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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2016

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

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**MARCUS & MILLICHAP, INC.**

(Exact name of registrant as specified in its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**23975 Park Sorrento, Suite 400**  
**Calabasas, California**  
(Address of Principal Executive Offices)

**35-2478370**  
(I.R.S. Employer  
Identification No.)

**91302**  
(Zip Code)

**(818) 212-2250**  
(Registrant's telephone number, including area code)

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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, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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 November 2, 2016 was 37,616,243 shares.

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**MARCUS & MILLICHAP, INC.**  
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARCUS & MILLICHAP, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (dollar amounts in thousands, except per share amounts)

|   | September 30,<br>2016<br>(Unaudited) | December 31,<br>2015 |
|---|--------------------------------------|----------------------|
| <b>Assets</b>   |                                      |                      |
| Current assets:   |                                      |                      |
| Cash and cash equivalents   | \$ 121,953                           | \$ 96,185            |
| Commissions receivable  | 4,501                                | 3,342                |
| Prepaid expenses  | 6,987                                | 7,542                |
| Income tax receivable   | —                                    | 4,049                |
| Marketable securities, available-for-sale   | 48,377                               | 79,860               |
| Other assets, net   | <u>3,826</u>                         | <u>5,136</u>         |
| Total current assets  | 185,644                              | 196,114              |
| Prepaid rent  | 12,628                               | 9,075                |
| Property and equipment, net   | 15,585                               | 11,579               |
| Marketable securities, available-for-sale   | 94,279                               | 54,395               |
| Assets held in rabbi trust  | 7,309                                | 5,661                |
| Deferred tax assets, net  | 35,495                               | 35,285               |
| Other assets  | <u>9,056</u>                         | <u>9,116</u>         |
| Total assets  | <u>\$ 359,996</u>                    | <u>\$ 321,225</u>    |
| <b>Liabilities and stockholders' equity</b>   |                                      |                      |
| Current liabilities:  |                                      |                      |
| Accounts payable and accrued expenses   | \$ 9,865                             | \$ 9,135             |
| Notes payable to former stockholders  | 986                                  | 939                  |
| Deferred compensation and commissions   | 29,644                               | 34,091               |
| Income tax payable  | 4,181                                | —                    |
| Accrued bonuses and other employee related expenses   | <u>20,152</u>                        | <u>30,846</u>        |
| Total current liabilities   | 64,828                               | 75,011               |
| Deferred compensation and commissions   | 40,278                               | 43,678               |
| Notes payable to former stockholders  | 8,686                                | 9,671                |
| Deferred rent and other liabilities   | <u>4,291</u>                         | <u>3,875</u>         |
| Total liabilities   | <u>118,083</u>                       | <u>132,235</u>       |
| Commitments and contingencies   |                                      |                      |
| Stockholders' equity:   |                                      |                      |
| Preferred stock, \$0.0001 par value:  |                                      |                      |
| Authorized shares – 25,000,000; issued and outstanding shares – none at September 30, 2016, and December 31, 2015, respectively                       | —                                    | —                    |
| Common stock, \$0.0001 par value:   |                                      |                      |
| Authorized shares – 150,000,000; issued and outstanding shares – 37,616,243 and 37,396,456 at September 30, 2016, and December 31, 2015, respectively | 4                                    | 4                    |
| Additional paid-in capital  | 84,949                               | 80,591               |
| Stock notes receivable from employees   | (4)                                  | (4)                  |
| Retained earnings   | 155,425                              | 107,942              |
| Accumulated other comprehensive income  | <u>1,539</u>                         | <u>457</u>           |
| Total stockholders' equity  | <u>241,913</u>                       | <u>188,990</u>       |
| Total liabilities and stockholders' equity  | <u>\$ 359,996</u>                    | <u>\$ 321,225</u>    |

See accompanying notes to condensed consolidated financial statements.

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

|  | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                  |
|--|-------------------------------------|------------------|------------------------------------|------------------|
|  | 2016                                | 2015             | 2016                               | 2015             |
| <b>Revenues:</b>   |                                     |                  |                                    |                  |
| Real estate brokerage commissions  | \$165,695                           | \$151,942        | \$489,477                          | \$446,356        |
| Financing fees   | 11,320                              | 10,865           | 30,779                             | 30,046           |
| Other revenues   | 3,619                               | 3,069            | 8,037                              | 9,497            |
| Total revenues   | <u>180,634</u>                      | <u>165,876</u>   | <u>528,293</u>                     | <u>485,899</u>   |
| <b>Operating expenses:</b>   |                                     |                  |                                    |                  |
| Cost of services   | 113,852                             | 102,010          | 323,131                            | 293,725          |
| Selling, general, and administrative expense   | 40,728                              | 35,646           | 123,403                            | 109,064          |
| Depreciation and amortization expense  | 1,149                               | 802              | 3,164                              | 2,389            |
| Total operating expenses   | <u>155,729</u>                      | <u>138,458</u>   | <u>449,698</u>                     | <u>405,178</u>   |
| Operating income   | 24,905                              | 27,418           | 78,595                             | 80,721           |
| Other income (expense), net  | 719                                 | (464)            | 1,567                              | 23               |
| Interest expense   | (380)                               | (380)            | (1,155)                            | (1,349)          |
| Income before provision for income taxes   | 25,244                              | 26,574           | 79,007                             | 79,395           |
| Provision for income taxes   | 10,100                              | 11,398           | 31,524                             | 32,994           |
| Net income   | <u>15,144</u>                       | <u>15,176</u>    | <u>47,483</u>                      | <u>46,401</u>    |
| <b>Other comprehensive (loss) income:</b>  |                                     |                  |                                    |                  |
| Unrealized (loss) gain on marketable securities, net of tax of \$(37), \$47, \$684 and \$(159) for the three months ended September 30, 2016, and 2015 and the nine months ended September 30, 2016 and 2015, respectively | (56)                                | 56               | 1,050                              | (249)            |
| Foreign currency translation (loss) gain, net of tax of \$0, \$140, \$0 and \$226 for the three months ended September 30, 2016, and 2015 and the nine months ended September 30, 2016 and 2015, respectively              | (3)                                 | 234              | 32                                 | 361              |
| Total other comprehensive (loss) income  | <u>(59)</u>                         | <u>290</u>       | <u>1,082</u>                       | <u>112</u>       |
| Comprehensive income   | <u>\$ 15,085</u>                    | <u>\$ 15,466</u> | <u>\$ 48,565</u>                   | <u>\$ 46,513</u> |
| Earnings per share:  |                                     |                  |                                    |                  |
| Basic  | \$ 0.39                             | \$ 0.39          | \$ 1.22                            | \$ 1.19          |
| Diluted  | \$ 0.39                             | \$ 0.39          | \$ 1.22                            | \$ 1.19          |
| Weighted average common shares outstanding:  |                                     |                  |                                    |                  |
| Basic  | 38,939                              | 38,890           | 38,916                             | 38,868           |
| Diluted  | 39,122                              | 39,160           | 39,034                             | 39,051           |

See accompanying notes to condensed consolidated financial statements.

**MARCUS & MILLICHAP, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(dollar amounts in thousands)  
(Unaudited)

|   | <u>Preferred Stock</u> |               | <u>Common Stock</u> |               | <u>Additional<br/>Paid-In<br/>Capital</u> | <u>Stock Notes<br/>Receivable<br/>From<br/>Employees</u> | <u>Retained<br/>Earnings</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income</u> | <u>Total</u>     |
|---|------------------------|---------------|---------------------|---------------|---|--|------------------------------|---|------------------|
|   | <u>Shares</u>          | <u>Amount</u> | <u>Shares</u>       | <u>Amount</u> |   |  |                              |   |                  |
| Balance as of December 31, 2015                                       | —                      | \$ —          | 37,396,456          | \$ 4          | \$ 80,591                                 | \$ (4)   | \$107,942                    | \$ 457  | \$188,990        |
| Net and comprehensive income  | —                      | —             | —                   | —             | —   | —  | 47,483                       | 1,082   | 48,565           |
| <i>Stock-based award activity</i>                                     |                        |               |                     |               |   |  |                              |   |                  |
| Stock-based compensation  | —                      | —             | —                   | —             | 4,933                                     | —  | —                            | —   | 4,933            |
| Shares issued pursuant to employee stock purchase plan                | —                      | —             | 17,940              | —             | 402                                       | —  | —                            | —   | 402              |
| Issuance of common stock for unvested restricted stock awards         | —                      | —             | 14,742              | —             | —   | —  | —                            | —   | —                |
| Issuance of common stock for vesting of restricted stock units        | —                      | —             | 228,398             | —             | —   | —  | —                            | —   | —                |
| Shares withheld related to net share settlement of stock-based awards | —                      | —             | (41,293)            | —             | (1,134)                                   | —  | —                            | —   | (1,134)          |
| Windfall tax benefit from stock-based award activity                  | —                      | —             | —                   | —             | 157                                       | —  | —                            | —   | 157              |
| Balance as of September 30, 2016                                      | <u>—</u>               | <u>\$ —</u>   | <u>37,616,243</u>   | <u>\$ 4</u>   | <u>\$ 84,949</u>                          | <u>\$ (4)</u>  | <u>\$155,425</u>             | <u>\$ 1,539</u>   | <u>\$241,913</u> |

See accompanying notes to condensed consolidated financial statements.

