

Marcus & Millichap, Inc.  
Form 10-Q  
May 10, 2018  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2018**

**OR**

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

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

**Commission File Number: 001-36155**

**MARCUS & MILLICHAP, INC.**

**(Exact name of registrant as specified in its Charter)**

|                                                                                 |                                              |
|---------------------------------------------------------------------------------|----------------------------------------------|
| <b>Delaware</b><br><b>(State or Other Jurisdiction of</b>                       | <b>35-2478370</b><br><b>(I.R.S. Employer</b> |
| <b>Incorporation or Organization)</b>                                           | <b>Identification No.)</b>                   |
| <b>23975 Park Sorrento, Suite 400</b>                                           |                                              |
| <b>Calabasas, California</b><br><b>(Address of Principal Executive Offices)</b> | <b>91302</b><br><b>(Zip Code)</b>            |
| <b>(818) 212-2250</b>                                                           |                                              |
| <b>(Registrant's telephone number, including area code)</b>                     |                                              |

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 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 checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter time period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Do not check if a smaller reporting company) | 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

Number of shares of common stock, par value \$0.0001 per share, of the registrant issued and outstanding as of May 4, 2018 was 38,581,859 shares.



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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****MARCUS & MILLICHAP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(dollar amounts in thousands, except per share amounts)**

|                                                     | March 31,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|-----------------------------------------------------|----------------------------------|----------------------|
| <b>Assets</b>                                       |                                  |                      |
| Current assets:                                     |                                  |                      |
| Cash and cash equivalents                           | \$ 199,370                       | \$ 220,786           |
| Commissions receivable                              | 2,851                            | 9,586                |
| Prepaid expenses                                    | 7,432                            | 9,661                |
| Income tax receivable                               |                                  | 1,308                |
| Marketable securities, available-for-sale           | 94,826                           | 73,560               |
| Other assets, net                                   | 4,624                            | 5,529                |
| <b>Total current assets</b>                         | <b>309,103</b>                   | <b>320,430</b>       |
| Prepaid rent                                        | 15,193                           | 15,392               |
| Property and equipment, net                         | 17,097                           | 17,153               |
| Marketable securities, available-for-sale           | 35,573                           | 52,099               |
| Assets held in rabbi trust                          | 8,756                            | 8,787                |
| Deferred tax assets, net                            | 21,054                           | 22,640               |
| Other assets                                        | 26,191                           | 23,163               |
| <b>Total assets</b>                                 | <b>\$ 432,967</b>                | <b>\$ 459,664</b>    |
| <b>Liabilities and stockholders' equity</b>         |                                  |                      |
| Current liabilities:                                |                                  |                      |
| Accounts payable and accrued expenses               | \$ 6,482                         | \$ 9,202             |
| Notes payable to former stockholders                | 1,035                            | 1,035                |
| Deferred compensation and commissions               | 26,913                           | 49,180               |
| Income tax payable                                  | 3,131                            |                      |
| Accrued bonuses and other employee related expenses | 10,741                           | 23,842               |
| <b>Total current liabilities</b>                    | <b>48,302</b>                    | <b>83,259</b>        |
| Deferred compensation and commissions               | 38,969                           | 49,361               |
| Notes payable to former stockholders                | 7,651                            | 7,651                |
| Deferred rent and other liabilities                 | 4,636                            | 4,505                |
| <b>Total liabilities</b>                            | <b>99,558</b>                    | <b>144,776</b>       |

Commitments and contingencies

Stockholders' equity:

Preferred stock, \$0.0001 par value:

Authorized shares 25,000,000; issued and outstanding shares none at March 31, 2018 and December 31, 2017, respectively

Common stock, \$0.0001 par value:

Authorized shares 150,000,000; issued and outstanding shares 38,578,834 and 38,374,011 at March 31, 2018 and December 31, 2017, respectively

|                                        |         |         |
|----------------------------------------|---------|---------|
|                                        | 4       | 4       |
| Additional paid-in capital             | 90,840  | 89,877  |
| Stock notes receivable from employees  | (4)     | (4)     |
| Retained earnings                      | 242,095 | 224,071 |
| Accumulated other comprehensive income | 474     | 940     |

|                            |         |         |
|----------------------------|---------|---------|
| Total stockholders' equity | 333,409 | 314,888 |
|----------------------------|---------|---------|

|                                            |            |            |
|--------------------------------------------|------------|------------|
| Total liabilities and stockholders' equity | \$ 432,967 | \$ 459,664 |
|--------------------------------------------|------------|------------|

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****MARCUS & MILLICHAP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF NET AND COMPREHENSIVE INCOME****(dollar and share amounts in thousands, except per share amounts)****(Unaudited)**

|                                                                                                                                                     | Three Months<br>Ended March 31, |                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------|
|                                                                                                                                                     | 2018                            | 2017             |
| <i>Revenues:</i>                                                                                                                                    |                                 |                  |
| Real estate brokerage commissions                                                                                                                   | \$ 162,525                      | \$ 140,137       |
| Financing fees                                                                                                                                      | 9,724                           | 10,054           |
| Other revenues                                                                                                                                      | 2,292                           | 3,021            |
| <b>Total revenues</b>                                                                                                                               | <b>174,541</b>                  | <b>153,212</b>   |
| <i>Operating expenses:</i>                                                                                                                          |                                 |                  |
| Cost of services                                                                                                                                    | 101,649                         | 89,647           |
| Selling, general, and administrative expense                                                                                                        | 48,053                          | 43,220           |
| Depreciation and amortization expense                                                                                                               | 1,375                           | 1,297            |
| <b>Total operating expenses</b>                                                                                                                     | <b>151,077</b>                  | <b>134,164</b>   |
| <b>Operating income</b>                                                                                                                             | <b>23,464</b>                   | <b>19,048</b>    |
| Other income (expense), net                                                                                                                         | 1,209                           | 836              |
| Interest expense                                                                                                                                    | (360)                           | (382)            |
| <b>Income before provision for income taxes</b>                                                                                                     | <b>24,313</b>                   | <b>19,502</b>    |
| <b>Provision for income taxes</b>                                                                                                                   | <b>6,302</b>                    | <b>7,502</b>     |
| <b>Net income</b>                                                                                                                                   | <b>18,011</b>                   | <b>12,000</b>    |
| <i>Other comprehensive (loss) income:</i>                                                                                                           |                                 |                  |
| Unrealized (losses) gains on marketable securities, net of tax of \$(164) and \$65 for the three months ended March 31, 2018 and 2017, respectively | (492)                           | 47               |
| Foreign currency translation gain (loss), net of tax of \$0 for each of the three months ended March 31, 2018 and 2017                              | 39                              | (2)              |
| <b>Total other comprehensive (loss) income</b>                                                                                                      | <b>(453)</b>                    | <b>45</b>        |
| <b>Comprehensive income</b>                                                                                                                         | <b>\$ 17,558</b>                | <b>\$ 12,045</b> |
| <i>Earnings per share:</i>                                                                                                                          |                                 |                  |
| Basic                                                                                                                                               | \$ 0.46                         | \$ 0.31          |
| Diluted                                                                                                                                             | \$ 0.46                         | \$ 0.31          |

*Weighted average common shares outstanding:*

|         |        |        |
|---------|--------|--------|
| Basic   | 39,095 | 38,948 |
| Diluted | 39,250 | 39,108 |

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents**MARCUS & MILLICHAP, INC.****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

(dollar amounts in thousands)

(Unaudited)

|                                                                             | Preferred<br>Stock | Common Stock |        | Stock Notes<br>Additional<br>Paid-In | Receivable<br>From<br>Employees | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total      |
|-----------------------------------------------------------------------------|--------------------|--------------|--------|--------------------------------------|---------------------------------|----------------------|-------------------------------------------------|------------|
|                                                                             | Share<br>Amount    | Shares       | Amount | Capital                              |                                 |                      |                                                 |            |
| Balance at<br>December 31, 2017                                             | \$                 | 38,374,011   | \$ 4   | \$ 89,877                            | \$ (4)                          | \$ 224,071           | \$ 940                                          | \$ 314,888 |
| Cumulative effect of a<br>change in accounting<br>principle                 |                    |              |        |                                      |                                 | 13                   | (13)                                            |            |
| Balance at January 1,<br>2018, as adjusted                                  |                    | 38,374,011   | 4      | 89,877                               | (4)                             | 224,084              | 927                                             | 314,888    |
| Net and comprehensive<br>income                                             |                    |              |        |                                      |                                 | 18,011               | (453)                                           | 17,558     |
| <i>Stock-based award<br/>activity</i>                                       |                    |              |        |                                      |                                 |                      |                                                 |            |
| Stock-based<br>compensation                                                 |                    |              |        | 2,613                                |                                 |                      |                                                 | 2,613      |
| Issuance of common<br>stock for vesting of<br>restricted stock units        |                    | 252,930      |        |                                      |                                 |                      |                                                 |            |
| Shares withheld related<br>to net share settlement<br>of stock-based awards |                    | (48,107)     |        | (1,650)                              |                                 |                      |                                                 | (1,650)    |
| Balance as of March 31,<br>2018                                             | \$                 | 38,578,834   | \$ 4   | \$ 90,840                            | \$ (4)                          | \$ 242,095           | \$ 474                                          | \$ 333,409 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**MARCUS & MILLICHAP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(dollar amounts in thousands)****(Unaudited)**

|                                                                                 | Three Months<br>Ended March 31, |           |
|---------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                                 | 2018                            | 2017      |
| <b>Cash flows from operating activities</b>                                     |                                 |           |
| Net income                                                                      | \$ 18,011                       | \$ 12,000 |
| Adjustments to reconcile net income to net cash used in operating activities:   |                                 |           |
| Depreciation and amortization expense                                           | 1,375                           | 1,297     |
| (Recovery) provision for bad debt expense                                       | (106)                           | (44)      |
| Stock-based compensation                                                        | 2,613                           | 1,866     |
| Deferred taxes, net                                                             | 1,750                           | 1,179     |
| Other non-cash items                                                            | 55                              | (8)       |
| Changes in operating assets and liabilities:                                    |                                 |           |
| Commissions receivable                                                          | 6,735                           | 1,500     |
| Prepaid expenses                                                                | 2,229                           | 1,608     |
| Prepaid rent                                                                    | 199                             | (1,315)   |
| Other assets                                                                    | (2,109)                         | (8,728)   |
| Accounts payable and accrued expenses                                           | (2,682)                         | (1,381)   |
| Income tax receivable (payable)                                                 | 4,439                           | (3,495)   |
| Accrued bonuses and other employee related expenses                             | (12,970)                        | (14,113)  |
| Deferred compensation and commissions                                           | (32,659)                        | (28,106)  |
| Deferred rent obligation and other liabilities                                  | 131                             | 654       |
| Net cash used in operating activities                                           | (12,989)                        | (37,086)  |
| <b>Cash flows from investing activities</b>                                     |                                 |           |
| Purchases of marketable securities, available-for-sale                          | (35,360)                        | (23,014)  |
| Proceeds from sales and maturities of marketable securities, available-for-sale | 30,067                          | 4,741     |
| Issuances of employee notes receivable                                          | (125)                           | (265)     |
| Payments received on employee notes receivable                                  | 3                               | 3         |
| Proceeds from sale of property and equipment                                    |                                 | 10        |
| Purchase of property and equipment                                              | (1,362)                         | (1,367)   |
| Net cash used in investing activities                                           | (6,777)                         | (19,892)  |
| <b>Cash flows from financing activities</b>                                     |                                 |           |
| Taxes paid related to net share settlement of stock-based awards                | (1,650)                         | (1,361)   |
| Net cash used in financing activities                                           | (1,650)                         | (1,361)   |
| Net decrease in cash and cash equivalents                                       | (21,416)                        | (58,339)  |

|                                                  |            |            |
|--------------------------------------------------|------------|------------|
| Cash and cash equivalents at beginning of period | 220,786    | 187,371    |
| Cash and cash equivalents at end of period       | \$ 199,370 | \$ 129,032 |

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**MARCUS & MILLICHAP, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

**(dollar amounts in thousands)**

**(Unaudited)**

|                                                                                                             | Three Months<br>Ended March 31, |          |
|-------------------------------------------------------------------------------------------------------------|---------------------------------|----------|
|                                                                                                             | 2018                            | 2017     |
| <b>Supplemental disclosures of cash flow information</b>                                                    |                                 |          |
| Interest paid during the period                                                                             | \$ 1,553                        | \$ 15    |
| Income taxes paid, net                                                                                      | \$ 113                          | \$ 9,818 |
| <b>Supplemental disclosures of noncash investing and financing activities</b>                               |                                 |          |
| Reduction of accrued bonuses and other employee related expenses in settlement of employee notes receivable | \$ 131                          | \$ 235   |
| Change in property and equipment included in accounts payable and accrued expenses                          | \$ (38)                         | \$ (142) |

*See accompanying notes to condensed consolidated financial statements.*

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**MARCUS & MILLICHAP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business and Basis of Presentation**

**Description of Business**

Marcus & Millichap, Inc., (the Company, Marcus & Millichap, or MMI), a Delaware corporation, is a brokerage firm specializing in commercial real estate investment sales, financing, research and advisory services. As of March 31, 2018, MMI operates 78 offices in the United States and Canada through its wholly-owned subsidiary, Marcus & Millichap Real Estate Investment Services, Inc. (MMREIS), which includes the operations of Marcus & Millichap Capital Corporation (MMCC).

