other assets	586,392
Total assets	<u>\$ 1,226,271,605</u>
<b>Liabilities and Stockholder's Equity</b>	
<b>Liabilities:</b>	
Accrued salaries and bonuses	\$ 64,391
Deferred income	22,198,830
Total liabilities	<u>22,263,221</u>
<b>Commitments and contingencies (Note 8)</b>	
<b>Stockholder's equity:</b>	
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	1,154,836,856
Total stockholder's equity	1,204,008,384
Total liabilities and stockholder's equity	<u>\$ 1,226,271,605</u>

See accompanying Notes to Financial Statement.

**HOULIHAN LOKEY CAPITAL, INC.  
NOTES TO FINANCIAL STATEMENT  
(SEC I.D. NO. 8-35643)**

**Note 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 of 1934. 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, Houston, Boston, 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 ("CF") provides general advisory services on mergers & acquisitions and capital markets offerings. CF 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 ("FR") 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, FR offers a wide range of advisory services to 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.

Financial and Valuation Advisory ("FVA") primarily provides valuations of various assets, including: companies; illiquid debt and equity securities; and intellectual property (among other assets and liabilities). These valuations are used for financial reporting, tax reporting, and other purposes. In addition, the FVA business segment renders fairness opinions in connection with mergers and acquisitions and other transactions, and solvency opinions in connection with corporate spin-offs and dividend recapitalizations, and other types of financial opinions in connection with other transactions. Also, the FVA business segment provides dispute resolution services to clients where fees are usually based on the hourly rates of financial professionals. Unlike the CF or FR segments, the fees generated in the FVA segment are generally not contingent on the successful completion of a transaction.

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

**Note 2 — Summary of Significant Accounting Policies**

***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.

**HOULIHAN LOKEY CAPITAL, INC.**  
**NOTES TO FINANCIAL STATEMENT (CONTINUED)**  
**(SEC I.D. NO. 8-35643)**

***Use of Estimates***

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

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with an original 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 affiliate (Note 4) 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.

***Investment Securities***

Investment securities consist of corporate debt, U.S. Treasury, and certificates of deposit with original maturities over 90 days. The Company classifies its investment securities as trading as it may sell them with the intent to recognize short-term gains or losses and records them at fair market value.

***Allowance for Credit Losses***

The allowance for credit losses on accounts receivable and work in progress reflects management's best estimate of probable inherent losses determined principally on the basis of historical experience and review of uncollected revenues. Amounts deemed to be uncollectible are written off against the allowance for credit losses.

***Revenue Recognition and Deferred Income***

Revenues consist of fee revenues from advisory services and reimbursed costs incurred in fulfilling the contracts. Interest income is earned on related-party balances outstanding (Note 4). Revenues reflect fees generated from our CF, FR, and FVA business segments.

Revenues for all three business segments (CF, FR, and FVA) are recognized upon satisfaction of the performance obligation, which may be satisfied over time or at a point in time. The amount and timing of the fees paid vary by the type of engagement.

The amount of revenue recognized reflects the consideration the Company expects to be entitled to in exchange for those promised services (i.e., the "transaction price"). In determining the transaction price, the Company considers multiple factors, including the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. In determining when to include variable consideration in the transaction price, the Company considers the range of possible outcomes, the predictive value of past experiences, the time period of when uncertainties expect to be resolved and the amount of consideration that is susceptible to factors outside of its influence, such as market volatility or the judgment and actions of third parties. The substantial majority of the Company's advisory fees (i.e., the success related Completion Fees) are considered variable and constrained as they are contingent upon a future event which includes factors outside of the Company's control (e.g., completion of a transaction or third party emergence from bankruptcy or approval by the court).

The Company generates revenues from contractual advisory services and reimbursed costs incurred in fulfilling the contracts for such services. Revenues for all three business segments are recognized upon satisfaction of the performance obligation and may be satisfied over time or at a point in time. The amount and timing of the fees paid vary by the type of engagement.

**HOULIHAN LOKEY CAPITAL, INC.**  
**NOTES TO FINANCIAL STATEMENT (CONTINUED)**  
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Revenues from CF engagements primarily consist of fees generated in connection with advisory services related to corporate finance, mergers and acquisitions, and capital markets offerings. Completion Fees from these engagements are recognized at a point in time when the related transaction has been effectively closed. At that time, the Company has transferred control of the promised service and the customer obtains control. CF contracts generally contain a variety of promised services that may be capable of being distinct, but they are not distinct within the context of the contract as the various services are inputs to the combined output of successfully brokering a specific transaction.