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

|   | Nine Months Ended<br>September 30, |                  |
|---|------------------------------------|------------------|
|   | 2016                               | 2015             |
| <b>Cash flows from operating activities</b>                                       |                                    |                  |
| Net income  | \$ 47,483                          | \$ 46,401        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |                  |
| Depreciation and amortization expense   | 3,164                              | 2,389            |
| Provision for bad debt expense  | 15                                 | 127              |
| Stock-based compensation  | 4,933                              | 6,750            |
| Deferred taxes, net   | (894)                              | (3,160)          |
| Net realized losses (gains) on marketable securities, available-for-sale          | 119                                | (130)            |
| Tax benefit from stock-based award activity                                       | 157                                | 4,844            |
| Excess tax benefit from stock-based award activity                                | (157)                              | (4,844)          |
| Other non-cash items  | 359                                | 295              |
| Changes in operating assets and liabilities:                                      |                                    |                  |
| Commissions receivable  | (1,159)                            | (470)            |
| Prepaid expenses  | 555                                | 1,144            |
| Prepaid rent  | (3,553)                            | (4,538)          |
| Contributions to rabbi trust  | (1,263)                            | (1,448)          |
| Other assets  | 1,544                              | (3,993)          |
| Accounts payable and accrued expenses   | 309                                | (2,650)          |
| Income tax receivable/payable   | 8,230                              | 4,939            |
| Accrued bonuses and other employee related expenses                               | (10,495)                           | (4,885)          |
| Deferred compensation and commissions   | (8,245)                            | (3,191)          |
| Deferred rent obligation and other liabilities                                    | 416                                | 1,002            |
| Net cash provided by operating activities   | 41,518                             | 38,582           |
| <b>Cash flows from investing activities</b>                                       |                                    |                  |
| Purchases of marketable securities, available-for-sale                            | (97,311)                           | (130,500)        |
| Proceeds from sales and maturities of marketable securities, available-for-sale   | 90,476                             | 10,608           |
| Payments received on employee notes receivable                                    | 3                                  | 15               |
| Issuances of employee notes receivable  | (381)                              | (175)            |
| Purchase of property and equipment  | (7,049)                            | (3,753)          |
| Proceeds from sale of property and equipment                                      | 25                                 | —                |
| Net cash used in investing activities   | (14,237)                           | (123,805)        |
| <b>Cash flows from financing activities</b>                                       |                                    |                  |
| Proceeds from issuance of shares pursuant to employee stock purchase plan         | 402                                | 502              |
| Taxes paid related to net share settlement of stock-based awards                  | (1,134)                            | (756)            |
| Excess tax benefit from stock-based award activity                                | 157                                | 4,844            |
| Principal payments on notes payable to former stockholders                        | (938)                              | (894)            |
| Net cash (used in) provided by financing activities                               | (1,513)                            | 3,696            |
| Net increase (decrease) in cash and cash equivalents                              | 25,768                             | (81,527)         |
| Cash and cash equivalents at beginning of period                                  | 96,185                             | 149,159          |
| Cash and cash equivalents at end of period  | <u>\$ 121,953</u>                  | <u>\$ 67,632</u> |

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

|   | Nine Months Ended<br>September 30, |                 |
|---|------------------------------------|-----------------|
|   | 2016                               | 2015            |
| <b>Supplemental disclosures of cash flow information</b>  |                                    |                 |
| Interest paid during the period   | \$ 613                             | \$ 853          |
| Income taxes paid, net  | <u>\$24,032</u>                    | <u>\$26,370</u> |
| <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 | \$ 199                             | \$ 208          |
| Change in property and equipment included in accounts payable and accrued expenses                          | \$ 421                             | \$ 729          |
| Settlements of deferred compensation obligation with trust assets   | <u>\$ —</u>                        | <u>\$ 28</u>    |

*See accompanying notes to condensed consolidated financial statements.*

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

**1. Description of business, basis of presentation and recent accounting pronouncements**

**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 September 30, 2016, MMI operates 81 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 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, 2015 included in the Company’s Annual Report on Form 10-K filed on March 15, 2016 with the SEC. The results of the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2016, 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 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

Certain prior-period amounts have been reclassified to conform to the current period presentation. These changes had no impact on the previously reported condensed consolidated results of operations, financial condition, stockholders’ equity or on cash flows subtotals.

**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 is placed with high-credit quality financial institutions and invested high-credit quality money market funds.

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

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 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 performs credit evaluations of its customers and debtors and 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 and nine months ended September 30, 2016 and 2015, 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.

The Company's Canadian operations represented less than 1.0% of total revenues in each period presented.

For the three and nine months ended September 30, 2016, one office represented approximately 10.9% and 10.1% of real estate brokerage commissions revenue, respectively. No office represented 10% or more of real estate brokerage commissions revenue during the three and nine months ended September 30, 2015.

**Recent Accounting Pronouncements**

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 current revenue recognition guidance under U.S. GAAP, and requires entities to recognize revenue for transfer to 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*, 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 and early adoption is permitted as of the original effective date.

ASU 2014-09 permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. For the Company, the new standard will be effective January 1, 2018. The Company does not have multiple-element arrangements, variable consideration, licenses and long-term contracts with customers. Accordingly, the Company does not expect this standard to have a significant effect in the manner or timing of its revenue recognition. The Company is in the process of completing the evaluation of the impact of this new standard and will select a transition method when the effect is determined.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). Currently, there is no guidance under U.S. GAAP regarding management's responsibility to assess whether there is substantial doubt about an entity's ability to continue as a going concern. Under ASU 2014-15, the Company will be required to assess its ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about the entity's ability to continue as a going concern, including management's plan to alleviate the substantial doubt. ASU 2014-15 is effective for reporting periods ending after December 15, 2016 and early adoption is permitted. For the Company, the new standard will be effective December 31, 2016. The Company does not anticipate that the adoption will have an impact on the Company's condensed consolidated financial position or results of operations.

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. The Company will be required to adopt the new standard in 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, the amount of which and potential impact on the condensed consolidated statements of net and comprehensive income and condensed consolidated statements of cash flows has yet to be determined. As of September 30, 2016, the Company has remaining contractual obligations for operating leases (autos and office), which aggregate approximately \$77.1 million. Accordingly, we anticipate that the adoption of the new standard will have a material impact on the Company's condensed consolidated balance sheet.

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

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). The ASU changes the accounting for share-based payment awards issued to employees in the following areas:

1. Accounting for income taxes upon vesting or settlement of awards
2. Presentation of excess tax benefits on the statement of cash flows
3. Accounting for forfeitures
4. Minimum statutory withholding requirements
5. Presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet minimum statutory withholding requirements
6. Private company practical expedients

ASU 2016-09 is effective for reporting periods beginning after December 15, 2016 and early adoption is permitted. For the Company, the new standard will be effective on January 1, 2017. The Company is finalizing its evaluation of the impact of ASU 2016-09. The Company intends to adopt the provisions of ASU 2016-09 as of January 1, 2017. Since the Company issues stock-based awards to its employees and independent contractors and has recognized windfall tax benefits in additional paid in capital, it is anticipated that the ASU, when adopted, will impact (i) the Company’s provision for income taxes, and therefore net and comprehensive income and related earnings per share amounts, (ii) amounts presented in the condensed consolidated statement of stockholders’ equity and condensed consolidated statements of cash flows and (iii) to a lesser extent the timing of our stock-based compensation expense. In accordance with the provision of ASU 2016-09, the Company intends to change its accounting for forfeitures from awards that are not expected to vest to when forfeitures occur. The Company anticipates adopting the majority of the provision of ASU 2016-09 on a prospective basis except for the change in the accounting for forfeitures, where the Company anticipates adopting the provision on a modified retrospective basis with a cumulative-effect adjustment as of January 1, 2017. Since the impact of the adoption of ASU 2016-09 is dependent on the future share price of the Company’s stock, the Company cannot determine what the future impact will be for the forfeitures; however, based on the closing stock price on September 30, 2016, the cumulative-effect adjustment as of January 1, 2017 is not expected to be material. See Note 9 – “Stock-Based Compensation Plans” for additional information.