***Reorganization and Initial Public Offering***

MMI was formed in June 2013 in preparation for Marcus & Millichap Company (MMC) to spin-off its majority owned subsidiary, MMREIS (Spin-Off). Prior to the initial public offering (IPO) of MMI, all of the preferred and common stockholders of MMREIS (including MMC and employees of MMREIS) contributed all of their outstanding shares to MMI, in exchange for new MMI common stock. As a result, MMREIS became a wholly-owned subsidiary of MMI. Thereafter, MMC distributed 80.0% of the shares of MMI common stock to MMC's shareholders and exchanged the remaining portion of its shares of MMI common stock for cancellation of indebtedness of MMC. MMI completed its IPO on October 30, 2013.

**Basis of Presentation**

The financial information presented in the accompanying unaudited condensed consolidated financial statements, has been prepared in accordance with rules and regulations of the U.S. Securities and Exchange Commission (SEC) for quarterly reports on Form 10-Q and Article 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements and notes include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the condensed consolidated financial position, results of operations and cash flows for the periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K filed on March 16, 2018 with the SEC. The results of the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018, or for other interim periods or future years.

***Consolidation***

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **2. Accounting Policies and Recent Accounting Pronouncements**

### **Accounting Policies**

The complete list of the Company's accounting policies is included in the Company's Annual Report on Form 10-K filed on March 16, 2018 with the SEC.

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**MARCUS & MILLICHAP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

***Revenue Recognition***

The Company generates real estate brokerage commissions by acting as a broker for real estate owners or investors seeking to buy or sell commercial properties. The Company generates financing fees from securing financing on purchase transactions as well as fees earned from refinancing its clients' existing mortgage debt and other financing activities. Other revenues include fees generated from consulting and advisory services, as well as referral fees from other real estate brokers. The Company's contracts contain one performance obligation related to its real estate brokerage, financing and consulting and advisory services offered to buyers and sellers of commercial real estate and provide that it is operating as a principal in all its revenue generating activities. The Company does not have multiple-element arrangements, variable consideration, financing components, significant noncash consideration, licenses, long-term contracts with customers or other items affecting the transaction price. Accordingly, the Company determined that the transaction price is generally fixed and determinable and collectability is reasonably assured. The Company recognizes revenue in principally all cases at the close of escrow for real estate brokerage, close of loan for financing and when services are provided upon closing of the transaction for other revenues.

***Capitalization of Internal Labor***

Certain costs related to the development or purchases of internal-use software are capitalized. Internal computer software costs that are incurred in the preliminary project stage are expensed as incurred. Direct consulting costs and certain payroll and related costs that are incurred during the development stage of a project are capitalized and amortized using the straight-line method over estimated useful lives ranging from 3 to 7 years. Capitalized costs are recorded in the property and equipment, net caption and amortization is recorded in the depreciation and amortization caption in the condensed consolidated financial statements. Amortization begins for software that has been placed into production and is ready for its intended use. Postimplementation costs such as training, maintenance and support are expensed as incurred. The Company evaluates its capitalized software costs for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash and cash equivalents, due from independent contractors (included under other assets, net current and other assets non-current captions), investments in marketable securities, available-for-sale, security deposits (included under other assets, non-current caption) and commissions receivables. Cash and cash equivalents are placed with high-credit quality financial institutions and invested in high-credit quality money market funds and commercial paper. Concentrations of marketable securities, available-for-sale are limited by the approved investment policy.

To reduce its credit risk, the Company monitors the credit standing of the financial institutions that hold the Company's cash and cash equivalents. The Company historically has not experienced any significant losses related to cash and cash equivalents.

The Company derives its revenues from a broad range of real estate investors, owners, and users in the United States and Canada, none of which individually represents a significant concentration of credit risk. The Company requires

collateral on a case-by-case basis. The Company maintains allowances, as needed, for estimated credit losses based on management's assessment of the likelihood of collection. For the three months ended March 31, 2018 and 2017, no transaction represented 10% or more of total revenues. Further, while one or more transactions may represent 10% or more of commissions receivable at any reporting date, amounts due are typically collected within 10 days of settlement and, therefore, do not expose the Company to significant credit risk.

During the three months ended March 31, 2018 and 2017, the Company's Canadian operations represented less than 1% of total revenues.

During the three months ended March 31, 2018 and 2017, no office represented 10% or more of total revenues.

### ***Segment Reporting***

The Company follows the guidance for segment reporting, which requires reporting information on operating segments in interim and annual financial statements. Substantially all of the Company's operations involve the delivery of commercial real estate

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**MARCUS & MILLICHAP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

services to its customers including real estate investment sales, financing and consulting and advisory services. Management makes operating decisions, assesses performance and allocates resources based on an ongoing review of these integrated operations, which constitute the Company's only operating segment for financial reporting purposes.

**Recent Accounting Pronouncements**

***Adopted***

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-09, *Revenue from Contracts with Customers* ( ASU 2014-09 ), which supersedes virtually all of the existing revenue recognition guidance under U.S. GAAP, and requires entities to recognize revenue for the transfer to a customer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for those goods or services. Subsequent to the issuance of ASU 2014-09, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, ASU No. 2016-08, *Revenue from Contracts with Customers: Principal Versus Agent Considerations*, ASU No. 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*, and ASU No. 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*. The additional ASU's clarified certain provisions of ASU 2014-09 in response to recommendations from the Transition Resources Group established by the FASB and extended the required adoption of ASU 2014-09 which is now effective for reporting periods beginning after December 15, 2017. The Company adopted the new standard on January 1, 2018 using the modified retrospective application method.

The Company assessed the impact of the standard and determined that its contracts contain one performance obligation related to its real estate brokerage, financing and consulting and advisory services offered to buyers and sellers of commercial real estate and provide that it is operating as a principal in all of its revenue generating activities. The Company does not have multiple-element arrangements, variable consideration, financing components, significant noncash consideration, licenses, long-term contracts with customers or other items affecting the transaction price. The Company determined the transaction price is generally fixed and determinable and collectability is reasonably assured. Revenue was and will continue to be recognized in principally all cases at the close of escrow for real estate brokerage, close of loan for financing and when services are provided upon closing of the transaction for other revenues. Accordingly, the adoption of ASU 2014-09, as clarified, does not have an effect on the manner or timing of the recognition of the Company's revenue.

In February 2018, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ( ASU 2018-02 ). ASU 2018-02 is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. ASU 2018-02 permits Companies that elect to make the reclassification adjustment the option to apply the guidance retrospectively or to record the reclassification as of the beginning of the period of adoption. The Company adopted the new standard on January 1, 2018 and elected to make the reclassification adjustment pertaining to the stranded tax effects resulting from the enactment of the Tax Cuts and Jobs Act (the Act ) from accumulated other comprehensive income to retained earnings as of the beginning of the period presented in the amount of \$13,000.

***Pending Adoption***

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, to increase transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company is still evaluating the impact of the new standard and has begun evaluating the population of all leases and related systems and internal control considerations. The Company will be required to adopt the new standard effective January 1, 2019, and the Company's condensed consolidated balance sheets will be impacted by the recording of a lease liability and right of use asset for virtually all of its current operating leases. As of March 31, 2018, the Company has remaining contractual obligations for operating leases (autos and office) that aggregate approximately \$83.6 million. Accordingly, the Company anticipates that the adoption of the new standard will have a material impact on the Company's condensed consolidated balance sheet. The amount of which and the potential impact on the condensed consolidated statements of net and comprehensive income and condensed consolidated statements of cash flows has yet to be determined.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses* (ASU 2016-13). ASU 2016-13 is effective for reporting periods beginning after December 15, 2019 and early adoption is permitted. For the Company, the new standard will be effective January 1, 2020. Under ASU 2016-13, the Company will be required to use an expected-loss model for its marketable securities, available-for sale, which requires that credit losses be presented as an allowance rather than as an impairment write-down.

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Reversals of credit losses (in situations in which the estimate of credit losses declines) is permitted in the reporting period the change occurs. Current U.S. GAAP prohibits reflecting reversals of credit losses in current period earnings. At March 31, 2018, the Company had \$130.4 million in marketable securities, available for sale which would be subject to this new standard. As of March 31, 2018, these marketable securities, available for sale have an average credit rating of AA and no impairment write-downs have been recorded. The Company is currently evaluating the impact of this new standard on its investment policy and investments.

**3. Property and Equipment**

Property and equipment, net consisted of the following (in thousands):

|                                                 | March 31,<br>2018 | December 31,<br>2017 |
|-------------------------------------------------|-------------------|----------------------|
| Computer software and hardware equipment        | \$ 16,543         | \$ 16,247            |
| Furniture, fixtures, and equipment              | 21,939            | 21,695               |
| Less: accumulated depreciation and amortization | (21,385)          | (20,789)             |
|                                                 | \$ 17,097         | \$ 17,153            |

During the three months ended March 31, 2018 and 2017, the Company wrote off approximately \$784,000 and \$949,000 respectively, of fully depreciated computer software and hardware and furniture, fixtures and equipment.

**4. Selected Balance Sheet Data****Other Assets**

Other assets consisted of the following (in thousands):

|                                                  | Current           |                      | Non-Current       |                      |
|--------------------------------------------------|-------------------|----------------------|-------------------|----------------------|
|                                                  | March 31,<br>2018 | December 31,<br>2017 | March 31,<br>2018 | December 31,<br>2017 |
| Due from independent contractors, net<br>(1) (2) | \$ 2,713          | \$ 3,672             | \$ 24,798         | \$ 21,726            |
| Security deposits                                |                   |                      | 1,161             | 1,158                |
| Employee notes receivable (3)                    | 351               | 366                  | 177               | 255                  |
| Customer trust accounts and other                | 1,560             | 1,491                | 55                | 24                   |

|  |          |          |           |           |
|--|----------|----------|-----------|-----------|
|  | \$ 4,624 | \$ 5,529 | \$ 26,191 | \$ 23,163 |
|--|----------|----------|-----------|-----------|

- (1) Represents amounts advanced, notes receivable and other receivables due from the Company's investment sales and financing professionals. The notes receivable along with interest, are typically collected from future commissions and are generally due in one to five years.
- (2) Includes allowance for doubtful accounts related to current receivables of \$337 and \$494 as of March 31, 2018 and December 31, 2017, respectively. The Company recorded a (recovery) provision for bad debt expense of \$(106) and \$(44) and wrote off \$51 and \$16 of these receivables for the three months ended March 31, 2018 and 2017, respectively. Any cash receipts on notes are applied first to unpaid principal balance prior to any income being recognized.
- (3) See Note 7 Related-Party Transactions for additional information.

Table of Contents**MARCUS & MILLICHAP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Deferred Compensation and Commissions**

Deferred compensation and commissions consisted of the following (in thousands):

|                                                                     | Current           |                      | Non-Current       |                      |
|---------------------------------------------------------------------|-------------------|----------------------|-------------------|----------------------|
|                                                                     | March 31,<br>2018 | December 31,<br>2017 | March 31,<br>2018 | December 31,<br>2017 |
| Stock appreciation rights ( SARs ) liability                        | \$ 1,895          | \$ 1,662             | \$ 18,706         | \$ 20,217            |
| Commissions payable to investment sales and financing professionals | 23,635            | 46,257               | 12,501            | 21,924               |
| Deferred compensation liability <sup>(1)</sup>                      | 1,383             | 1,261                | 7,762             | 7,220                |
|                                                                     | \$ 26,913         | \$ 49,180            | \$ 38,969         | \$ 49,361            |

- (1) The SARs and deferred compensation liability become subject to payout as a result of a participant no longer being considered as a service provider. As a result of the retirement of certain participants, estimated amounts to be paid to the participants within the next twelve months has been classified as current.