Revenues from FR engagements primarily consist of fees generated in connection with advisory services to debtors, creditors and other parties-in-interest involving recapitalization or 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. Retainer Fees and Progress Fees from restructuring engagements are recognized over time using a time elapsed measure of progress as clients simultaneously receive and consume the benefits of those services as they are provided. Completion Fees from these engagements are considered variable and constrained until the related transaction has been effectively closed as they are contingent upon a future event which includes factors outside of the Company's control (e.g., completion of a transaction or third party emergence from bankruptcy or approval by the court).

Revenues from FVA engagements primarily consist of fees generated in connection with valuation and diligence services and rendering fairness, solvency and other financial opinions. Revenues are recognized at a point in time as these engagements include a singular objective that does not transfer any notable value to the Company's clients until the opinions have been rendered and delivered to the client. However, certain engagements consist of advisory services where fees are usually based on the hourly rates of the financial professionals. Such revenues are recognized over time as the benefits of these advisory services are transferred to the Company's clients throughout the course of the engagement, and, as a practical expedient, the Company has elected to use the 'as-invoiced' approach to recognize revenue.

Taxes, including value added taxes, collected from customers and remitted to governmental authorities are accounted for on a net basis, and therefore, are excluded from revenue in the statement of comprehensive income.

***Income Taxes***

The Company's parent, Houlihan Lokey Inc. and its subsidiaries, including the Company, file consolidated federal income tax returns, as well as consolidated and separate returns in state and local jurisdictions. The Company reports income tax expense as if it filed separate returns in all jurisdictions.

The Company accounts for income taxes in accordance with Accounting Standards Codification ("ASC") 740, Income Taxes, which requires the recognition of tax benefits or expenses on temporary differences between the financial reporting and tax basis of the Company's 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.

The Company utilized a comprehensive model to recognize, measure, present, and disclose in its financial statement any uncertain tax positions that have been taken or are expected to be taken on a tax return. The impact of an uncertain tax position that is more likely than not to be sustained upon audit by the relevant taxing authority must be recognized at the largest amount that is more likely than not to be sustained. No portion of an uncertain tax position will be recognized if the position has less than a 50% likelihood of being sustained.

**HOULIHAN LOKEY CAPITAL, INC.**  
**NOTES TO FINANCIAL STATEMENT (CONTINUED)**  
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***Fair Value Measurements***

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 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, investment securities, accounts receivable, unbilled work in progress, receivable from affiliate, accounts payable and accrued expenses, and deferred income approximates fair value due to the short maturity of these instruments.

***Recent Accounting Pronouncements***

The Financial Accounting Standards Board (the “FASB”) issued the following authoritative guidance amending the FASB ASC.

Effective April 1, 2020, we adopted ASU 2016-13 Financial Instruments — Credit Losses — Measurement of Credit Losses on Financial Instruments, and all related amendments, under a modified retrospective approach. Upon adoption, a cumulative transition adjustment was recorded, which reduced retained earnings by \$(463,745). The tax impact of this adjustment increased retained earnings by \$119,810, resulting in a net decrease to retained earnings of \$(343,935) as of April 1, 2020. The impact of this pronouncement had an immaterial impact on our Net income for the year ended March 31, 2021.

The following table provides a reconciliation of the cumulative transition adjustment pertaining to the adoption of the credit loss guidance reported within the March 31, 2021 Statement of Financial Position.

	March 31, 2020	Transition Adjustment	April 1, 2020
Accounts receivable, net of allowance for credit losses	\$ 44,601,408	\$ (336,316)	\$ 44,265,092
Unbilled work in progress, net of allowance for credit losses	15,433,472	(127,429)	15,306,043
Deferred income taxes, net	44,617,065	119,810	44,736,875
Retained earnings	885,307,754	<u>\$ (343,935)</u>	884,963,819

**Note 3 — Revenue Recognition**

***Contract Balances***

The timing of revenue recognition may differ from the timing of payment by customers. The Company records a receivable when revenue is recognized prior to payment and there is an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred income (contract liability) until the performance obligations are satisfied.

Costs incurred in fulfilling advisory contracts with point-in-time revenue recognition are recorded as a contract asset when the costs (i) relate directly to a contract, (ii) generate or enhance resources of the Company that will be used in satisfying performance obligations, and (iii) are expected to be recovered. The Company amortizes the contract asset costs related to fulfilling a contract based on recognition of fee revenues for the corresponding contract. The Company records a contract liability for the reimbursable costs incurred until the fee revenue is recognized.