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 a write-down. 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. The Company is currently evaluating the impact of this new standard.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”), to reduce diversity in practice in the classification of cash activity related to eight specific areas. ASU 2016-15 is effective for reporting periods beginning after December 15, 2017 and interim periods within those years and early adoption is permitted. The Company adopted ASU 2016-15 during the nine months ended September 30, 2016. The Company evaluated the impact of this new standard and determined its historical classifications, where applicable, were in accordance with ASU 2016-15. Accordingly, the adoption did not have an impact on the Company’s condensed consolidated financial position or results of operations.

**2. Property and Equipment**

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

|   | <b>September 30,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|---|-------------------------------|------------------------------|
| Computer software and hardware equipment        | \$ 13,502                     | \$ 10,973                    |
| Furniture, fixtures, and equipment              | 19,252                        | 17,047                       |
| Less: accumulated depreciation and amortization | (17,169)                      | (16,441)                     |
|   | \$ 15,585                     | \$ 11,579                    |

During the nine months ended September 30, 2016 and 2015, the Company wrote off approximately \$2.7 million and \$2.6 million, respectively, of fully depreciated computer software and hardware and furniture, fixtures and equipment.

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The Company leases all of its facilities under operating lease agreements. Lease agreements may contain periods of free rent or reduced rent or contain predetermined fixed increases in the minimum rent. The Company recognizes the minimum lease payments as rent expense on a straight-line basis over the noncancellable term of the lease. The Company records the difference between the amount charged to rent expense and the rent paid as a deferred rent obligation. The Company typically leases general purpose built-out office space, which reverts to the lessor upon termination of the lease. Any payments for improvements, net of incentives received, are recorded as prepaid rent. Prepaid rent is amortized using the straight-line method over the expected lease term as a charge to rent expense.

**3. Selected Balance Sheet Data**

**Other Assets**

Other assets consisted of the following (in thousands):

|   | Current               |                      | Non-Current           |                      |
|---|-----------------------|----------------------|-----------------------|----------------------|
|   | September 30,<br>2016 | December 31,<br>2015 | September 30,<br>2016 | December 31,<br>2015 |
| Due from independent contractors, net (1) (2) | \$ 1,783              | \$ 2,545             | \$ 7,678              | \$ 7,358             |
| Security deposits                             | —                     | —                    | 1,054                 | 1,425                |
| Employee notes receivable (3)                 | 434                   | 224                  | 112                   | 158                  |
| Customer trust accounts and other             | 1,609                 | 2,367                | 212                   | 175                  |
|   | <u>\$ 3,826</u>       | <u>\$ 5,136</u>      | <u>\$ 9,056</u>       | <u>\$ 9,116</u>      |

- (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 \$303 and \$359 as of September 30, 2016 and December 31, 2015, respectively. The Company recorded a provision for bad debt expense of \$12 and \$48 and wrote off \$6 and \$24 of these receivables for the three months ended September 30, 2016 and 2015, respectively. The Company recorded a provision for bad debt expense of \$15 and \$127 and wrote off \$71 and \$59 of these receivables for the nine months ended September 30, 2016 and 2015, respectively.
- (3) See Note 6 – "Related-Party Transactions" for additional information.

**Deferred Compensation and Commissions**

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

|   | Current               |                      | Non-Current           |                      |
|---|-----------------------|----------------------|-----------------------|----------------------|
|   | September 30,<br>2016 | December 31,<br>2015 | September 30,<br>2016 | December 31,<br>2015 |
| SARs liability (1)  | \$ 1,366              | \$ —                 | \$ 20,719             | \$ 21,399            |
| Commissions payable to investment sales and financing professionals | 28,140                | 34,091               | 12,755                | 17,015               |
| Deferred compensation liability (1)                                 | 138                   | —                    | 6,804                 | 5,264                |
|   | <u>\$ 29,644</u>      | <u>\$ 34,091</u>     | <u>\$ 40,278</u>      | <u>\$ 43,678</u>     |

- (1) The SARs and deferred compensation liability become subject to payout as a result of a participant no longer being considered as an employee service provider. As a result of the retirement of certain participants, estimated amounts to be paid to the participants within the next 12 months has been classified as current.

**SARs Liability**

Prior to the IPO, certain employees of the Company were granted stock appreciation rights ("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 at 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, 2016 and 2015 were 4.273% and 4.173%, respectively. MMI recorded interest expense related to this liability of \$229,000 and \$214,000, for the three months ended September 30, 2016 and 2015, respectively and \$686,000 and \$642,000 for the nine months ended September 30, 2016 and 2015, respectively.

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Estimated payouts within the next twelve months for participants that have separated from service have been classified as current.

**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. 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.

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):

|  | <b>Three Months Ended</b> |                 | <b>Nine Months Ended</b> |                 |
|--|---------------------------|-----------------|--------------------------|-----------------|
|  | <b>September 30,</b>      |                 | <b>September 30,</b>     |                 |
|  | <b>2016</b>               | <b>2015</b>     | <b>2016</b>              | <b>2015</b>     |
| Increase (decrease) in the carrying value of the assets held in the rabbi trust <sup>(1)</sup>   | <u>\$ 229</u>             | <u>\$ (351)</u> | <u>\$ 413</u>            | <u>\$ (340)</u> |
| Increase (decrease) in the carrying value of the deferred compensation obligation <sup>(2)</sup> | <u>\$ 209</u>             | <u>\$ (307)</u> | <u>\$ 397</u>            | <u>\$ (248)</u> |

(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.

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**4. 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):

|                                    | September 30, 2016 |                              |                               |                 | December 31, 2015 |                              |                               |                 |
|------------------------------------|--------------------|------------------------------|-------------------------------|-----------------|-------------------|------------------------------|-------------------------------|-----------------|
|                                    | Amortized<br>Cost  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value   |
| <i>Short-term investments:</i>     |                    |                              |                               |                 |                   |                              |                               |                 |
| U.S. treasuries                    | \$ 24,864          | \$ 15                        | \$ (1)                        | \$24,878        | \$ 62,343         | \$ —                         | \$ (71)                       | \$62,272        |
| U.S. government sponsored entities | 11,508             | 5                            | —                             | 11,513          | 17,571            | —                            | (12)                          | 17,559          |
| Corporate debt securities          | 11,982             | 4                            | —                             | 11,986          | —                 | —                            | —                             | —               |
| Asset-backed securities and other  | —                  | —                            | —                             | —               | 29                | —                            | —                             | 29              |
|                                    | <u>\$ 48,354</u>   | <u>\$ 24</u>                 | <u>\$ (1)</u>                 | <u>\$48,377</u> | <u>\$ 79,943</u>  | <u>\$ —</u>                  | <u>\$ (83)</u>                | <u>\$79,860</u> |
| <i>Long-term investments:</i>      |                    |                              |                               |                 |                   |                              |                               |                 |
| U.S. treasuries                    | \$ 50,535          | \$ 172                       | \$ (9)                        | \$50,698        | \$ 15,283         | \$ —                         | \$ (112)                      | \$15,171        |
| U.S. government sponsored entities | 15,989             | 25                           | —                             | 16,014          | 12,107            | —                            | (85)                          | 12,022          |
| Corporate debt securities          | 18,261             | 529                          | (21)                          | 18,769          | 17,219            | 5                            | (519)                         | 16,705          |
| Asset-backed securities and other  | 8,729              | 118                          | (49)                          | 8,798           | 10,649            | —                            | (152)                         | 10,497          |
|                                    | <u>\$ 93,514</u>   | <u>\$ 844</u>                | <u>\$ (79)</u>                | <u>\$94,279</u> | <u>\$ 55,258</u>  | <u>\$ 5</u>                  | <u>\$ (868)</u>               | <u>\$54,395</u> |

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):

|                     | September 30, 2016 |                  | December 31, 2015  |                  |
|---------------------|--------------------|------------------|--------------------|------------------|
|                     | Unrealized<br>Loss | Fair Value       | Unrealized<br>Loss | Fair Value       |
| Less than 12 months | <u>\$ (33)</u>     | <u>\$ 39,367</u> | <u>\$ (951)</u>    | <u>\$129,117</u> |
| 12 months or longer | <u>\$ (47)</u>     | <u>\$ 2,747</u>  | <u>\$ —</u>        | <u>\$ —</u>      |

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>September 30, |             | Nine Months Ended<br>September 30, |               |
|------------------------------------|-------------------------------------|-------------|------------------------------------|---------------|
|                                    | 2016                                | 2015        | 2016                               | 2015          |
| Gross realized gain <sup>(1)</sup> | <u>\$ 16</u>                        | <u>\$ —</u> | <u>\$ 36</u>                       | <u>\$ 133</u> |
| Gross realized loss <sup>(1)</sup> | <u>\$ —</u>                         | <u>\$ —</u> | <u>\$ (155)</u>                    | <u>\$ (3)</u> |

(1) 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.