***SARs Liability***

Prior to the IPO, certain employees of the Company were granted SARs under a stock-based compensation program assumed by MMC. In connection with the IPO, the SARs agreements were revised, the MMC liability of \$20.0 million for the SARs was frozen as of March 31, 2013, and was transferred to MMI through a capital distribution. The SARs liability will be settled with each participant in ten annual installments in January of each year upon retirement or termination from service. Under the revised agreements, MMI is required to accrue interest on the outstanding balance beginning on January 1, 2014 at a rate based on the 10-year treasury note plus 2%. The rate resets annually. The rates at January 1, 2018 and 2017 were 4.409% and 4.446%, respectively. MMI recorded interest expense related to this liability of \$225,000 and \$233,000, for the three months ended March 31, 2018 and 2017, respectively.

Estimated payouts within the next twelve months for participants that have separated from service have been classified as current. During the three months ended March 31, 2018, the Company made total payments (consisting of accumulated interest) of \$1.5 million classified as an operating cash flow in the deferred compensation and commissions caption in the accompanying condensed consolidated statements of cash flows.

***Commissions Payable***

Certain investment sales professionals have the ability to earn additional commissions after meeting certain annual revenue thresholds. These commissions are recognized as cost of services in the period in which they are earned as

they relate to specific transactions closed. The Company has the ability to defer payment of certain commissions, at its election, for up to three years. Commissions payable that are not expected to be paid within twelve months are classified as long-term.

***Deferred Compensation Liability***

A select group of management is eligible to participate in a Deferred Compensation Plan. The plan is a 409A plan and permits the participant to defer compensation up to limits as determined by the plan. Amounts are paid out generally when the participant is no longer a service provider; however, an in-service payout election is available to participants. Participants may elect to receive payouts as a lump sum or quarterly over a two to fifteen-year period. The Company elected to fund the Deferred Compensation Plan through company owned variable life insurance policies. The Deferred Compensation Plan is managed by a third-party institutional fund manager, and the deferred compensation and investment earnings are held as a Company asset in a rabbi trust, which is recorded in assets held in rabbi trust in the accompanying condensed consolidated balance sheets. The assets in the trust are restricted unless the Company becomes insolvent, as defined in the Deferred Compensation Plan, in which case the trust assets are subject to the claims of MMI's creditors. The Company may also, in its sole and absolute discretion, elect to withdraw at any time a portion of the trust assets by an amount by which the fair market value of the trust assets exceeds 110% of the aggregate deferred compensation liability represented by the participants' accounts. Estimated payouts within the next twelve months for participants that have separated from service have been classified as current. During the three months ended March 31, 2018, the Company made total payments to participants of \$193,000.

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The net change in the carrying value of the assets held in the rabbi trust and the net change in the carrying value of the deferred compensation liability, each exclusive of additional contributions, distributions and trust expenses consisted of the following (in thousands):

|                                                                                       | Three Months Ended<br>March 31, |        |
|---------------------------------------------------------------------------------------|---------------------------------|--------|
|                                                                                       | 2018                            | 2017   |
| Increase in the carrying value of the assets held in the rabbi trust <sup>(1)</sup>   | \$ 14                           | \$ 199 |
| Increase in the carrying value of the deferred compensation obligation <sup>(2)</sup> | \$                              | \$ 211 |

- (1) Recorded in other income (expense), net in the condensed consolidated statements of net and comprehensive income.
- (2) Recorded in selling, general and administrative expense in the condensed consolidated statements of net and comprehensive income.

**5. Investments in Marketable Securities**

Amortized cost and fair value of marketable securities, available-for-sale, by type of security consisted of the following (in thousands):

|                                    | March 31, 2018 |            |            |           | December 31, 2017 |            |            |           |
|------------------------------------|----------------|------------|------------|-----------|-------------------|------------|------------|-----------|
|                                    | Amortized      | Gross      | Gross      | Fair      | Amortized         | Gross      | Gross      | Fair      |
|                                    | Cost           | Unrealized | Unrealized | Value     | Cost              | Unrealized | Unrealized | Value     |
|                                    |                | Gains      | Losses     |           |                   | Gains      | Losses     |           |
| <i>Short-term investments:</i>     |                |            |            |           |                   |            |            |           |
| U.S. treasuries                    | \$ 72,344      | \$         | \$ (171)   | \$ 72,173 | \$ 57,712         | \$         | \$ (88)    | \$ 57,624 |
| U.S. government sponsored entities | 10,536         |            | (35)       | 10,501    | 7,016             |            | (8)        | 7,008     |
| Corporate debt securities          | 12,165         |            | (13)       | 12,152    | 8,931             |            | (3)        | 8,928     |
|                                    | \$ 95,045      | \$         | \$ (219)   | \$ 94,826 | \$ 73,659         | \$         | \$ (99)    | \$ 73,560 |
| <i>Long-term investments:</i>      |                |            |            |           |                   |            |            |           |
| U.S. treasuries                    | \$ 4,553       | \$         | \$ (160)   | \$ 4,393  | \$ 18,111         | \$ 7       | \$ (164)   | \$ 17,954 |
|                                    | 1,737          |            | (67)       | 1,670     | 5,306             |            | (62)       | 5,244     |

U.S. government sponsored  
entities

|                                      |           |       |          |           |           |        |          |           |
|--------------------------------------|-----------|-------|----------|-----------|-----------|--------|----------|-----------|
| Corporate debt securities            | 23,332    | 28    | (304)    | 23,056    | 22,505    | 268    | (54)     | 22,719    |
| Asset-backed securities and<br>other | 6,485     | 9     | (40)     | 6,454     | 6,180     | 17     | (15)     | 6,182     |
|                                      | \$ 36,107 | \$ 37 | \$ (571) | \$ 35,573 | \$ 52,102 | \$ 292 | \$ (295) | \$ 52,099 |

The amortized cost and fair value of the Company's investments in available-for-sale securities that have been in a continuous unrealized loss position consisted of the following (in thousands):

|                     | March 31, 2018     |               | December 31, 2017  |               |
|---------------------|--------------------|---------------|--------------------|---------------|
|                     | Unrealized<br>Loss | Fair<br>Value | Unrealized<br>Loss | Fair<br>Value |
| Less than 12 months | \$ (508)           | \$ 96,685     | \$ (158)           | \$ 63,229     |
| 12 months or longer | \$ (282)           | \$ 28,880     | \$ (236)           | \$ 44,961     |

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Gross realized gains and gross realized losses from the sales of the Company's available-for-sale securities consisted of the following (in thousands):

|                                      | Three Months Ended<br>March 31, |      |
|--------------------------------------|---------------------------------|------|
|                                      | 2018                            | 2017 |
| Gross realized gains <sup>(1)</sup>  | \$                              | \$   |
| Gross realized losses <sup>(1)</sup> | \$                              | \$   |

<sup>(1)</sup> Recorded in other income (expense), net in the condensed consolidated statements of net and comprehensive income. The cost basis of securities sold were determined on the specific identification method.

As of March 31, 2018, the Company considers the declines in market value of its marketable securities, available-for-sale to be temporary in nature and does not consider any of its investments other-than-temporarily impaired. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy generally requires investments to be investment grade, with the primary objective of minimizing the potential risk of principal loss and matching long-term liabilities. When evaluating an investment for other-than-temporary impairment the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates and the Company's intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis. The Company has no current intent to sell, and it is not more likely than not that the Company will be required to sell these investments before recovery of their amortized cost basis, which may be at maturity. The Company may sell certain of its marketable securities, available-for-sale prior to their stated maturities for strategic reasons including, but not limited to, anticipated liquidity and capital requirements, anticipated credit deterioration, duration management or when a security no longer meets the criteria of the Company's investment policy.

Amortized cost and fair value of marketable securities, available-for-sale, by contractual maturity consisted of the following (in thousands):

|                                        | March 31, 2018    |               | December 31, 2017 |               |
|----------------------------------------|-------------------|---------------|-------------------|---------------|
|                                        | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| Due in one year or less                | \$ 95,045         | \$ 94,826     | \$ 73,659         | \$ 73,560     |
| Due after one year through five years  | 14,733            | 14,608        | 30,644            | 30,517        |
| Due after five years through ten years | 14,956            | 14,645        | 15,090            | 15,200        |

|                     |            |            |            |            |
|---------------------|------------|------------|------------|------------|
| Due after ten years | 6,418      | 6,320      | 6,368      | 6,382      |
|                     | \$ 131,152 | \$ 130,399 | \$ 125,761 | \$ 125,659 |

Weighted average contractual maturity      2.5 years      2.6 years

Actual maturities may differ from contractual maturities because certain borrowers have the right to prepay certain obligations with or without prepayment penalties.

## 6. Notes Payable to Former Stockholders

In conjunction with the Spin-Off and IPO, notes payable to certain former stockholders of MMREIS were issued in settlement of restricted stock and SARs awards that were redeemed by MMREIS upon the termination of employment by the former stockholders ( the Notes ). Such Notes had been previously assumed by MMC, and were transferred to the Company. The Notes are unsecured and bear interest at 5% with annual principal and interest installments with a final principal payment due during the second quarter of 2020.

**Table of Contents****MARCUS & MILLICHAP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Accrued interest included in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets pertaining to the Notes consisted of the following (in thousands):

|                  | March 31,<br>2018 | December 31,<br>2017 |
|------------------|-------------------|----------------------|
| Accrued interest | \$ 415            | \$ 305               |

Interest expense pertaining to the Notes consisted of the following (in thousands):

|                  | Three Months Ended<br>March 31, |        |
|------------------|---------------------------------|--------|
|                  | 2018                            | 2017   |
| Interest expense | \$ 109                          | \$ 122 |

## **7. Related-Party Transactions**

### **Shared and Transition Services**

Prior to October 2013, the Company operated under a shared services arrangement with MMC whereby the Company was charged for actual costs specifically incurred on behalf of the Company or allocated to the Company on a pro rata basis. Beginning in October 2013, certain services are provided to the Company under a Transition Services Agreement ( TSA ) between MMC and the Company, which replaced the pre-IPO shared services arrangement. The TSA is intended to provide certain services until the Company acquires the services separately. During the three months ended March 31, 2018 and 2017, the Company incurred net costs of \$72,000 and \$82,000 under the TSA, respectively. These amounts are included in selling, general and administrative expense in the accompanying condensed consolidated statements of net and comprehensive income.

### **Brokerage and Financing Services with the Subsidiaries of MMC**

MMC has wholly or majority owned subsidiaries that buy and sell commercial real estate properties. The Company performs certain brokerage and financing services related to transactions of the subsidiaries of MMC. For the three months ended March 31, 2018 and 2017, the Company earned real estate brokerage commissions and financing fees of \$2.6 million and \$203,000, respectively, from transactions with subsidiaries of MMC related to these services. The Company incurred cost of services of \$1.5 million and \$122,000, respectively, related to these revenues.

### **Operating Lease with MMC**

The Company has an operating lease with MMC for a single story office building located in Palo Alto, California, which expires on May 31, 2022. Rent expense for this lease aggregated \$253,000 for each of the three months ended March 31, 2018 and 2017. Rent expense is included in selling, general and administrative expense in the accompanying condensed consolidated statements of net and comprehensive income.

#### **Accounts Payable and Accrued Expenses with MMC**

As of March 31, 2018 and December 31, 2017, accounts payable and accrued expenses with MMC totaling \$101,000 and \$91,000, respectively, remain unpaid and are included in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

#### **Other**

The Company makes advances to non-executive employees from time-to-time. At March 31, 2018 and December 31, 2017, the aggregate principal amount for employee notes receivable was \$528,000 and \$621,000, respectively, which is included in other assets, net current and other assets non-current captions in the accompanying condensed consolidated balance sheets. See Note 4      Selected Balance Sheet Data      for additional information.

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**MARCUS & MILLICHAP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As of March 31, 2018, George M. Marcus, the Company's founder and Co-Chairman, beneficially owned approximately 48% of the Company's issued and outstanding common stock, including shares owned by Phoenix Investments Holdings, LLC and the Marcus Family Foundation II.

**8. Fair Value Measurements**

U.S. GAAP defines the fair value of a financial instrument as the amount that would be received from the sale of an asset in an orderly transaction between market participants at the measurement date. The Company is responsible for the determination of the value of the investment carried at fair value and the supporting methodologies and assumptions. The Company uses various pricing sources to validate the values utilized.

The degree of judgment used in measuring the fair value of financial instruments is generally inversely correlated with the level of observable valuation inputs. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment.

Assets recorded at fair value are measured and classified in accordance with a fair value hierarchy consisting of the three levels based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

*Level 1:* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

*Level 2:* Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or

*Level 3:* Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Investment in marketable securities, available-for-sale and assets held in the rabbi trust are carried at fair value based on observable inputs available. All these securities are measured as Levels 1 or 2 as appropriate. The Company has no investments measured as Level 3.