Costs incurred in fulfilling an advisory contract with over-time revenue recognition are expensed as incurred.

**HOULIHAN LOKEY CAPITAL, INC.**  
**NOTES TO FINANCIAL STATEMENT (CONTINUED)**  
**(SEC I.D. NO. 8-35643)**

The change in the Company's contract assets and liabilities during the period primarily reflects the timing difference between the Company's performance and the customer's payment. The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers:

	April 1, 2020	Increase/ (Decrease)	March 31, 2021
Receivables <sup>(1)</sup>	\$ 38,559,870	\$ 3,041,350	\$ 41,601,220
Unbilled work in progress, net of allowance for credit losses	15,433,472	47,681,833	63,115,305
Contract Assets <sup>(1)</sup>	6,041,538	(2,252,568)	3,788,970
Contract Liabilities <sup>(2)</sup>	8,798,809	(2,196,776)	6,602,033

(1) Included within Accounts receivable, net of allowance for credit losses in the March 31, 2021 Statement of Financial Condition.

(2) Included within Deferred income in the March 31, 2021 Statement of Financial Condition.

During the year ended March 31, 2021, \$13,198,224 of Revenues were recognized that were included in the Deferred income balance at the beginning of the period.

As a practical expedient, the Company does not disclose information about remaining performance obligations pertaining to (i) contracts that have an original expected duration of one year or less, and/or (ii) contracts where the variable consideration is allocated entirely to a wholly unsatisfied promise to transfer a distinct service that is or forms part of a single performance obligation. The transaction price allocated to remaining unsatisfied or partially unsatisfied performance obligations with an original expected duration exceeding one year was not material at March 31, 2021.

#### **Note 4 — 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. The Company's current income tax payable balance is reflected in receivable from affiliate because the Parent will make these payments. A substantial majority of the Company's operating expenses; employee compensation, rent, travel, meals, and entertainment, and other operating expenses, are paid by and allocated from the parent under an expense sharing agreement that is based on the full-time equivalent scheduled 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 3.25% at March 31, 2021.

#### **Share-Based Incentive Plans**

Awards of restricted shares have been and will be made under the Amended and Restated Houlihan Lokey, Inc. 2016 Incentive Award Plan (the "2016 Incentive Plan"), which became effective in August 2015 and was amended in October 2017. Under the 2016 Incentive Plan, it is anticipated that the Parent will continue to grant cash and equity-based incentive awards to eligible service providers in order to attract, motivate, and retain the talent necessary to operate the Parent's business. Equity-based incentive awards issued under the 2016 Incentive Plan generally vest over a four-year period. The share awards are classified as equity awards at the time of grant unless the number of shares granted is unknown. Awards that are settleable in shares based upon a future determinable stock price are classified as a liability until the price is established and the resulting number of shares is known, at which time they are re-classified from liabilities to equity awards. As noted above, a substantial majority of the Company's stock compensation expense is paid by and allocated from the Parent under an expense sharing agreement, and therefore there is no cash flow effect from the share-based payment arrangements to the Company.

**HOULIHAN LOKEY CAPITAL, INC.**  
**NOTES TO FINANCIAL STATEMENT (CONTINUED)**  
**(SEC I.D. NO. 8-35643)**

**Note 5 — Investment Securities**

The amortized cost, gross unrealized gains (losses), and fair value of investment securities were as follows:

	<b>March 31, 2021</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	<b>Fair Value</b>
Corporate debt securities	\$ 25,643,369	\$ 382,565	\$ (108,957)	\$ 25,916,977
U.S. treasury securities	8,761,187	322,150	—	9,083,337
Total securities with unrealized gains	<u>\$ 34,404,556</u>	<u>\$ 704,715</u>	<u>\$ (108,957)</u>	<u>\$ 35,000,314</u>

Scheduled maturities of the debt securities held by the Company within the investment securities portfolio were as follows:

	<b>March 31, 2021</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due within one year	\$ 5,006,147	\$ 5,056,503
Due within years two through five	\$ 29,398,409	\$ 29,943,811
Total debt within the investment securities portfolio	<u>\$ 34,404,556</u>	<u>\$ 35,000,314</u>

**Note 6 — Fair Value Measurements**

The following table presents information about the Company's financial assets, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair values:

	<b>March 31, 2021</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Corporate debt securities	\$ —	\$ 25,916,977	\$ —	\$ 25,916,977
U.S. treasury securities	—	9,083,337	—	9,083,337
Total asset measured at fair value	<u>\$ —</u>	<u>\$ 35,000,314</u>	<u>\$ —</u>	<u>\$ 35,000,314</u>

The Company had no transfers between fair value levels during the year ended March 31, 2021.