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, anticipation of credit deterioration, duration management and when a security no longer meets the criteria of the Company's investment policy. During the nine months ended September 30, 2016, the Company sold one security, which no longer met the requirements of its investment policy for a loss of \$152,000.

As of September 30, 2016, 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.

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

|  | September 30, 2016 |                  | December 31, 2015 |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | Amortized<br>Cost  | Fair<br>Value    | Amortized<br>Cost | Fair<br>Value    |
| Due in one year or less                | \$ 48,354          | \$ 48,377        | \$ 79,943         | \$ 79,860        |
| Due after one year through five years  | 70,627             | 70,758           | 28,634            | 28,465           |
| Due after five years through ten years | 14,998             | 15,537           | 18,020            | 17,466           |
| Due after ten years                    | 7,889              | 7,984            | 8,604             | 8,464            |
|  | <u>\$ 141,868</u>  | <u>\$142,656</u> | <u>\$ 135,201</u> | <u>\$134,255</u> |
| Weighted average contractual maturity  | 3.2 years          |                  | 3.3 years         |                  |

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

**5. 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 these former stockholders ("the Notes"), which 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 and a final principal payment due during the second quarter of 2020. During each of the nine months ended September 30, 2016 and 2015, the Company made total payments on the Notes of \$1.5 million.

Accrued interest pertaining to the Notes consisted of the following (in thousands):

|                      | September 30,<br>2016 | December 31,<br>2015 |
|----------------------|-----------------------|----------------------|
| Accrued interest (1) | <u>\$ 216</u>         | <u>\$ 367</u>        |

(1) Recorded in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

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

|                  | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |               |
|------------------|-------------------------------------|---------------|------------------------------------|---------------|
|                  | 2016                                | 2015          | 2016                               | 2015          |
| Interest expense | <u>\$ 122</u>                       | <u>\$ 133</u> | <u>\$ 381</u>                      | <u>\$ 414</u> |

**6. 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 September 30, 2016 and 2015, the Company incurred \$61,000 and \$56,000 under the TSA. During the nine months ended September 30, 2016 and 2015, the Company incurred \$185,000 and \$165,000 under the TSA. These amounts are included in selling, general and administrative expense in the accompanying condensed consolidated statements of net and comprehensive income.

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**Accounts Payable and Accrued Expenses with MMC**

As of September 30, 2016 and December 31, 2015, \$661,000 and \$96,000, respectively, remains unpaid and is included in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

**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 September 30, 2016 and 2015, the Company generated real estate brokerage commissions and financing fees of \$1.1 million and \$305,000, respectively, from subsidiaries of MMC. The Company incurred cost of services of \$674,000 and \$173,000, respectively, related to these revenues. For the nine months ended September 30, 2016 and 2015, the Company generated real estate brokerage commissions and financing fees of \$3.5 million and \$1.6 million, respectively, from subsidiaries of MMCs. The Company incurred cost of services of \$2.1 million and \$943,000, 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 was amended in 2016 to extend the expiration date to May 31, 2022. Rent expense for this lease aggregated \$253,000 and \$219,000 for the three months ended September 30, 2016 and 2015, respectively. Rent expense for this lease aggregated \$759,000 and \$474,500 for the nine months ended September 30, 2016 and 2015, respectively. Rent expense is included in selling, general and administrative expense in the accompanying condensed consolidated statements of net and comprehensive income.

**Other**

The Company makes advances to non-executive employees from time-to-time. At September 30, 2016 and December 31, 2015, the aggregate principal amount for employee loans outstanding was \$546,000 and \$382,000, respectively, which is included in other assets, net current and other assets non-current captions in the accompanying condensed consolidated balance sheets.

As of September 30, 2016, George M. Marcus, the Company's founder and Co-Chairman, beneficially owned 55.2% of the Company's issued and outstanding common stock, including shares owned by Phoenix Investments Holdings, LLC ("Phoenix") and the George and Judy Marcus Family Foundation.

**7. 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 and 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 correlates 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.

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**Recurring Fair Value Measurements**

The Company values its investments including assets held in rabbi trust, money market funds and investments in marketable securities, available-for-sale at fair value on a recurring basis.

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

|  | September 30, 2016 |                 |                 |             | December 31, 2015 |                 |                 |             |
|--|--------------------|-----------------|-----------------|-------------|-------------------|-----------------|-----------------|-------------|
|  | Fair Value         | Level 1         | Level 2         | Level 3     | Fair Value        | Level 1         | Level 2         | Level 3     |
| Assets held in rabbi trust                 | \$ 7,309           | \$ —            | \$ 7,309        | \$ —        | \$ 5,661          | \$ —            | \$ 5,661        | \$ —        |
| Money market funds (1)                     | \$60,513           | \$60,513        | \$ —            | \$ —        | \$ 5,987          | \$ 5,987        | \$ —            | \$ —        |
| Marketable securities, available-for-sale: |                    |                 |                 |             |                   |                 |                 |             |
| <i>Short-term investments:</i>             |                    |                 |                 |             |                   |                 |                 |             |
| U.S. Treasuries                            | \$24,878           | \$24,878        | \$ —            | \$ —        | \$62,272          | \$62,272        | \$ —            | \$ —        |
| U.S. Government Sponsored Entities         | 11,513             | —               | 11,513          | —           | 17,559            | —               | 17,559          | —           |
| Corporate debt securities                  | 11,986             | —               | 11,986          | —           | —                 | —               | —               | —           |
| Asset-backed securities and other          | —                  | —               | —               | —           | 29                | —               | 29              | —           |
|  | <u>\$48,377</u>    | <u>\$24,878</u> | <u>\$23,499</u> | <u>\$ —</u> | <u>\$79,860</u>   | <u>\$62,272</u> | <u>\$17,588</u> | <u>\$ —</u> |
| <i>Long-term investments:</i>              |                    |                 |                 |             |                   |                 |                 |             |
| U.S. Treasuries                            | \$50,698           | \$50,698        | \$ —            | \$ —        | \$15,171          | \$15,171        | \$ —            | \$ —        |
| U.S. Government Sponsored Entities         | 16,014             | —               | 16,014          | —           | 12,022            | —               | 12,022          | —           |
| Corporate debt securities                  | 18,769             | —               | 18,769          | —           | 16,705            | —               | 16,705          | —           |
| Asset-backed securities and other          | 8,798              | —               | 8,798           | —           | 10,497            | —               | 10,497          | —           |
|  | <u>\$94,279</u>    | <u>\$50,698</u> | <u>\$43,581</u> | <u>\$ —</u> | <u>\$54,395</u>   | <u>\$15,171</u> | <u>\$39,224</u> | <u>\$ —</u> |

(1) Included in cash and cash equivalents.

There were no transfers in or out of Level 1 and Level 2 during the three and nine months ended September 30, 2016.

**Assets and Liabilities not Measured at Fair Value**

The Company's cash and cash equivalents, commissions receivable, amounts due from employees (included in other assets, net current and other assets non-current captions) and investment sales and financing professionals (included in other assets, net current caption), accounts payable and accrued expenses and commissions payable are carried at cost, which approximates fair value based on their immediate or short-term maturities and terms which approximate current market rates and are considered to be in the Level 1 classification.