**Recurring Fair Value Measurements**

The Company values its investments including assets held in rabbi trust, commercial paper, money market funds and investments in marketable securities, available-for-sale at fair value on a recurring basis. Fair values were determined for each individual security in the investment portfolio.



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Assets carried at fair value are categorized into one of the three categories described above and consisted of the following (in thousands):

|                                               | March 31, 2018 |            |           |         | December 31, 2017 |            |           |         |
|-----------------------------------------------|----------------|------------|-----------|---------|-------------------|------------|-----------|---------|
|                                               | Fair Value     | Level 1    | Level 2   | Level 3 | Fair Value        | Level 1    | Level 2   | Level 3 |
| Assets held in rabbi trust                    | \$ 8,756       | \$         | \$ 8,756  | \$      | \$ 8,787          | \$         | \$ 8,787  | \$      |
| Cash equivalents <sup>(1)</sup> :             |                |            |           |         |                   |            |           |         |
| Commercial paper                              | \$ 7,945       | \$         | \$ 7,945  | \$      | \$ 11,441         | \$         | \$ 11,441 | \$      |
| Money market funds                            | 165,027        | 165,027    |           |         | 157,788           | 157,788    |           |         |
|                                               | \$ 172,972     | \$ 165,027 | \$ 7,945  | \$      | \$ 169,229        | \$ 157,788 | \$ 11,441 | \$      |
| Marketable securities,<br>available-for-sale: |                |            |           |         |                   |            |           |         |
| <i>Short-term investments:</i>                |                |            |           |         |                   |            |           |         |
| U.S. treasuries                               | \$ 72,173      | \$ 72,173  | \$        | \$      | \$ 57,624         | \$ 57,624  | \$        | \$      |
| U.S. government sponsored<br>entities         | 10,501         |            | 10,501    |         | 7,008             |            | 7,008     |         |
| Corporate debt securities                     | 12,152         |            | 12,152    |         | 8,928             |            | 8,928     |         |
|                                               | \$ 94,826      | \$ 72,173  | \$ 22,653 | \$      | \$ 73,560         | \$ 57,624  | \$ 15,936 | \$      |
| <i>Long-term investments:</i>                 |                |            |           |         |                   |            |           |         |
| U.S. treasuries                               | \$ 4,393       | \$ 4,393   | \$        | \$      | \$ 17,954         | \$ 17,954  | \$        | \$      |
| U.S. government sponsored<br>entities         | 1,670          |            | 1,670     |         | 5,244             |            | 5,244     |         |
| Corporate debt securities                     | 23,056         |            | 23,056    |         | 22,719            |            | 22,719    |         |
| Asset-backed securities and<br>other          | 6,454          |            | 6,454     |         | 6,182             |            | 6,182     |         |
|                                               | \$ 35,573      | \$ 4,393   | \$ 31,180 | \$      | \$ 52,099         | \$ 17,954  | \$ 34,145 | \$      |

<sup>(1)</sup> Included in cash and cash equivalents.

There were no transfers in or out of Level 1 and Level 2 during the three months ended March 31, 2018.

**9. Stockholders Equity**  
**Common Stock**

As of March 31, 2018 and December 31, 2017, there were 38,578,834 and 38,374,011 shares of common stock, \$0.0001 par value, issued and outstanding, which includes unvested restricted stock awards issued to non-employee directors, respectively. See Note 12 Earnings per Share for additional information.

**Preferred Stock**

The Company has 25,000,000 authorized shares of preferred stock with a par value \$0.0001 per share. At March 31, 2018 and December 31, 2017, there were no preferred shares issued or outstanding.

Table of Contents**MARCUS & MILLICHAP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Accumulated Other Comprehensive (Loss) Income**

The components of accumulated other comprehensive income as of March 31, 2018, by component, net of income taxes consisted of the following (in thousands):

|                                                                                        | Unrealized<br>gains and<br>(losses) of<br>available-for-<br>sale securities | Foreign<br>currency<br>translation <sup>(3)</sup> | Total  |
|----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------|--------|
| Beginning balance, December 31, 2017                                                   | \$ (62)                                                                     | \$ 1,002                                          | \$ 940 |
| Cumulative effect of change in accounting principle <sup>(1)</sup>                     | (13)                                                                        |                                                   | (13)   |
| Balance at January 1, 2018, as adjusted                                                | (75)                                                                        | 1,002                                             | 927    |
| Other comprehensive (loss) income before reclassifications                             | (492)                                                                       | 39                                                | (453)  |
| Amounts reclassified from accumulated other comprehensive (loss) income <sup>(2)</sup> |                                                                             |                                                   |        |
| Net current-period other comprehensive (loss) income                                   | (492)                                                                       | 39                                                | (453)  |
| Ending balance, March 31, 2018                                                         | \$ (567)                                                                    | \$ 1,041                                          | \$ 474 |

(1) Relates to reclassification of stranded tax effects from accumulated other comprehensive income to retained earnings as a result of adoption of ASU 2018-02. See Note 2 Accounting Policies and Recent Accounting Pronouncements for additional information.

(2) Included as a component of other income (expense), net in the condensed consolidated statements of net and comprehensive income. The reclassifications were determined on a specific identification basis.

(3) The Company has not provided for U.S. taxes on unremitted earnings of its foreign subsidiary as it is operating at a loss and has no earnings and profits to remit. As a result, deferred taxes were not provided related to the cumulative foreign currency translation adjustments.

## **10. Stock-Based Compensation Plans**

### **2013 Omnibus Equity Incentive Plan**

The board of directors adopted the 2013 Omnibus Equity Incentive Plan ( 2013 Plan ), which became effective upon the Company's IPO. In February 2017, the board of directors approved an amendment to the 2013 Plan, which was

approved by the shareholders in May 2017. Grants are made from time to time by the Company's board of directors at its discretion subject to certain restrictions as to the number and value of shares that may be granted to any individual. Upon adoption of the 2013 Plan, 5,500,000 shares of common stock were initially reserved for the issuance of awards. Pursuant to the automatic increases previously provided for in the 2013 Plan, the board of directors approved share reserve increases aggregating 3,300,000. Pursuant to the amendment to the 2013 Plan referenced above, the automatic share increase provision was removed. At March 31, 2018, there were 5,502,845 shares available for future grants under the Plan.

#### ***Awards Granted and Settled***

Under the 2013 Plan, the Company has issued restricted stock awards ( RSAs ) to non-employee directors and restricted stock units ( RSUs ) to employees and independent contractors. RSAs vest in equal annual installments over a one-year or three-year period from the date of grant. All RSUs vest in equal annual installments over a five-year period from the date of grant. Any unvested awards are canceled upon termination of service. Awards accelerate upon death subject to approval by the compensation committee. As of March 31, 2018, there were no issued or outstanding options, SARs, performance units or performance shares awards.

During the three months ended March 31, 2018, 258,930 shares of RSUs vested of which 252,930 shares of common stock were delivered and 48,107 shares of common stock were withheld to pay applicable required employee statutory withholding taxes based on the market value of the shares on the vesting date. The shares withheld for taxes were returned to the share reserve and are available for future issuance in accordance with provisions of the 2013 Plan.

**Table of Contents****MARCUS & MILLICHAP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*****Outstanding Awards***

Activity under the 2013 Plan consisted of the following (dollars in thousands, except per share data):

|                                                                              | RSA<br>Grants to<br>Non-employee<br>Directors | RSU Grants to<br>Employees | RSU Grants to<br>Independent<br>Contractors | Total     | Weighted-<br>Average Grant<br>Date Fair Value<br>Per Share |
|------------------------------------------------------------------------------|-----------------------------------------------|----------------------------|---------------------------------------------|-----------|------------------------------------------------------------|
| Nonvested shares at December 31,<br>2017                                     | 30,732                                        | 500,859                    | 450,264                                     | 981,855   | \$ 23.90                                                   |
| Granted                                                                      |                                               |                            |                                             |           |                                                            |
| <i>February 2018</i>                                                         |                                               | 106,419                    | 20,293                                      | 126,712   |                                                            |
| <i>March 2018</i>                                                            |                                               | 15,000                     |                                             | 15,000    |                                                            |
| Total Granted                                                                |                                               | 121,419                    | 20,293                                      | 141,712   | 32.43                                                      |
| Vested                                                                       |                                               | (132,325)                  | (126,605)                                   | (258,930) | 20.59                                                      |
| Transferred                                                                  |                                               |                            |                                             |           |                                                            |
| Forfeited/canceled                                                           |                                               | (1,960)                    | (4,598)                                     | (6,558)   | 29.21                                                      |
| Nonvested shares at March 31, 2018<br>(1)                                    | 30,732                                        | 487,993                    | 339,354                                     | 858,079   | \$ 26.27                                                   |
| Unrecognized stock-based<br>compensation expense as of<br>March 31, 2018 (2) | \$ 423                                        | \$ 12,669                  | \$ 10,154                                   | \$ 23,246 |                                                            |
| Weighted average remaining vesting<br>period (years) as of March 31, 2018    | 1.60                                          | 3.54                       | 2.69                                        | 3.14      |                                                            |

(1) Nonvested RSUs will be settled through the issuance of new shares of common stock.

(2) The total unrecognized compensation expense is expected to be recognized over a weighted-average period of approximately 3.14 years.

As of March 31, 2018, 578,618 fully vested deferred stock units ( DSUs ) remained outstanding. See Amendments to Restricted Stock and SARs section below and Note 12 Earnings Per Share for additional information. Future share settlements of DSUs by year consisted of the following:

|      |                |
|------|----------------|
|      | March 31, 2018 |
| 2018 | 237,052        |
| 2021 | 60,373         |
| 2022 | 281,193        |
|      | 578,618        |

### Employee Stock Purchase Plan

In 2013, the Company adopted the 2013 Employee Stock Purchase Plan ( ESPP Plan ). The ESPP Plan qualifies under Section 423 of the IRS Code and provides for consecutive, non-overlapping 6-month offering periods. The offering periods generally start on the first trading day on or after May 15 and November 15 of each year. Qualifying employees may purchase shares of the Company stock at a 10% discount based on the lower of the market price at the beginning or end of the offering period, subject to IRS limitations. The Company determined that the ESPP Plan was a compensatory plan and is required to expense the fair value of the awards over each 6-month offering period.

The ESPP Plan initially had 366,667 shares of common stock reserved and 246,895 shares of common stock remain available for issuance for each of the periods at March 31, 2018 and December 31, 2017, respectively. The ESPP Plan provides for annual increases in the number of shares available for issuance under the ESPP, equal to the least of (i) 366,667 shares, (ii) 1% of the outstanding shares on such date, or (iii) an amount determined by the board. Pursuant to the provisions of the ESPP Plan, the board of directors determined a share reserve increase was not required in the prior years. At March 31, 2018, total unrecognized compensation cost related to the ESPP Plan was \$19,000 and is expected to be recognized over a weighted average period of 0.12 years.

**Table of Contents****MARCUS & MILLICHAP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Amendments to Restricted Stock and SARs*****Restricted Stock***

In connection with the IPO, the formula settlement value of all outstanding shares of stock held by the plan participants was removed, and all such shares of stock are subject to sales restrictions that lapse at a rate of 20% per year for five years if the participant remains employed by the Company. In the event of death or termination of employment after reaching the age of 67, 100% of the shares of stock will be released from the resale restriction. Further, 100% of the shares of stock will be released from the resale restriction upon the consummation of a change of control of the Company. Of the original 3,689,326 shares subject to resale restriction, 732,020 shares remain subject to sales restriction at March 31, 2018.

***SARs and DSUs***

Prior to the IPO, certain employees were granted SARs. As of March 31, 2013, the outstanding SARs were frozen at the liability amount, and will be paid out to each participant in installments upon retirement or departure under the terms of the revised SARs agreements. To replace beneficial ownership in the SARs, the difference between the book value liability and the fair value of the awards was granted to plan participants in the form of DSUs, which were fully vested upon receipt and will be settled in actual stock at a rate of 20% per year if the participant remains employed by the Company during that period (otherwise all unsettled shares of stock upon termination from service will be settled five years from the termination date, unless otherwise agreed to by the Company). In the event of death or termination of service after reaching the age of 67, 100% of the DSUs will be settled.