**Note 7 — Allowance for Credit Losses**

The following table presents information about the Company's allowance for credit losses:

	<b>March 31, 2021</b>	
	<b>Accounts Receivable</b>	<b>Unbilled Work in Progress</b>
Beginning balance	\$ 2,189,862	\$ 294,553
Transition adjustment as of April 1, 2020	336,316	127,429
Provision for bad debt, net	590,362	1,821,156
Recovery/(write-off) of uncollectible accounts, net	91,190	—
Ending balance	<u>\$ 3,207,730</u>	<u>\$ 2,243,138</u>

**Note 8 — Commitments and Contingencies**

The Company has been named in various legal actions arising in the normal course of business. In the opinion of the Company, in consultation with legal counsel, the final resolutions of these matters are not expected to have a material adverse effect on the Company's financial condition, operations and cash flows.

**HOULIHAN LOKEY CAPITAL, INC.**  
**NOTES TO FINANCIAL STATEMENT (CONTINUED)**  
**(SEC I.D. NO. 8-35643)**

**Note 9 — 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 as of March 31, 2021, comprise the following:

	<b>March 31, 2021</b>
Deferred tax assets:	
Deferred compensation expense/accrued bonus	\$ 65,199,819
Allowance for credit losses	838,439
Accounts receivable and work in progress	1,468,882
Other, net	651,460
Total deferred tax assets	68,158,600
Deferred tax liabilities:	
Other, net	(58,632)
Total deferred tax liabilities	(58,632)
Net deferred tax assets	<u>\$ 68,099,968</u>

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, 2021 the Company had recorded liabilities for interest and penalties related to uncertain tax positions in the amount of \$2,135,899, net of any future tax benefit of such interest. The unrecognized tax positions totaled \$16,703,976 as of March 31, 2021. 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 as of March 31, 2021 is as follows:

	<b>March 31, 2021</b>
Unrecognized tax position at the beginning of the year	\$ 11,877,152
Increase related to prior year tax positions	3,273,888
Increase related to tax positions taken in the current year	1,552,936
Unrecognized tax position at the end of the year	<u>\$ 16,703,976</u>

The Company believes that it is reasonably possible that a decrease of up to \$1.6 million in gross unrecognized income tax benefits for federal and state items may be necessary within the next 12 months. For the remaining uncertain income tax positions, it is difficult at this time to estimate the timing of the resolution. In the fourth quarter of fiscal year 2021, the statute of limitations on one of our filing state's income tax audit years March 31, 2016 and March 31, 2017 lapsed, resulting in the release of certain reserves totaling \$2.4 million during fiscal 2021.

Prior to Houlihan Lokey, Inc.'s initial public offering ("IPO") in August 2015, the Company filed as a member of the ORIX Corporation USA ("ORIX USA") consolidated federal income tax group and did so through the date of the IPO for fiscal 2016. As of March 31, 2021, all of the federal income tax returns filed since 2018 by the Parent which include the Company as a subsidiary are still subject to adjustment upon audit. The Parent files combined income tax returns in many states and the Company also files separate income tax returns in many states, which are also open to audit. Following the IPO, Houlihan Lokey Inc. and its subsidiaries, including the Company, file consolidated federal income tax returns, as well as consolidated and separate returns in state and local jurisdictions. The Parent is currently under New York City audit for the years ended March 31, 2016, March 31, 2017 and March 31, 2018. Additionally, ORIX USA is currently under New York State and New York City audit for the year ended March 31, 2016.

**HOULIHAN LOKEY CAPITAL, INC.**  
**NOTES TO FINANCIAL STATEMENT (CONTINUED)**  
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**Note 10 — 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.

**Note 11 — 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. As of March 31, 2021, the Company had net capital of \$84,205,504, which was \$83,955,504 in excess of its required net capital of \$250,000.

**Note 12 — Subsequent Events**

The Company has evaluated events and transactions that have occurred subsequent to March 31, 2021 through May 21, 2021, the date on which the financial statements were available and authorized to be issued and determined that there have been no events that have occurred that would require adjustments to the Company's disclosures in the financial statements.