As the Company's obligations under notes payable to former stockholders bear fixed interest rates that approximate current interest rates for debt instruments with similar terms and maturities, the Company has determined that the carrying value on these instruments approximates fair value. As the Company's obligations under SARs liability (included in deferred compensation and commission's caption) bear interest at a variable rate based on U.S. Treasuries, the Company has determined that the carrying value approximates the fair value. These are considered to be in the Level 2 classification.

**8. Stockholders' Equity**

**Common Stock**

As of September 30, 2016 and December 31, 2015, there were 37,616,243 and 37,396,456 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 11 – "Earnings per Share" for additional information.

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The Company currently does not intend to pay a regular dividend. The Company will evaluate its dividend policy in the future. Any declaration and payment of future dividends to holders of the Company's common stock will be at the discretion of the board of directors and will depend on many factors, including the Company's financial condition, earnings, cash flows, capital requirements, level of indebtedness, statutory and contractual restrictions applicable to the payment of dividends and other considerations that the board of directors deems relevant.

**Preferred Stock**

The Company has 25,000,000 authorized shares of preferred stock with a par value \$0.0001 per share. At September 30, 2016 and December 31, 2015, there were no preferred shares issued or outstanding.

**Accumulated Other Comprehensive Income**

The components of accumulated other comprehensive income as of September 30, 2016, 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 (2) | Total           |
|--|---|--|-----------------|
| Beginning balance, December 31, 2015                                 | \$ (568)  | \$ 1,025                               | \$ 457          |
| Other comprehensive income before reclassifications                  | 1,152   | 32                                     | 1,184           |
| Amounts reclassified from accumulated other comprehensive income (1) | (102)   | —                                      | (102)           |
| Net current-period other comprehensive income                        | 1,050   | 32                                     | 1,082           |
| Ending balance, September 30, 2016                                   | <u>\$ 482</u>   | <u>\$ 1,057</u>                        | <u>\$ 1,539</u> |

- (1) 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.
- (2) 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.

**9. Stock-Based Compensation Plans**

**2013 Omnibus Equity Incentive Plan**

In October 2013, the board of directors adopted the 2013 Plan, which became effective upon the Company's IPO. The 2013 Plan, in general, authorizes for the granting of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards ("RSAs"), restricted stock units ("RSUs"), performance units and performance shares to the Company's and subsidiary corporations' employees, independent contractors, directors and consultants. 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 reserved for the issuance of awards under the 2013 Plan. Pursuant to the automatic increase provided for in the 2013 Plan, the board of directors have approved share reserve increases aggregating 2,200,000. At September 30, 2016, there were 4,352,735 shares available for future grants under the Plan.

**Awards Granted in Connection with the IPO**

In November 2013, MMI issued the following equity awards under the 2013 Plan: (i) Deferred stock units ("DSUs") for an aggregate of 2,192,413 shares granted as replacement awards related to the prior SARs program to the MMREIS managing directors and (ii) DSUs for 83,334 shares granted to the Company's Co-chairman of the board of directors, William A. Millichap. The DSU's are fully vested and shares will be issued ratably over 5 years (see "Amendments to Restricted Stock and SARs" section below). In addition, 30,000 shares, in the form of RSAs, were granted to the Company's non-employee directors. The shares vest ratably over 3 years. All the above awards were granted based on the IPO price of \$12.00.

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

**Awards Granted and Settled Subsequent to the IPO**

Under the 2013 Plan, the Company has issued RSA's to non-employee directors and RSU's to employees and independent contractors. All RSAs vest in equal annual installments over a 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.

During the nine months ended September 30, 2016, 239,396 shares of stock-based awards vested and 41,293 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 amount remitted to the tax authorities for the employees' tax obligation was reflected in the taxes paid related to net share settlement of stock-based awards caption in the financing section of the condensed consolidated statements of cash flows. 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.

During the nine months ended September 30, 2016, the Company recorded windfall tax benefits, net in the amount of \$157,000 resulting from settlement of stock-based award activity. Such windfall tax benefits, net are excluded from the provision for income taxes, and included as a component of additional paid-in capital in the accompanying condensed consolidated balance sheets and in cash flows provided by (used in) financing activities in the accompanying condensed consolidated statement of cash flows.

**Outstanding Awards**

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

|   | RSA 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, 2015   | 35,364                                     | 468,969                    | 521,780                                     | 1,026,113 | \$ 21.17   |
| Granted   |  |                            |   |           |  |
| February 2016   | —  | 172,496                    | 8,856                                       | 181,352   |  |
| March 2016  | —  | 30,000                     | —   | 30,000    |  |
| May 2016  | 14,742                                     | 11,051                     | 8,188                                       | 33,981    |  |
| August 2016   | —  | 12,781                     | 49,608                                      | 62,389    |  |
| Total Granted   | 14,742                                     | 226,328                    | 66,652                                      | 307,722   | 23.79  |
| Vested  | (10,998)                                   | (103,428)                  | (124,970)                                   | (239,396) | 20.03  |
| Forfeited/canceled  | —  | (37,299)                   | (4,135)                                     | (41,434)  | 21.64  |
| Nonvested shares at September 30, 2016(1)                                     | 39,108                                     | 554,570                    | 459,327                                     | 1,053,005 | \$ 22.18   |
| Unrecognized stock-based compensation expense as of<br>September 30, 2016 (2) | \$ 584                                     | \$ 10,836                  | \$ 9,183                                    | \$ 20,603 |  |
| Weighted average remaining vesting period (years) as of<br>September 30, 2016 | 1.97                                       | 3.60                       | 2.86  | 3.22      |  |

(1) Nonvested RSU's 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 3.22 years.

As of September 30, 2016, 1,365,445 fully vested DSUs remained outstanding.

**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. The first offering period began on May 15, 2014. Qualifying employees may purchase shares of the Company's 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 has 366,667 shares of common stock reserved and 289,244 shares of common stock available for issuance as of September 30, 2016. The ESPP Plan provides for annual increases in the number of shares available for issuance under the ESPP. Pursuant to the provisions of the ESPP Plan, the board of directors determined a share reserve increase was not needed in 2015. At September 30, 2016, total unrecognized compensation cost related to the ESPP Plan was \$27,000 and is expected to be recognized over a weighted average period of 0.13 years.

**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. 100% of the shares of stock will be released from the resale restriction upon the consummation of a change of control of the Company.

**SARs**

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). 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 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):

|   | <b>Three Months</b>        |                 | <b>Nine Months</b>         |                 |
|---|----------------------------|-----------------|----------------------------|-----------------|
|   | <b>Ended September 30,</b> |                 | <b>Ended September 30,</b> |                 |
|   | <b>2016</b>                | <b>2015</b>     | <b>2016</b>                | <b>2015</b>     |
| Employee stock purchase plan              | \$ 54                      | \$ 56           | \$ 162                     | \$ 184          |
| RSAs – non-employee directors             | 121                        | 91              | 319                        | 228             |
| RSUs – employees                          | 734                        | 547             | 2,210                      | 1,626           |
| RSUs – independent contractors (1)        | 924                        | 1,474           | 2,242                      | 4,712           |
|   | <u>\$ 1,833</u>            | <u>\$ 2,168</u> | <u>\$ 4,933</u>            | <u>\$ 6,750</u> |
| Common stock price at beginning of period | \$ 25.41                   | \$ 46.14        | \$ 29.14                   | \$ 33.25        |
| Common stock price at end of period       | \$ 26.15                   | \$ 45.99        | \$ 26.15                   | \$ 45.99        |
| Increase (decrease) in stock price        | \$ 0.74                    | \$ (0.15)       | \$ (2.99)                  | \$ 12.74        |

- (1) The Company grants RSUs to independent contractors (i.e. investment sales and financing professionals), who are considered non-employees under ASC 718. 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.

**10. Income Taxes**

The Company's effective tax rate for the three and nine months ended September 30, 2016 was 40.0% and 39.9%, compared to 42.9% and 41.6% for the three and nine months ended September 30, 2015. 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. The difference between the statutory tax rate and the Company's effective tax rate is largely attributable to state income taxes and a full valuation allowance with respect to the deferred tax assets of the Company's Canadian operations.