**Summary of Stock-Based Compensation**

Components of stock-based compensation are included in selling, general and administrative expense in the condensed consolidated statements of net and comprehensive income consisted of the following (in thousands, except common stock price):

|                                             | Three Months<br>Ended March 31, |                 |
|---------------------------------------------|---------------------------------|-----------------|
|                                             | 2018                            | 2017            |
| Employee stock purchase plan                | \$ 39                           | \$ 46           |
| RSAs non-employee directors                 | 111                             | 89              |
| RSUs employees                              | 953                             | 914             |
| RSUs independent contractors <sup>(1)</sup> | 1,510                           | 817             |
|                                             | <b>\$ 2,613</b>                 | <b>\$ 1,866</b> |
| Common stock price at beginning of period   | \$ 32.61                        | \$ 26.72        |

|                                     |          |           |
|-------------------------------------|----------|-----------|
| Common stock price at end of period | \$ 36.06 | \$ 24.58  |
| Increase (decrease) in stock price  | \$ 3.45  | \$ (2.14) |

- (1) The Company grants RSUs to independent contractors (i.e. investment sales and financing professionals), who are considered non-employees under the accounting standards. Accordingly, such awards are required to be measured at fair value at the end of each reporting period until settlement. Stock-based compensation expense is therefore impacted by the changes in the Company's common stock price during each reporting period.

## 11. Income Taxes

The Company's effective tax rate for the three months ended March 31, 2018 and 2017 was 25.9% and 38.5%, respectively. The Company provides for the effects of income taxes in interim financial statements based on the Company's estimate of its annual effective tax rate for the full year, which is based on forecasted income by jurisdiction where the Company operates, adjusted for the tax effects of items that relate discretely to the period, if any.

[Table of Contents](#)**MARCUS & MILLICHAP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The provision for income taxes differs from the amount computed by applying the U.S. federal statutory rate to income before provision for income taxes and consisted of the following (in thousands):

|                                                                | Three Months Ended March 31, |        | 2017     |        |
|----------------------------------------------------------------|------------------------------|--------|----------|--------|
|                                                                | 2018                         |        | 2017     |        |
|                                                                | Amount                       | Rate   | Amount   | Rate   |
| Income tax expense at the federal statutory rate               | \$ 5,106                     | 21.0%  | \$ 6,826 | 35.0%  |
| State income tax expense, net of federal benefit               | 1,097                        | 4.5%   | 768      | 3.9%   |
| Effect of foreign operations                                   | 32                           | 0.1%   | 76       | 0.4%   |
| Windfall tax benefits, net related to stock-based compensation | (217)                        | (0.9)% | (156)    | (0.7)% |
| Permanent items and other                                      | 284                          | 1.2%   | (12)     | (0.1)% |
|                                                                | \$ 6,302                     | 25.9%  | \$ 7,502 | 38.5%  |

On December 22, 2017, the Act was enacted, which significantly changed the U.S. corporate income tax laws by, among other items, reducing the U.S. corporate income tax rate to 21% from 35% starting in 2018, further limiting 162(m) deductions and creating a territorial tax system with a one-time mandatory tax on previously deferred foreign earnings of U.S. subsidiaries. As a result of the Act, the Company revalued its deferred taxes, net due to the changes in the U.S. corporate statutory federal income tax rate and recorded a net charge of \$11.6 million in the provision for income taxes during the fourth quarter of 2017. Although the Company's accounting for certain income tax effects of the Act is incomplete, it was determined that the \$11.6 million charge is a reasonable estimate of those effects. As of March 31, 2018, this amount continues to be our best estimate of the impact of the Act in accordance with our understanding of the Act and the related guidance available. When the IRS issues additional guidance and regulations enabling the Company to finalize certain tax positions, the Company will be able to conclude whether any further adjustments are required to be made to its deferred tax assets, net balance as of December 31, 2017. Any adjustments to this provisional amount will be reported no later than the fourth quarter of 2018, as a component of the provision for income taxes in the reporting period in which any such adjustments are determined.

**12. Earnings per Share**

Basic and diluted earnings per share for the three months ended March 31, 2018 and 2017, respectively consisted of the following (in thousands, except per share data):

Three Months  
Ended March 31,  
2018                      2017

|                                                                                    |           |           |
|------------------------------------------------------------------------------------|-----------|-----------|
| <b>Numerator (Basic and Diluted):</b>                                              |           |           |
| Net income                                                                         | \$ 18,011 | \$ 12,000 |
| <b>Denominator:</b>                                                                |           |           |
| <i>Basic</i>                                                                       |           |           |
| Weighted average common shares issued and outstanding                              | 38,547    | 38,047    |
| Deduct: Unvested RSAs <sup>(1)</sup>                                               | (31)      | (29)      |
| Add: Fully vested DSUs <sup>(2)</sup>                                              | 579       | 930       |
| Weighted Average Common Shares Outstanding                                         | 39,095    | 38,948    |
| Basic earnings per common share                                                    | \$ 0.46   | \$ 0.31   |
| <i>Diluted</i>                                                                     |           |           |
| Weighted Average Common Shares Outstanding from above                              | 39,095    | 38,948    |
| Add: Dilutive effect of RSUs, RSAs & ESPP                                          | 155       | 160       |
| Weighted Average Common Shares Outstanding                                         | 39,250    | 39,108    |
| Diluted earnings per common share                                                  | \$ 0.46   | \$ 0.31   |
| Antidilutive shares excluded from diluted earnings per common share <sup>(3)</sup> | 291       | 299       |

- <sup>(1)</sup> RSAs were issued and outstanding to the non-employee directors and have a one-year or three-year vesting term subject to service requirements. See Note 10 Stock-Based Compensation Plans for additional information.

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**MARCUS & MILLICHAP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

- (2) Shares are included in weighted average common shares outstanding as the shares are fully vested but have not yet been delivered. See Note 10 Stock-Based Compensation Plans for additional information.
- (3) Primarily pertaining to RSU grants to the Company's employees and independent contractors.

**13. Commitments and Contingencies**

**Credit Agreement**

On June 18, 2014, the Company entered into a Credit Agreement with Wells Fargo Bank, National Association ( Bank ), dated as of June 1, 2014 (the Credit Agreement ). The Credit Agreement provides for a \$60.0 million principal amount senior secured revolving credit facility that is guaranteed by all of the Company's domestic subsidiaries (the Credit Facility ), which, as amended, matures on June 1, 2020. The Company may borrow, repay and reborrow amounts under the Credit Facility until its maturity date, at which time all amounts outstanding under the Credit Facility must be repaid in full.

Borrowings under the Credit Agreement are available for general corporate purposes and working capital. The Credit Facility includes a \$10.0 million sublimit for the issuance of standby letters of credit of which \$533,000 was utilized at March 31, 2018. Borrowings under the Credit Facility will bear interest, at the Company's option, at either the (i) Base Rate (defined as the highest of (a) the Bank's prime rate, (b) the Federal Funds Rate plus 1.5% and (c) one-month LIBOR plus 1.5%), or (ii) at a variable rate between 0.875% and 1.125% above LIBOR, based upon the total funded debt to EBITDA ratio. In connection with executing the Credit Agreement, as amended the Company paid bank fees and other expenses, which are being amortized over the remaining term of the Credit Agreement. The Company pays a commitment fee of up to 0.1% per annum, payable quarterly, based on the amount of unutilized commitments under the Credit Facility. The amortization and commitment fee is included in interest expense in the accompanying condensed consolidated statements of net and comprehensive income and was \$26,000 and \$27,000 during the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, there were no amounts outstanding under the Credit Agreement.

The Credit Facility contains customary covenants, including financial and other covenant reporting requirements and events of default. Financial covenants require the Company, on a combined basis with its guarantors, to maintain (i) an EBITDAR Coverage Ratio (as defined in the Credit Agreement) of not less than 1.25:1.0 as of each quarter end and (ii) total funded debt to EBITDA not greater than 2.0:1.0 as of each quarter end both on a rolling 4-quarter basis. The Credit Facility is secured by substantially all assets of the Company, including pledges of 100% of the stock or other equity interest of each subsidiary except for the capital stock of a controlled foreign corporation (as defined in the Internal Revenue Code). As of March 31, 2018, the Company was in compliance with all financial and non-financial covenants.

**Litigation**

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business, some of which involve claims for damages that are substantial in amount. Most of these litigation matters are covered by insurance, which contain deductibles, exclusions, claim limits and aggregate policy limits. While the ultimate liability

for these legal proceeding cannot be determined, the Company reviews the need for its accrual for loss contingencies quarterly and records an accrual for litigation related losses where the likelihood of loss is both probable and estimable. The Company believes that the ultimate resolution of the legal proceedings will not have a material adverse effect on its financial condition or results of operations. The Company accrues legal fees for litigation as the legal services are provided.

**Other**

In connection with certain agreements with investment sales and financing professionals, the Company may agree to advance amounts to its investment sales and financing professionals upon reaching certain performance goals. Such commitments as of March 31, 2018 aggregated \$1.4 million.

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

*Unless the context requires otherwise, the words "Marcus & Millichap," "we," "the Company," "us" and "our" refer to Marcus & Millichap, Inc., Marcus & Millichap Real Estate Investment Services, Inc. and its other consolidated subsidiaries.*

#### **Forward-Looking Statements**

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2018, or for any other future period. The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Item 1 of this Form 10-Q and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 16, 2018, including the "Risk Factors" section and the consolidated financial statements and notes included therein.

#### **Overview**

We are a leading national brokerage firm specializing in commercial real estate investment sales, financing, research and advisory services. We have been the top commercial real estate investment broker in the United States based on the number of investment transactions over the last 10 years.

As of March 31, 2018, we had 1,769 investment sales and financing professionals that are primarily exclusive independent contractors operating in 78 offices who provide real estate brokerage and financing services to sellers and buyers of commercial real estate. We also offer market research, consulting and advisory services to our clients. During the three months ended March 31, 2018, we closed 2,085 investment sales, financing and other transactions with total volume of approximately \$9.8 billion. During the year ended December 31, 2017, we closed 8,979 sales, financing and other transactions with total volume of approximately \$42.2 billion.

We generate revenues by collecting real estate brokerage commissions upon the sale, and fees upon the financing, of commercial properties and by providing consulting and advisory services. Real estate brokerage commissions are typically based upon the value of the property, and financing fees are typically based upon the size of the loan. For the three months ended March 31, 2018, approximately 93% of our revenues were generated from real estate brokerage commissions, 6% from financing fees and 1% from other revenues, including consulting and advisory services. During the year ended December 31, 2017, approximately 90% of our revenues were generated from real estate brokerage commissions, 7% from financing fees and 3% from other revenues, including consulting and advisory services.

We divide commercial real estate into four major market segments, characterized by price:

Properties with prices less than \$1 million;

*Private client market:* properties priced from \$1 million up to \$10 million;

*Middle market:* properties priced from \$10 million up to \$20 million; and

*Larger transaction market:* properties priced from \$20 million and above.

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Our strength is in serving private clients in the \$1-\$10 million private client market segment, which contributed approximately 65% and 71% of our real estate brokerage commissions during the three months ended March 31, 2018 and 2017, respectively. The following tables set forth the number of transactions, sales volume and revenues by commercial real estate market segment for real estate brokerage:

|                                                        | Three Months Ended March 31, |               |                |               |               |                | Change        |               |                |
|--------------------------------------------------------|------------------------------|---------------|----------------|---------------|---------------|----------------|---------------|---------------|----------------|
|                                                        | 2018                         |               |                | 2017          |               |                |               |               |                |
|                                                        | Number                       | Volume        | Revenues       | Number        | Volume        | Revenues       | Number        | Volume        | Revenues       |
| <i>Real Estate Brokerage</i>                           | (in millions)                | (in millions) | (in thousands) | (in millions) | (in millions) | (in thousands) | (in millions) | (in millions) | (in thousands) |
| <\$1 million                                           | 245                          | \$ 162        | \$ 6,868       | 242           | \$ 142        | \$ 5,994       | 3             | \$ 20         | \$ 874         |
| Private client market (\$1 - \$10 million)             | 1,168                        | 3,559         | 106,012        | 1,121         | 3,398         | 99,750         | 47            | 161           | 6,262          |
| Middle market ( <sup>3</sup> \$10 - \$20 million)      | 113                          | 1,605         | 27,271         | 88            | 1,202         | 19,154         | 25            | 403           | 8,117          |
| Larger transaction market ( <sup>3</sup> \$20 million) | 59                           | 2,589         | 22,374         | 38            | 1,748         | 15,239         | 21            | 841           | 7,135          |
|                                                        | 1,585                        | \$ 7,915      | \$ 162,525     | 1,489         | \$ 6,490      | \$ 140,137     | 96            | \$ 1,425      | \$ 22,388      |

We continue to increase our presence in the United States and Canada through execution of our growth strategies by targeting markets based on population, employment, level of commercial real estate sales, inventory and competitive opportunities where we believe the markets will benefit from our business model. The following charts set forth the percentage of transactions by region for real estate brokerage.

<sup>(1)</sup> Includes our Canadian operations, which represented less than 1% of our total revenues in each period presented.

**Factors Affecting Our Business**

Our business and our operating results, financial condition and liquidity are significantly affected by the number and size of commercial real estate investment sales and financing transactions we close in any period. The number and size of these transactions are affected by our ability to recruit and retain investment sales and financing professionals, identify and contract properties for sale and those that need financing and refinancing. We principally monitor the commercial real estate market through four factors, which generally drive our business. These factors are the economy, commercial real estate supply and demand, capital markets and investment sentiment and investment activity.

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*The Economy*

Our business is dependent on economic conditions within the markets in which we operate. Changes in the economy on a global, national, regional or local basis can have a positive or a negative impact on our business. Economic indicators and projections related to job growth, unemployment, interest rates, retail spending and confidence trends can have a positive or a negative impact on our business. Overall market conditions can have an effect on investor sentiment and, ultimately, the demand for our services from investors in real estate. Elevated consumer and business confidence in the first quarter, likely invigorated by the new tax law, supported steady economic growth. Consumption, business investment and hiring all maintained a sound pace of growth in the first quarter, pointing to a positive outlook for the year. Risks to the outlook include stock market volatility, prospects of a trade war and rising geopolitical risk, all of which have the potential to disrupt confidence levels and economic growth. While the stimulus of tax reductions has begun to fuel spending, we believe additional gains could be impeded should additional clarification of the tax law not emerge soon. Congress' inability to pass needed technical corrections to the tax law and the slow emergence of guidance from the IRS could erode some of the potential lift. It is widely anticipated that the new leadership of the Federal Reserve will continue to cautiously exert upward pressure on interest rates to contain inflation risk. We believe sentiment about economic expansion in 2018 remains conservatively optimistic.

*Commercial Real Estate Supply and Demand*

Our business is dependent on the willingness of investors to invest in or sell commercial real estate, which is affected by factors beyond our control. These factors include the supply of commercial real estate coupled with user demand for these properties and the performance of real estate assets when compared with other investment alternatives, such as stocks and bonds. Despite the generally moderate pace of economic growth over the past eight years, we believe commercial real estate offers a compelling option for investors, as real estate fundamentals generally remain balanced. The slow-but-steady economic gains generated demand while keeping construction levels limited for most property types on a national scale, although construction is elevated for some property types in certain metropolitan areas. The prospects of a modest lift in economic growth, spurred by the stimulus of the new tax law, in conjunction with positive demographics should sustain demand levels on a macro basis, keeping vacancy levels tight through the coming year. Rent growth has begun to flatten for several property types, but the overall momentum continues to be positive. The extension of the positive outlook should enable commercial real estate investors to advance their underwriting models with greater confidence, supporting investor demand for the sector.

*Capital Markets*

Credit and liquidity issues in the financial markets have a direct impact on the flow of capital to the commercial real estate market. Real estate purchases are often financed with debt and, as a result, credit and liquidity impact transaction activity and prices. Changes in interest rates, as well as steady and protracted movements of interest rates in one direction, whether increases or decreases, could adversely or positively affect the operations and income potential of commercial real estate properties. These changes also influence the demand of investors for commercial real estate investments. We believe indications from the U.S. Federal Reserve of future interest rate increases, a reduction of the Federal Reserve balance sheet, uncertainty as to the impact of new fiscal policies, stock market volatility and rising longer term interest rates remain a short-term headwind for real estate transactions. In addition, a recent change of the Chairperson of the Federal Reserve could alter Federal Reserve policies and have a meaningful impact on interest rates and investor activity. We have continued to see disciplined underwriting from lenders, who have tightened their underwriting standards modestly, as well as ample liquidity in the market.



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*Investor Sentiment and Investment Activity*

We rely on investors to buy and sell properties in order to generate commissions. Investors' desires to engage in real estate transactions are dependent on many factors that are beyond our control. The economy, supply and demand for properly positioned properties, available credit and market events impact investor sentiment and, therefore, transaction velocity. In addition, our private clients are often motivated to buy, sell and/or refinance properties due to personal circumstances such as death, divorce, partnership breakups and estate planning. We believe that we are in a maturing real estate cycle. During the last two years, the sales transaction market has continued to step-down from peak levels set in 2015. We believe the maturing cycle, combined with volatility in financial markets, inflation trends and rising interest rates have caused investors and lenders to assume more cautious underwriting assumptions resulting in the slowdown in sales. Furthermore, although investor sentiment has risen since the new tax law was enacted, many investors are still grappling with the complex new rules, further delaying transactions. We believe the boost to investor sentiment generated by the new tax law, together with the healthy property fundamentals and lack of over-leveraging during the past several years should likely manifest in rising transaction activity as additional guidance from the IRS emerges and as tax professionals provide investors with more guidance on how the new rules can be applied. We believe that these factors should continue to support long-term commercial real estate investor demand and, therefore, demand for our brokerage and financing services.

***Operating Segments***

We follow the guidance for segment reporting, which requires reporting information on operating segments in interim and annual financial statements. Substantially all of our operations involve the delivery of commercial real estate services to our customers including real estate investment sales, financing and consulting and advisory services. Management makes operating decisions, assesses performance and allocates resources based on an ongoing review of these integrated operations, which constitute only one operating segment for financial reporting purposes.

**Key Financial Measures and Indicators**

***Revenues***

Our revenues are primarily generated from our real estate investment sales business. In addition to real estate brokerage commissions, we generate revenues from financing fees and from other revenues, which are primarily comprised of consulting and advisory fees.

Our business is transaction oriented and, as such, we rely on investment sales and financing professionals to continually develop leads, identify properties to sell, market those properties and close the sale timely to generate a consistent flow of revenue. While our sales volume is impacted by seasonality factors, the timing of closings is also dependent on many market and personal factors unique to a particular client or transaction, particularly clients transacting in the \$1-\$10 million private client market segment. These factors can cause transactions to be accelerated or delayed beyond our control. Further, commission rates earned are generally inversely related to the value of the property sold. As a result of our expansion into the middle and larger transaction market segments, we have seen our overall commission rates fluctuate from period-to-period as a result of changes in the relative mix of the number and volume of transactions closed in the middle and larger transaction market segments as compared to the \$1-\$10 million private client market segment. These factors may result in period-to-period variations in our revenues that differ from historical patterns.

A small percentage of our transactions include retainer fees and/or breakage fees. Retainer fees are credited against a success-based fee upon the closing of a transaction or a breakage fee. Transactions that are terminated before

completion will sometimes generate breakage fees, which are usually calculated as a set amount or a percentage of the fee we would have received had the transaction closed.

*Real estate brokerage commissions*

We earn real estate brokerage commissions by acting as a broker for commercial real estate owners seeking to sell or investors seeking to buy properties. Revenues from real estate brokerage commissions are typically recognized at the close of escrow.

*Financing fees*

We earn financing fees by securing financing on purchase transactions or by securing refinancing of our clients existing mortgage debt. We recognize financing fee revenues at the time the loan closes and we have no remaining significant obligations for performance in connection with the transaction. To a lesser extent, we also earn ancillary fees associated with financing activities.

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### *Other revenues*

Other revenues include fees generated from consulting and advisory services performed by our investment sales professionals, as well as referral fees from other real estate brokers. Revenues from these services are recognized as they are performed and completed.

### ***Operating Expenses***

Our operating expenses consist of cost of services, selling, general and administrative expenses and depreciation and amortization. The significant components of our expenses are further described below.

#### *Cost of services*

The majority of our cost of services expense is variable commissions paid to our investment sales professionals and compensation-related costs related to our financing activities. Commission expenses are directly attributable to providing services to our clients for investment sales and financing services. Most of our investment sales and financing professionals are independent contractors and are paid commissions; however, there are some who are initially paid a salary and certain of our financing professionals are employees and, as such, costs of services also include employee-related compensation, employer taxes and benefits for those employees. The commission rates we pay to our investment sales and financing professionals vary based on individual contracts negotiated and are generally higher for the more experienced professionals. Some of our most senior investment sales and financing professionals also have the ability to earn additional commissions after meeting certain annual revenue thresholds. These additional commissions are recognized as cost of services in the period in which they are earned. Payment of a portion of these additional commissions are generally deferred for a period of three years, at the Company's election, and paid at the beginning of the fourth calendar year. Cost of services also includes referral fees paid to other real estate brokers where the Company is the principal service provider. Cost of services, therefore, can vary based on the commission structure of the independent contractors that closed transactions in any particular period.

#### *Selling, general & administrative expenses*

The largest expense component within selling, general and administrative expenses is personnel expenses for our management team and sales and support staff. In addition, these costs include facilities costs (excluding depreciation and amortization), staff related expenses, sales, marketing, legal, telecommunication, network, data sources and other administrative expenses. Also included in selling, general and administrative are expenses for stock-based compensation to non-employee directors, employees and independent contractors (i.e. investment sales and financing professionals) under the 2013 Omnibus Equity Incentive Plan, as amended ( "2013 Plan" ) and the 2013 Employee Stock Purchase Plan ( "2013 ESPP Plan" ).

#### *Depreciation and amortization expense*

Depreciation and amortization expense consists of depreciation and amortization recorded on our computer software and hardware and furniture, fixture and equipment. Depreciation and amortization are provided over estimated useful lives ranging from three to seven years for owned assets or over the lesser of the asset estimated useful lives or the related lease term for leasehold improvements.

#### *Other Income (Expense), Net*

Other income (expense), net primarily consists of interest income, net gains or losses on our deferred compensation plan assets, realized gains and losses on our marketable securities, available-for-sale, foreign currency gains and losses and other non-operating gains and losses.

*Interest Expense*

Interest expense primarily consists of interest expense associated with the stock appreciation rights ( SARs ) liability, notes payable to former stockholders and our credit agreement.

**Table of Contents***Provision for Income Taxes*

We are subject to U.S. and Canadian federal taxes and individual state and local taxes based on the income generated in the jurisdictions in which we operate. Our effective tax rate fluctuates as a result of the change in the mix of our activities in the jurisdictions we operate due to differing tax rates in those jurisdictions. Our provision for income taxes includes the windfall tax benefits, net from shares issued in connection with our 2013 Plan and 2013 ESPP Plan.

We record deferred taxes, net based on the tax rate expected to be in effect at the time those items are expected to be recognized for tax purposes. On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was enacted, which reduced the U.S. federal statutory tax rate from 35% to 21% beginning in 2018.

**Key Metrics***Transaction Activity by Property Type*

We have a long history and significant expertise in our core property types of multifamily, retail, office and industrial. We have expanded our expertise in the specialty property types by hiring and assigning specialty directors to coordinate our national presence in these property types and expand our market share. The following tables set forth the number and sales volume (dollars in billions) of investment sales, financing and other transactions for the three months ended March 31, 2018 compared to the same periods in 2017 by property type:

|                                  | Three Months Ended March 31, |        |        |        |        |        |
|----------------------------------|------------------------------|--------|--------|--------|--------|--------|
|                                  | 2018                         |        | 2017   |        | Change |        |
|                                  | Number                       | Volume | Number | Volume | Number | Volume |
| <i>Core Property Types:</i>      |                              |        |        |        |        |        |
| Multifamily                      | 770                          | \$ 5.2 | 759    | \$ 4.0 | 11     | \$ 1.2 |
| Retail                           | 814                          | 2.4    | 803    | 2.5    | 11     | (0.1)  |
| Office                           | 139                          | 0.6    | 172    | 0.6    | (33)   |        |
| Industrial                       | 68                           | 0.4    | 78     | 0.3    | (10)   | 0.1    |
| Total Core Property Types        | 1,791                        | \$ 8.6 | 1,812  | \$ 7.4 | (21)   | \$ 1.2 |
| <i>Specialty Property Types:</i> |                              |        |        |        |        |        |
| Hospitality                      | 66                           | \$ 0.4 | 41     | \$ 0.2 | 25     | \$ 0.2 |
| Land                             | 75                           | 0.2    | 83     | 0.2    | (8)    |        |
| Self-Storage                     | 50                           | 0.2    | 44     | 0.2    | 6      |        |
| Seniors Housing                  | 22                           | 0.1    | 16     | 0.2    | 6      | (0.1)  |
| Manufactured Housing             | 18                           | 0.1    | 18     | 0.1    |        |        |
| Mixed - Use / Other              | 63                           | 0.2    | 53     | 0.2    | 10     |        |
| Total Specialty Property Types   | 294                          | \$ 1.2 | 255    | \$ 1.1 | 39     | \$ 0.1 |
|                                  | 2,085                        | \$ 9.8 | 2,067  | \$ 8.5 | 18     | \$ 1.3 |



**Table of Contents*****Operating Metrics***

We regularly review a number of key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. During each of the three months ended March 31, 2018 and 2017, we closed nearly 2,100 investment sales, financing and other transactions with total volume of approximately \$9.8 billion and \$8.5 billion, respectively. Such key metrics for real estate brokerage and financing activities are as follows:

|                                                                  | Three Months Ended<br>March 31, |           |
|------------------------------------------------------------------|---------------------------------|-----------|
|                                                                  | 2018                            | 2017      |
| <i>Real Estate Brokerage</i>                                     |                                 |           |
| Average Number of Investment Sales Professionals                 | 1,670                           | 1,629     |
| Average Number of Transactions per Investment Sales Professional | 0.95                            | 0.91      |
| Average Commission per Transaction                               | \$ 102,539                      | \$ 94,115 |
| Average Commission Rate                                          | 2.05%                           | 2.16%     |
| Average Transaction Size (in thousands)                          | \$ 4,994                        | \$ 4,359  |
| Total Number of Transactions                                     | 1,585                           | 1,489     |
| Total Sales Volume (in millions)                                 | \$ 7,915                        | \$ 6,490  |

|                                                           | Three Months Ended<br>March 31, |           |
|-----------------------------------------------------------|---------------------------------|-----------|
|                                                           | 2018                            | 2017      |
| <i>Financing</i> <sup>(1)</sup>                           |                                 |           |
| Average Number of Financing Professionals                 | 91                              | 100       |
| Average Number of Transactions per Financing Professional | 3.56                            | 3.91      |
| Average Fee per Transaction                               | \$ 29,040                       | \$ 25,714 |
| Average Fee Rate                                          | 0.93%                           | 0.86%     |
| Average Transaction Size (in thousands)                   | \$ 3,111                        | \$ 2,990  |
| Total Number of Transactions                              | 324                             | 391       |
| Total Sales Volume (in millions)                          | \$ 1,008                        | \$ 1,169  |

<sup>(1)</sup> Operating metrics calculated excluding certain financing fees not directly associated to transactions.