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

**11. Earnings per Share**

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2016 and 2015, respectively (in thousands, except per share data):

|  | Three Months<br>Ended September 30, |                 | Nine Months<br>Ended September 30, |                 |
|--|-------------------------------------|-----------------|------------------------------------|-----------------|
|  | 2016                                | 2015            | 2016                               | 2015            |
| <b>Numerator (Basic and Diluted):</b>                                  |                                     |                 |                                    |                 |
| Net income   | <u>\$15,144</u>                     | <u>\$15,176</u> | <u>\$47,483</u>                    | <u>\$46,401</u> |
| <b>Denominator:</b>  |                                     |                 |                                    |                 |
| <i>Basic</i>   |                                     |                 |                                    |                 |
| Weighted average common shares issued and outstanding                  | 37,613                              | 37,114          | 37,588                             | 37,091          |
| Deduct: Unvested RSAs (1)  | (39)                                | (45)            | (37)                               | (44)            |
| Add: Fully vested DSUs (2)   | <u>1,365</u>                        | <u>1,821</u>    | <u>1,365</u>                       | <u>1,821</u>    |
| Weighted Average Common Shares Outstanding                             | <u>38,939</u>                       | <u>38,890</u>   | <u>38,916</u>                      | <u>38,868</u>   |
| Basic earnings per common share  | <u>\$ 0.39</u>                      | <u>\$ 0.39</u>  | <u>\$ 1.22</u>                     | <u>\$ 1.19</u>  |
| <i>Diluted</i>   |                                     |                 |                                    |                 |
| Weighted Average Common Shares Outstanding from above                  | 38,939                              | 38,890          | 38,916                             | 38,868          |
| Add: Dilutive effect of RSUs, RSAs & ESPP                              | 183                                 | 270             | 118                                | 183             |
| Weighted Average Common Shares Outstanding                             | <u>39,122</u>                       | <u>39,160</u>   | <u>39,034</u>                      | <u>39,051</u>   |
| Diluted earnings per common share                                      | <u>\$ 0.39</u>                      | <u>\$ 0.39</u>  | <u>\$ 1.22</u>                     | <u>\$ 1.19</u>  |
| Antidilutive shares excluded from diluted earnings per common share(3) | <u>94</u>                           | <u>31</u>       | <u>489</u>                         | <u>77</u>       |

- (1) RSAs were issued and outstanding to the non-employee directors and have a three year vesting term subject to service requirements. See Note 9 – “Stock-Based Compensation Plans” for additional information.
- (2) Shares are included in weighted average common shares outstanding as the shares are fully vested but have not yet been delivered. See Note 8 – “Stockholders’ Equity” for additional information.
- (3) Primarily pertaining to RSU grants to the Company’s independent contractors.

**12. 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, 2019. 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 September 30, 2016. 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 \$29,000 and \$32,000 during the three months ended September 30, 2016 and 2015, respectively and \$88,000 and \$100,000 during the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, 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 September 30, 2016, the Company was in compliance with all financial and non-financial covenants.

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

**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.

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

Unless the context requires otherwise, the words "Marcus & Millichap," "Marcus & Millichap Real Estate Investment Services," "MMREIS," "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 and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016, 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, 2015 filed with the SEC on March 15, 2016, 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 September 30, 2016, we had 1,671 investment sales and financing professionals that are primarily exclusive independent contractors operating in 81 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 and nine months ended September 30, 2016, we closed 2,391 and 6,686 sales, financing and other transactions with total volume of approximately \$11.1 billion and \$31.4 billion, respectively. During the year ended December 31, 2015, we closed 8,715 sales, financing and other transactions with total volume of approximately \$37.8 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 September 30, 2016, approximately 92% of our revenues were generated from real estate brokerage commissions, 6% from financing fees and 2% from other revenues. For the nine months ended September 30, 2016, approximately 93% of our revenues were generated from real estate brokerage commissions, 6% from financing fees and 1% from other revenues. During the year ended December 31, 2015, approximately 92% of our revenues were generated from real estate brokerage commissions, 6% from financing fees and 2% 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.

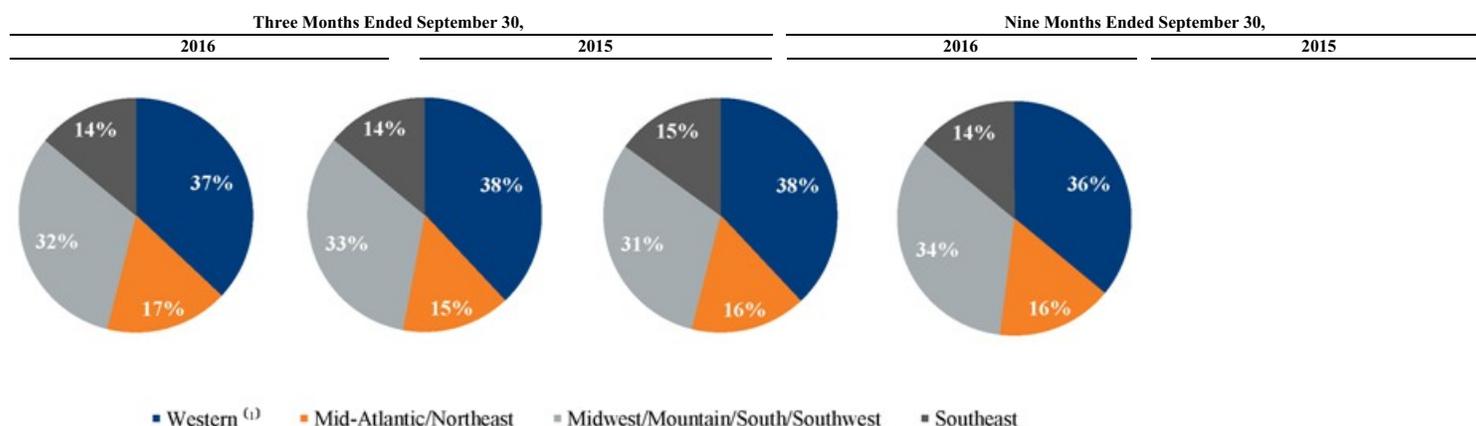
Our strength is in serving private clients in the \$1-\$10 million private client market segment, which contributed approximately 68% and 70% of our real estate brokerage commissions during the three months ended September 30, 2016 and 2015, respectively and approximately 67% and 69% of our real estate brokerage commissions during the nine months ended September 30, 2016 and 2015, respectively.

The following tables set forth the number of transactions, sales volume and revenue by commercial real estate market segment for real estate brokerage:

| Real Estate Brokerage                      | Three Months Ended September 30, |                         |                            |              |                         |                            | Change    |                         |                            |
|--|----------------------------------|-------------------------|----------------------------|--------------|-------------------------|----------------------------|-----------|-------------------------|----------------------------|
|  | 2016                             |                         |                            | 2015         |                         |                            | Number    | Volume<br>(in millions) | Revenues<br>(in thousands) |
|  | Number                           | Volume<br>(in millions) | Revenues<br>(in thousands) | Number       | Volume<br>(in millions) | Revenues<br>(in thousands) |           |                         |                            |
| <\$1 million                               | 277                              | \$ 177                  | \$ 7,921                   | 306          | \$ 188                  | \$ 7,897                   | (29)      | \$ (11)                 | \$ 24                      |
| Private Client Market (\$1 - \$10 million) | 1,198                            | 3,880                   | 113,438                    | 1,162        | 3,601                   | 106,576                    | 36        | 279                     | 6,862                      |
| Middle Market (\$10 - \$20 million)        | 104                              | 1,418                   | 24,989                     | 87           | 1,199                   | 22,020                     | 17        | 219                     | 2,969                      |
| Larger Transaction Market (\$20 million)   | 52                               | 2,130                   | 19,347                     | 41           | 1,410                   | 15,449                     | 11        | 720                     | 3,898                      |
|  | <u>1,631</u>                     | <u>\$ 7,605</u>         | <u>\$ 165,695</u>          | <u>1,596</u> | <u>\$ 6,398</u>         | <u>\$ 151,942</u>          | <u>35</u> | <u>\$ 1,207</u>         | <u>\$ 13,753</u>           |

| Real Estate Brokerage                      | Nine Months Ended September 30, |                         |                            |              |                         |                            | Change     |                         |                            |
|--|---------------------------------|-------------------------|----------------------------|--------------|-------------------------|----------------------------|------------|-------------------------|----------------------------|
|  | 2016                            |                         |                            | 2015         |                         |                            | Number     | Volume<br>(in millions) | Revenues<br>(in thousands) |
|  | Number                          | Volume<br>(in millions) | Revenues<br>(in thousands) | Number       | Volume<br>(in millions) | Revenues<br>(in thousands) |            |                         |                            |
| <\$1 million                               | 814                             | \$ 518                  | \$ 22,446                  | 876          | \$ 531                  | \$ 22,342                  | (62)       | \$ (13)                 | \$ 104                     |
| Private Client Market (\$1 - \$10 million) | 3,526                           | 11,224                  | 330,485                    | 3,263        | 10,563                  | 309,866                    | 263        | 661                     | 20,619                     |
| Middle Market (\$10 - \$20 million)        | 278                             | 3,784                   | 64,782                     | 245          | 3,324                   | 62,573                     | 33         | 460                     | 2,209                      |
| Larger Transaction Market (\$20 million)   | 187                             | 8,144                   | 71,764                     | 138          | 5,457                   | 51,575                     | 49         | 2,687                   | 20,189                     |
|  | <u>4,805</u>                    | <u>\$ 23,670</u>        | <u>\$ 489,477</u>          | <u>4,522</u> | <u>\$ 19,875</u>        | <u>\$ 446,356</u>          | <u>283</u> | <u>\$ 3,795</u>         | <u>\$ 43,121</u>           |

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 landscape 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.