**Results of Operations**

Following is a discussion of our results of operations for the three months ended March 31, 2018 and 2017. The tables included in the period comparisons below provide summaries of our results of operations. The period-to-period comparisons of financial results are not necessarily indicative of future results.

**Table of Contents****Comparison of Three Months Ended March 31, 2018 and 2017**

Below are key operating results for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 (dollar and share amounts in thousands, except per share amounts):

|                                                    | Three<br>Months<br>Ended<br>March 31,<br>2018 | Percentage<br>of<br>Revenue | Three<br>Months<br>Ended<br>March 31,<br>2017 | Percentage<br>of<br>Revenue | Change          |               |
|----------------------------------------------------|-----------------------------------------------|-----------------------------|-----------------------------------------------|-----------------------------|-----------------|---------------|
|                                                    |                                               |                             |                                               |                             | Dollar          | Percentage    |
| <b>Revenues:</b>                                   |                                               |                             |                                               |                             |                 |               |
| Real estate brokerage commissions                  | \$ 162,525                                    | 93.1%                       | \$ 140,137                                    | 91.5%                       | \$ 22,388       | 16.0%         |
| Financing fees                                     | 9,724                                         | 5.6                         | 10,054                                        | 6.6                         | (330)           | (3.3)         |
| Other revenues                                     | 2,292                                         | 1.3                         | 3,021                                         | 1.9                         | (729)           | (24.1)        |
| <b>Total revenues</b>                              | <b>174,541</b>                                | <b>100.0</b>                | <b>153,212</b>                                | <b>100.0</b>                | <b>21,329</b>   | <b>13.9</b>   |
| <b>Operating expenses:</b>                         |                                               |                             |                                               |                             |                 |               |
| Cost of services                                   | 101,649                                       | 58.2                        | 89,647                                        | 58.5                        | 12,002          | 13.4          |
| Selling, general, and administrative expense       | 48,053                                        | 27.6                        | 43,220                                        | 28.2                        | 4,833           | 11.2          |
| Depreciation and amortization expense              | 1,375                                         | 0.8                         | 1,297                                         | 0.9                         | 78              | 6.0           |
| <b>Total operating expenses</b>                    | <b>151,077</b>                                | <b>86.6</b>                 | <b>134,164</b>                                | <b>87.6</b>                 | <b>16,913</b>   | <b>12.6</b>   |
| <b>Operating income</b>                            | <b>23,464</b>                                 | <b>13.4</b>                 | <b>19,048</b>                                 | <b>12.4</b>                 | <b>4,416</b>    | <b>23.2</b>   |
| Other income (expense), net                        | 1,209                                         | 0.7                         | 836                                           | 0.5                         | 373             | 44.6          |
| Interest expense                                   | (360)                                         | (0.2)                       | (382)                                         | (0.2)                       | 22              | (5.8)         |
| <b>Income before provision for income taxes</b>    | <b>24,313</b>                                 | <b>13.9</b>                 | <b>19,502</b>                                 | <b>12.7</b>                 | <b>4,811</b>    | <b>24.7</b>   |
| <b>Provision for income taxes</b>                  | <b>6,302</b>                                  | <b>3.6</b>                  | <b>7,502</b>                                  | <b>4.9</b>                  | <b>(1,200)</b>  | <b>(16.0)</b> |
| <b>Net income</b>                                  | <b>\$ 18,011</b>                              | <b>10.3%</b>                | <b>\$ 12,000</b>                              | <b>7.8%</b>                 | <b>\$ 6,011</b> | <b>50.1%</b>  |
| <b>Adjusted EBITDA <sup>(1)</sup></b>              | <b>\$ 27,433</b>                              | <b>15.7%</b>                | <b>\$ 22,422</b>                              | <b>14.6%</b>                | <b>\$ 5,011</b> | <b>22.3%</b>  |
| <b>Earnings per share:</b>                         |                                               |                             |                                               |                             |                 |               |
| Basic                                              | \$ 0.46                                       |                             | \$ 0.31                                       |                             |                 |               |
| Diluted                                            | \$ 0.46                                       |                             | \$ 0.31                                       |                             |                 |               |
| <b>Weighted average common shares outstanding:</b> |                                               |                             |                                               |                             |                 |               |
| Basic                                              | 39,095                                        |                             | 38,948                                        |                             |                 |               |
| Diluted                                            | 39,250                                        |                             | 39,108                                        |                             |                 |               |

- (1) Adjusted EBITDA is not a measurement of our financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other measures derived in accordance with U.S. GAAP. For a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, see Non-GAAP Financial Measure.

*Revenues*

Our total revenues were \$174.5 million for the three months ended March 31, 2018 compared to \$153.2 million for the same period in 2017, an increase of \$21.3 million, or 13.9%. Total revenues increased primarily as a result of an increase in real estate brokerage commissions, partially offset by decreases in financing fees and other revenues.

*Real estate brokerage commissions.* Revenues from real estate brokerage commissions increased to \$162.5 million for the three months ended March 31, 2018 from \$140.1 million for the same period in 2017, an increase of \$22.4 million, or 16.0%. The increase was primarily driven by the increase in sales volume (22.0%) and number of investment sales transactions (6.4%). These increases were partially offset by a decrease in average commission rates (11 basis points) due to a larger proportion of our transactions that closed in the  $\geq$ \$20 million larger transaction market segment, which generate lower commission rates.

*Financing fees.* Revenues from financing fees decreased to \$9.7 million for the three months ended March 31, 2018 from \$10.1 million for the same period in 2017, a decrease of \$0.3 million, or 3.3%. The decrease was primarily driven by a decrease in sales volume (13.8%) due to an outsized growth in refinancing transactions during the three months ended March 31, 2017 with no such similar growth during the three months ended March 31, 2018. This decrease was partially offset by an increase in average fee rates (7 basis points) due to overall improved rates across all loan types.

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*Other revenues.* Other revenues decreased to \$2.3 million for the three months ended March 31, 2018 from \$3.0 million for the same period in 2017, a decrease of \$0.7 million, or 24.1%. The decrease was primarily driven by decreases in consulting and advisory services during the three months ended March 31, 2018 compared to the same period in 2017.

*Total operating expenses*

Our total operating expenses were \$151.1 million for the three months ended March 31, 2018 compared to \$134.2 million for the same period in 2017, an increase of \$16.9 million, or 12.6%. The increase was primarily due to increases in cost of services, which are variable commissions paid to the Company's investment sales professionals and compensation related costs in connection with our financing activities, selling, general and administrative costs and to a lesser extent depreciation and amortization, as described below.

*Cost of services.* Cost of services increased to \$101.6 million for the three months ended March 31, 2018 from \$89.6 million for the same period in 2017, an increase of \$12.0 million, or 13.4%. The increase was primarily due to increased commission expenses driven by the related increased revenues noted above. Cost of services as a percent of total revenues decreased to 58.2% compared to 58.5% for the same period in 2017 primarily due to a decrease in the proportion of transactions closed by our more senior investment sales professionals who are compensated generally at higher commission rates. Traditionally, cost of services as a percent of total revenues is lower during the three-month periods ended March 31 as certain investment professionals may earn additional commissions later in the year after meeting annual revenue thresholds.

*Selling, general and administrative expense.* Selling, general and administrative expense increased to \$48.1 million for the three months ended March 31, 2018 from \$43.2 million for the same period in 2017, an increase of \$4.8 million, or 11.2%. Increases in our selling, general and administrative expense have been driven by our growth plans and investments in technology, sales and marketing tools and marketing and expansion of our services supporting our investment sales and financing professionals. These initiatives have primarily driven (i) a \$1.8 million increase in sales operations support and promotional marketing expenses to support sales activity, (ii) a \$1.7 million increase in compensation related costs, including salaries and related benefits and management performance compensation primarily due to changes in bonus accruals and (iii) a \$0.6 million increase in facilities expenses due to expansion of existing offices. In addition, selling, general and administrative expense increased due to a \$0.7 million increase in stock-based compensation driven by fluctuations in our stock price and incremental stock-based awards since the first quarter of 2017.

*Depreciation and amortization expense.* Depreciation and amortization expense increased to \$1.4 million for the three months ended March 31, 2018 from \$1.3 million for the same period in 2017, an increase of \$0.1 million, or 6.0%.

*Other income (expense), net*

Other income (expense), net increased to \$1.2 million for the three months ended March 31, 2018 from \$0.8 million for the same period in 2017. The increase was primarily driven by an increase in interest income on our investments in marketable securities, available-for-sale, partially offset by a decrease in the value of our deferred compensation plan assets held in the rabbi trust.

*Interest expense*

There were no significant changes in interest expense for the three months ended March 31, 2018 compared to the same period in 2017.

*Provision for income taxes*

The provision for income taxes was \$6.3 million for the three months ended March 31, 2018 compared to \$7.5 million in the same period in 2017, a decrease of \$1.2 million, or 16.0%. The effective income tax rate for the three months ended March 31, 2018 was 25.9% compared to 38.5% for the same period in 2017. The decrease in the effective tax rate was primarily due to the decrease in the federal statutory rate from 35% to 21%. Permanent items and other increased in 2018 compared to the prior year period due to changes in tax laws under the Act, primarily relating to additional limitations for deductions under IRC 162(m) and deduction disallowance for entertainment expenses.

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We calculate our provision for income taxes using an annual effective tax rate based on projected taxable income for the year adjusted for the effects of permanent and discrete items. Deferred taxes are adjusted for significant changes in temporary items in the period in which they occur. The future effective tax rate may vary from this estimated annual effective rate due to several factors, including but not limited to, the level of state and foreign jurisdiction activity, future changes in tax laws, the amount of future book versus income tax items that are permanent in nature and changes, if any, in a valuation allowance related to deferred tax assets.

The provisions for income taxes includes the difference in book and tax deductions associated with the settlement of shares under the Company's 2013 Plan and certain disqualifying dispositions of shares issued under our 2013 ESPP Plan.

**Non-GAAP Financial Measure**

In this quarterly report on Form 10-Q, we include a non-GAAP financial measure, adjusted earnings before interest income/expense, taxes, depreciation and amortization and stock-based compensation, or Adjusted EBITDA. We define Adjusted EBITDA as net income before (i) interest income and other, including net realized gains (losses) on marketable securities, available-for-sale and cash and cash equivalents, (ii) interest expense, (iii) provision for income taxes, (iv) depreciation and amortization and (v) stock-based compensation expense. We use Adjusted EBITDA in our business operations to evaluate the performance of our business, develop budgets and measure our performance against those budgets, among other things. We also believe that analysts and investors use Adjusted EBITDA as a supplemental measure to evaluate our overall operating performance. However, Adjusted EBITDA has material limitations as an analytical tool and should not be considered in isolation, or as a substitute for analysis of our results as reported under U.S. generally accepted accounting principles ( U.S. GAAP ). We find Adjusted EBITDA as a useful tool to assist in evaluating performance because Adjusted EBITDA eliminates items related to capital structure, taxes and non-cash stock-based compensation charges. In light of the foregoing limitations, we do not rely solely on Adjusted EBITDA as a performance measure and also consider our U.S. GAAP results. Adjusted EBITDA is not a measurement of our financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other measures calculated in accordance with U.S. GAAP. Because Adjusted EBITDA is not calculated in the same manner by all companies, it may not be comparable to other similarly titled measures used by other companies.