(1) Includes our Canadian operations, which represented less than 1.0% of our total revenues in each period presented.

#### Execution of Our Growth Strategy

We continue to see consistent increases in the number of brokerage transactions (8.1%) and volumes (6.3%) in the private client market segment during the first nine months of 2016, compared to the same period in the prior year. Our focused and targeted office expansion and an increase in the number of our specialized investment sales professionals, continues to expand our position in this significant market segment.

We achieved an overall increase in the number of transactions (8.9%) and volume (13.6%) in our specialty property types in the first nine months of 2016, compared to the same period in the prior year due to the work of our specialty directors in partnership with our regional managers supporting our sales force and driving growth of activities in these property types. The brokerage, financing and other activities in the middle market and larger transaction market segments continued to show growth in the number of transactions (8.0% and 35.2%, respectively) and volume (9.0% and 43.7%, respectively) during the first nine months of 2016 as a result of deployment of our proprietary marketing tools and development of strong credentials of our Institutional Property Advisors (IPA) division.

Continued expansion and integration of our financing services at the office level has provided our clients with a broad range of financing opportunities. This strategy has produced growth both in the number of transactions (6.6%) and volume (10.1%) of financings during the first nine months of 2016, compared to the same period in the prior year.

### ***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 monitor the commercial real estate market through the four factors, which generally drive our business. They include the economy, real estate supply and demand, capital markets and investment activity.

#### *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 and construction and vacancies 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. Our national footprint allows us to support our clients in balancing the opportunities and risks of changing regional economic conditions. We believe the economy once again showed durability in the face of international growth concerns, including the Brexit vote. The U.S. saw a continued moderate growth in jobs and GDP during 2016.

#### *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 those properties and the performance of real estate assets when compared with the performance of other investments alternatives, such as stocks and bonds. Despite the economic recovery over the past eight years, we believe the investment in real estate continues to be a compelling investment for investors as real estate fundamentals remain strong. Vacancies remain tight for most property types. Construction is modest relative to the current stage of expansion. These factors continue to support market demand and; therefore, demand for our brokerage and financing service offerings.

#### *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, impact transaction activity and prices. Changes in interest rates, as well as steady and protracted movements of interest rates in one direction (increases or decreases), could adversely or positively affect the operations and income potential of commercial real estate properties. These changes also have an influence on the demand from investors for commercial real estate investments. Mixed indications from the U.S. Federal Reserve, global concerns about economic growth and the continued downward trend of long-term interest rates globally have created uncertainty about the future of interest rates. We continue to see disciplined underwriting from lenders as well as ample liquidity in the market. However, we have seen transactions taking longer to close in late 2015 and in 2016. We believe the additional due diligence will result in a more stable environment for investors with capital continuing to be available for properties with good economic fundamentals over the long-term but will continue to limit transaction velocity in the short-term.

#### *Investment Activity*

We rely on investors to buy and sell properties in order 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 stock market and commodity price volatility and interest rate policy along with the Brexit vote during the first nine months of 2016, have created heightened uncertainty in the domestic and the global markets. In addition, a maturing real estate cycle and buyers and lenders exercising heightened underwriting caution are contributing to a flattening trend in market sales. We believe an attractive investment backdrop continues in the commercial real estate market despite these events; however, with lower growth rates than experienced in the past.

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## ***Seasonality***

Our real estate brokerage commissions and financing fees have tended to be seasonal and, combined with other factors, can affect an investor's ability to compare our financial condition and results of operations on a quarter-by-quarter basis. Historically, this seasonality has generally caused our revenue, operating income, net income and cash flows from operating activities to be lower in the first half of the year and higher in the second half of the year, particularly in the fourth quarter. The concentration of earnings and cash flows in the last six months of the year, particularly in the fourth quarter, is due to an industrywide focus of clients to complete transactions towards the end of the calendar year. This historical trend can be disrupted both positively and negatively by major economic or political events impacting investor sentiment for a particular property type or location, volatility in financial markets, current and future projections of interest rates, attractiveness of other asset classes, market liquidity and the extent of limitations or availability of capital allocations for larger property buyers, among others. Private client investors may accelerate or delay transactions due to personal or business related reasons unrelated to economic events. In addition, our operating margins are typically lower during the second half of each year due to our commission structure for some of our senior investment sales and financing professionals. These senior investment sales and financing professionals are on a graduated commission schedule that resets annually in which higher commissions are paid for higher sales volumes. Our historical pattern of seasonality may or may not continue to the same degree experienced in prior years.

## ***Operating Segments***

Management has determined that each of the Company's offices represent individual operating segments with similar economic characteristics that meet the criteria for aggregation into a single reportable segment for financial statement purposes. The Company's financing operations do not meet the thresholds to be presented as a separate reportable segment.

## **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 the seasonality factors discussed above, 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 different 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 commission expense. 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 ("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 net gains or losses on our deferred compensation plan assets, interest income and 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 SARs liability, notes payable to former stockholders and our credit agreement.

#### *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 excludes the windfall benefits from shares issued in connection with our 2013 Plan and 2013 ESPP Plan.

## 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 and nine months ended September 30, 2016 compared to the same periods in 2015 by property type:

|                                  | Three Months Ended September 30, |         |        |        | Change |          |
|----------------------------------|----------------------------------|---------|--------|--------|--------|----------|
|                                  | 2016                             |         | 2015   |        | Number | Volume   |
|                                  | Number                           | Volume  | Number | Volume |        |          |
| <i>Core Property Types:</i>      |                                  |         |        |        |        |          |
| Multifamily                      | 929                              | \$ 5.6  | 876    | \$ 4.2 | 53     | \$ 1.4   |
| Retail                           | 914                              | 3.1     | 842    | 2.5    | 72     | 0.6      |
| Office                           | 154                              | 0.6     | 122    | 0.5    | 32     | 0.1      |
| Industrial                       | 62                               | 0.2     | 47     | 0.2    | 15     | —        |
| Total Core Property Types        | 2,059                            | \$ 9.5  | 1,887  | \$ 7.4 | 172    | \$ 2.1   |
| <i>Specialty Property Types:</i> |                                  |         |        |        |        |          |
| Seniors Housing                  | 34                               | \$ 0.4  | 24     | \$ 0.2 | 10     | 0.2      |
| Self-Storage                     | 58                               | 0.3     | 47     | 0.2    | 11     | 0.1      |
| Land                             | 81                               | 0.2     | 81     | 0.2    | —      | —        |
| Hospitality                      | 48                               | 0.2     | 54     | 0.8    | (6)    | (0.6)    |
| Manufactured Housing             | 29                               | 0.1     | 20     | 0.1    | 9      | —        |
| Mixed - Use / Other              | 82                               | 0.4     | 99     | 0.5    | (17)   | (0.1)    |
| Total Specialty Property Types   | 332                              | \$ 1.6  | 325    | \$ 2.0 | 7      | \$ (0.4) |
|                                  | 2,391                            | \$ 11.1 | 2,212  | \$ 9.4 | 179    | \$ 1.7   |