A reconciliation of the most directly comparable U.S. GAAP financial measure, net income, to Adjusted EBITDA is as follows (in thousands):

|                                           | Three Months Ended<br>March 31, |           |
|-------------------------------------------|---------------------------------|-----------|
|                                           | 2018                            | 2017      |
| Net income                                | \$ 18,011                       | \$ 12,000 |
| Adjustments:                              |                                 |           |
| Interest income and other <sup>(1)</sup>  | (1,228)                         | (625)     |
| Interest expense                          | 360                             | 382       |
| Provision for income taxes <sup>(2)</sup> | 6,302                           | 7,502     |
| Depreciation and amortization             | 1,375                           | 1,297     |
| Stock-based compensation                  | 2,613                           | 1,866     |
| Adjusted EBITDA <sup>(3)</sup>            | \$ 27,433                       | \$ 22,422 |

- (1) Other for the three months ended March 31, 2018 and 2017 includes net realized gains (losses) on marketable securities, available-for-sale and cash and cash equivalents.
- (2) Provision for income taxes for the three months ended March 31, 2018 was calculated using a revised 21% U.S. federal corporate tax rate due to the enactment of the Act, which reduced the U.S. federal corporate tax rate from 35% to 21%.
- (3) The increase in Adjusted EBITDA for the three months ended March 31, 2018 compared to the same period in the prior year is primarily due to higher total revenues and a lower proportion of operating expenses compared to revenues.

**Table of Contents****Liquidity and Capital Resources**

Our primary sources of liquidity are cash and cash equivalents, cash flows from operations, marketable securities, available-for-sale and, if necessary, borrowings under our credit agreement. In order to enhance yield to us, we have invested a portion of our cash in money market funds and in fixed and variable income debt securities, in accordance with our investment policy approved by the board of directors. Certain of our investments in money market funds may not maintain a stable net asset value and may impose fees on redemptions and/or gate fees. Although we have historically funded our operations through operating cash flows, there can be no assurance that we can continue to meet our cash requirements entirely through our operations, cash and cash equivalents, proceeds from the sale of marketable securities, available-for-sale or availability under our credit agreement.

Cash held in our Canadian operations aggregated \$296,000 and \$421,000 at March 31, 2018 and December 31, 2017, respectively.

***Cash Flows***

Our total cash and cash equivalents balance decreased by \$21.4 million to \$199.4 million at March 31, 2018 compared to \$220.8 million at December 31, 2017. The following table sets forth our summary cash flows for the three months ended March 31, 2018 and 2017 (in thousands):

|                                                  | Three Months Ended<br>March 31, |             |
|--------------------------------------------------|---------------------------------|-------------|
|                                                  | 2018                            | 2017        |
| Net cash used in operating activities            | \$ (12,989)                     | \$ (37,086) |
| Net cash used in investing activities            | (6,777)                         | (19,892)    |
| Net cash used in financing activities            | (1,650)                         | (1,361)     |
| Net decrease in cash and cash equivalents        | (21,416)                        | (58,339)    |
| Cash and cash equivalents at beginning of period | \$ 220,786                      | \$ 187,371  |
| Cash and cash equivalents at end of period       | \$ 199,370                      | \$ 129,032  |

***Operating Activities***

Cash flows used in operating activities were \$13.0 million for the three months ended March 31, 2018 compared to \$37.1 million for the same period in 2017. Net cash used in operating activities is driven by our net income adjusted for non-cash items and changes in operating assets and liabilities. The \$24.1 million improvement in operating cash flows for the three months ended March 31, 2018 compared to the same period in 2017 was primarily due to differences in timing of payments and receipts, a decrease in advances to our investment sales and financing professionals, a change in bonus accruals and a lower proportion of operating expenses compared to revenues. These improvements in operating cash flows were partially offset by a decrease in the deferral of certain discretionary and other commissions. We traditionally experience net cash used in operating activities during the three-month periods ended March 31 since bonuses and certain deferred commissions related to the prior year(s) are typically paid during the first quarter of the new year.

***Investing Activities***

Cash flows used in investing activities were \$6.8 million for the three months ended March 31, 2018 compared to \$19.9 million for the same period in 2017. The improvement in investing cash flows for the three months ended March 31, 2018 compared to the same period in 2017 was primarily due to \$5.3 million in net purchases of marketable securities, available-for-sale for the three months ended March 31, 2018 compared to \$18.3 million in net purchases of marketable securities, available-for sale for the same period in 2017.

*Financing Activities*

Cash flows used in financing activities were \$1.7 million for the three months ended March 31, 2018 compared to \$1.4 million for the same period in 2017. The change in cash flows used in financing activities for the three months ended March 31, 2018 compared to the same period in 2017 was impacted by taxes paid related to net share settlement of stock-based awards. See Note 10 **Stock-Based Compensation Plans** of our Notes to Condensed Consolidated Financial Statements for additional information.

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### *Liquidity*

We believe that our existing balances of cash and cash equivalents, cash flows expected to be generated from our operations, proceeds from the sale of marketable securities, available-for-sale and borrowings available under the credit agreement will be sufficient to satisfy our operating requirements for at least the next twelve months. If we need to raise additional capital through public or private debt or equity financings, strategic relationships or other arrangements, this capital might not be available to us in a timely manner, on acceptable terms, or at all. Our failure to raise sufficient capital when needed could prevent us from, among other factors, to fund acquisitions or to otherwise finance our growth or operations. In addition, our notes payable to former stockholders and SARs liability have provisions, which could accelerate repayment of outstanding principal and accrued interest and adversely impact our liquidity.

### **Contractual Obligations and Commitments**

There have been no material changes in our commitments under contractual obligations, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

### **Off Balance Sheet Arrangements**

We do not have any off balance sheet arrangements.

### **Inflation**

Our commissions and other variable costs related to revenue are primarily affected by real estate market supply and demand, which may be affected by general economic conditions including inflation. However, to date, we do not believe that general inflation has had a material impact upon our operations.

### **Critical Accounting Policies; Use of Estimates**

We prepare our financial statements in accordance with U.S. GAAP. In applying many of these accounting principles, we make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our condensed consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective and our actual results may change based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. There were no material changes in our critical accounting policies, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017 except for the following:

#### ***Revenue Recognition***

The Company generates real estate brokerage commissions by acting as a broker for real estate owners or investors seeking to buy or sell commercial properties. The Company generates financing fees from securing financing on purchase transactions as well as fees earned from refinancing its clients' existing mortgage debt and other financing activities. Other revenues include fees generated from consulting and advisory services, as well as referral fees from other real estate brokers. The Company's contracts contain one performance obligation related to its real estate brokerage, financing and consulting and advisory services offered to buyers and sellers of commercial real estate and provide that it is operating as a principal in all its revenue generating activities. The Company does not have

multiple-element arrangements, variable consideration, financing components, significant noncash consideration, licenses, long-term contracts with customers or other items affecting the transaction price. Accordingly, the Company determined that the transaction price is generally fixed and determinable and collectability is reasonably assured. The Company recognizes revenue in principally all cases at the close of escrow for real estate brokerage, close of loan for financing and when services are provided upon closing of the transaction for other revenues.

### **Recent Accounting Pronouncements**

For information regarding recent accounting pronouncements, see Note 2 Accounting Policies and Recent Accounting Pronouncements of our Notes to Condensed Consolidated Financial Statements.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We maintain a portfolio of investments in a variety of fixed and variable debt rate securities, including U.S. government and federal agency securities, corporate debt securities, asset backed securities and other. As of March 31, 2018, the fair value of investments in marketable securities, available-for-sale was \$130.4 million. The primary objective of our investment activity is to maintain the safety of principal, provide for future liquidity requirements while maximizing yields without significantly increasing risk. While some investments may be securities of companies in foreign countries, all investments are denominated and payable in U.S. Dollars. We do not enter into investments for trading or speculative purposes. While our intent is not to sell these investment securities prior to their stated maturities, we may choose to sell any of the securities for strategic reasons including, but not limited to, anticipated capital requirements, anticipation of credit deterioration, duration management and when a security no longer meets the criteria of the Company's investment policy. We do not use derivatives or similar instruments to manage our interest rate risk. We seek to invest in high quality investments. The weighted average rating (exclusive of cash and cash equivalents) was AA as of March 31, 2018. Maturities are maintained consistent with our short-, medium- and long-term liquidity objectives.

Currently, our portfolio of investments predominantly consists of fixed interest rate debt securities; however, a portion of our investment portfolio may consist of variable interest rate debt securities. Our investments in fixed interest rate debt securities are subject to market risk. Changes in prevailing interest rates may adversely impact their fair market value should interest rates generally rise or fall. Accordingly, we also may have interest rate risk with the variable rate debt securities as the income produced may decrease if interest rates fall. The following table sets forth the impact on the fair value of our investments from changes in interest rates based on the duration of the securities (dollars in thousands):

| Change in Interest Rates | Approximate Change in<br>Fair Value of Investments<br>Increase (Decrease) |
|--------------------------|---------------------------------------------------------------------------|
| 2% Decrease              | \$ 3,928                                                                  |
| 1% Decrease              | \$ 1,972                                                                  |
| 1% Increase              | \$ (1,972)                                                                |
| 2% Increase              | \$ (3,942)                                                                |

Due to the nature of our business and the manner in which we conduct our operations, we believe we do not face any material interest rate risk with respect to other assets and liabilities, equity price risk or other market risks. The functional currency of our Canadian operations is the Canadian dollar. We are exposed to foreign currency exchange rate risk for the settlement of transactions of the Canadian operations as well as unrealized translation adjustments. To date, realized foreign currency exchange rate gains and losses have not been material.

**Item 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

As of March 31, 2018, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2018, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed by us in the reports that we file or submit under the Exchange Act is

recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such material information is accumulated by and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are involved in claims and legal actions arising in the ordinary course of our business, some of which involve claims for damages that are substantial in amount. Most of these litigation matters are covered by insurance which contain deductibles, exclusions, claim limits and aggregate policy limits. Such litigation and other proceedings may include, but are not limited to, actions relating to commercial relationships, standard brokerage disputes like the alleged failure to disclose physical or environmental defects or property expenses or contracts, the alleged inadequate disclosure of matters relating to the transaction like the relationships among the parties to the transaction, potential claims or losses pertaining to the asset, vicarious liability based upon conduct of individuals or entities outside of our control, general fraud claims, conflicts of interest claims, employment law claims, including claims challenging the classification of our sales professionals as independent contractors, claims alleging violations of state consumer fraud statutes and intellectual property. While the ultimate liability for these legal proceeding cannot be determined, we review the need for our accrual for loss contingencies quarterly and records an accrual for litigation related losses where the likelihood of loss is both probable and estimable. We do not believe, based on information currently available to us, that the final outcome of these proceedings will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

For information on our legal proceedings, see Note 13      Commitments and Contingencies      of our Notes to Condensed Consolidated Financial Statements.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

None.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

| Exhibit  |                                                                                                                                                                                                                                 |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| No.      | Description                                                                                                                                                                                                                     |
| 31.1*    | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>                                                         |
| 31.2*    | <u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>                                                         |
| 32.1**   | <u>Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 101.INS* | XBRL Instance Document                                                                                                                                                                                                          |
| 101.SCH* | XBRL Taxonomy Extension Schema Document                                                                                                                                                                                         |
| 101.CAL* | XBRL Taxonomy Calculation Linkbase Document                                                                                                                                                                                     |
| 101.DEF* | XBRL Taxonomy Extension Definition Document                                                                                                                                                                                     |
| 101.LAB* | XBRL Taxonomy Label Linkbase Document                                                                                                                                                                                           |
| 101.PRE* | XBRL Taxonomy Presentation Linkbase Document                                                                                                                                                                                    |

\* Filed herewith.

\*\* Furnished, not filed.

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**SIGNATURES**

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.

**Marcus & Millichap, Inc.**

Date: May 10, 2018

By: /s/ Hessam Nadji  
Hessam Nadji

President and Chief Executive Officer

(Principal Executive Officer)

Date: May 10, 2018

By: /s/ Martin E. Louie  
Martin E. Louie

Chief Financial Officer

(Principal Financial Officer)