|                                  | Nine Months Ended September 30, |         |        |         | Change |        |
|----------------------------------|---------------------------------|---------|--------|---------|--------|--------|
|                                  | 2016                            |         | 2015   |         | Number | Volume |
|                                  | Number                          | Volume  | Number | Volume  |        |        |
| <i>Core Property Types:</i>      |                                 |         |        |         |        |        |
| Multifamily                      | 2,491                           | \$ 15.2 | 2,501  | \$ 12.6 | (10)   | \$ 2.6 |
| Retail                           | 2,660                           | 8.8     | 2,357  | 7.5     | 303    | 1.3    |
| Office                           | 432                             | 1.7     | 389    | 1.6     | 43     | 0.1    |
| Industrial                       | 184                             | 0.7     | 164    | 0.8     | 20     | (0.1)  |
| Total Core Property Types        | 5,767                           | \$ 26.4 | 5,411  | \$ 22.5 | 356    | \$ 3.9 |
| <i>Specialty Property Types:</i> |                                 |         |        |         |        |        |
| Seniors Housing                  | 65                              | \$ 1.3  | 59     | \$ 0.6  | 6      | 0.7    |
| Hospitality                      | 173                             | 0.9     | 158    | 1.2     | 15     | (0.3)  |
| Self-Storage                     | 151                             | 0.8     | 150    | 0.7     | 1      | 0.1    |
| Land                             | 203                             | 0.6     | 206    | 0.5     | (3)    | 0.1    |
| Manufactured Housing             | 91                              | 0.4     | 65     | 0.3     | 26     | 0.1    |
| Mixed - Use / Other              | 236                             | 1.0     | 206    | 1.1     | 30     | (0.1)  |
| Total Specialty Property Types   | 919                             | \$ 5.0  | 844    | \$ 4.4  | 75     | \$ 0.6 |
|                                  | 6,686                           | \$ 31.4 | 6,255  | \$ 26.9 | 431    | \$ 4.5 |

## 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 the three months ended September 30, 2016 and 2015, we closed more than 2,300 and 2,200 sales, financing and other transactions with total volume of approximately \$11.1 billion and \$9.4 billion, respectively. During the nine months ended September 30, 2016 and 2015, we closed more than 6,600 and 6,200 sales, financing and other transactions with total volume of approximately \$31.4 billion and \$26.9 billion, respectively. Such key metrics for real estate brokerage and financing activities are as follows:

|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|----------|------------------------------------|----------|
|  | 2016                                | 2015     | 2016                               | 2015     |
| <b>Real Estate Brokerage</b>                                     |                                     |          |                                    |          |
| Average Number of Investment Sales Professionals                 | 1,540                               | 1,415    | 1,504                              | 1,416    |
| Average Number of Transactions per Investment Sales Professional | 1.06                                | 1.13     | 3.19                               | 3.19     |
| Average Commission per Transaction                               | \$101,591                           | \$95,202 | \$101,868                          | \$98,708 |
| Average Commission Rate  | 2.18%                               | 2.37%    | 2.07%                              | 2.25%    |
| Average Transaction Size (in thousands)                          | \$ 4,663                            | \$ 4,009 | \$ 4,926                           | \$ 4,395 |
| Total Number of Transactions                                     | 1,631                               | 1,596    | 4,805                              | 4,522    |
| Total Sales Volume (in millions)                                 | \$ 7,605                            | \$ 6,398 | \$ 23,670                          | \$19,875 |
| <br>   |                                     |          |                                    |          |
|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|  | 2016                                | 2015     | 2016                               | 2015     |
| <b>Specialty Property Types:</b>                                 |                                     |          |                                    |          |
| Average Number of Financing Professionals                        | 99                                  | 84       | 98                                 | 83       |
| Average Number of Transactions per Financing Professional        | 4.39                                | 4.87     | 12.35                              | 13.67    |
| Average Fee per Transaction                                      | \$ 26,023                           | \$26,565 | \$ 25,437                          | \$26,472 |
| Average Fee Rate   | 0.86%                               | 0.88%    | 0.83%                              | 0.89%    |
| Average Transaction Size (in thousands)                          | \$ 3,009                            | \$ 3,029 | \$ 3,064                           | \$ 2,966 |
| Total Number of Transactions                                     | 435                                 | 409      | 1,210                              | 1,135    |
| Total Dollar Volume (in millions)                                | \$ 1,309                            | \$ 1,239 | \$ 3,708                           | \$ 3,366 |

## Results of Operations

Following is a discussion of our results of operations for the three and nine months ended September 30, 2016 and 2015. 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.

### Comparison of Three Months Ended September 30, 2016 and 2015

Below are key operating results for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 (dollar and share amounts in thousands, except per share amounts):

|  | Three Months Ended | Percentage of | Three Months Ended | Percentage of | Change        |             |
|--|--------------------|---------------|--------------------|---------------|---------------|-------------|
|  | September 30, 2016 | Revenue       | September 30, 2015 | Revenue       | Dollar        | Percentage  |
| <b>Revenues:</b>                                   |                    |               |                    |               |               |             |
| Real estate brokerage commissions                  | \$ 165,695         | 91.7%         | \$ 151,942         | 91.6%         | \$13,753      | 9.1%        |
| Financing fees                                     | 11,320             | 6.3           | 10,865             | 6.6           | 455           | 4.2         |
| Other revenues                                     | 3,619              | 2.0           | 3,069              | 1.8           | 550           | 17.9        |
| <b>Total revenues</b>                              | <b>180,634</b>     | <b>100.0</b>  | <b>165,876</b>     | <b>100.0</b>  | <b>14,758</b> | <b>8.9</b>  |
| <b>Operating expenses:</b>                         |                    |               |                    |               |               |             |
| Cost of services                                   | 113,852            | 63.0          | 102,010            | 61.5          | 11,842        | 11.6        |
| Selling, general, and administrative expense       | 40,728             | 22.6          | 35,646             | 21.5          | 5,082         | 14.3        |
| Depreciation and amortization expense              | 1,149              | 0.6           | 802                | 0.5           | 347           | 43.3        |
| <b>Total operating expenses</b>                    | <b>155,729</b>     | <b>86.2</b>   | <b>138,458</b>     | <b>83.5</b>   | <b>17,271</b> | <b>12.5</b> |
| Operating income                                   | 24,905             | 13.8          | 27,418             | 16.5          | (2,513)       | (9.2)       |
| Other income (expense), net                        | 719                | 0.4           | (464)              | (0.3)         | 1,183         | (255.0)     |
| Interest expense                                   | (380)              | (0.2)         | (380)              | (0.2)         | —             | —           |
| Income before provision for income taxes           | 25,244             | 14.0          | 26,574             | 16.0          | (1,330)       | (5.0)       |
| Provision for income taxes                         | 10,100             | 5.6           | 11,398             | 6.9           | (1,298)       | (11.4)      |
| Net income   | \$ 15,144          | 8.4%          | \$ 15,176          | 9.1%          | \$ (32)       | (0.2)%      |
| Adjusted EBITDA (1)                                | \$ 28,092          | 15.6%         | \$ 29,601          | 17.8%         | \$ (1,509)    | (5.1)%      |
| <b>Earnings per share:</b>                         |                    |               |                    |               |               |             |
| Basic  | \$ 0.39            |               | \$ 0.39            |               |               |             |
| Diluted  | \$ 0.39            |               | \$ 0.39            |               |               |             |
| <b>Weighted average common shares outstanding:</b> |                    |               |                    |               |               |             |
| Basic  | 38,939             |               | 38,890             |               |               |             |
| Diluted  | 39,122             |               | 39,160             |               |               |             |

- (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 \$180.6 million for the three months ended September 30, 2016 compared to \$165.9 million for the same period in 2015, an increase of \$14.8 million, or 8.9%. Total revenues increased primarily as a result of increases in real estate brokerage commissions, which contributed substantially all of the total increase. An increase in financing fees and an increase in other revenues contributed the remaining change in total revenues.

*Real estate brokerage commissions.* Revenues from real estate brokerage commissions increased to \$165.7 million for the three months ended September 30, 2016 from \$151.9 million for the same period in 2015, an increase of \$13.8 million, or 9.1%. The increase was driven by growth in the average transaction size (16.3%) and to a lesser extent, number of investment sales transactions (2.2%), partially offset by a decrease in average commission rates (19 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 increased to \$11.3 million for the three months ended September 30, 2016 from \$10.9 million for the same period in 2015, an increase of \$0.5 million or 4.2%. The increase was driven by an increase in the number of loan transactions (6.4%) due to an increase in the average number of financing professionals (17.9%), partially offset by a decrease in average commission rate per transaction (2 basis points) due in part to fees from certain larger loan transactions during the three months ended September 30, 2016 as compared to the same period in 2015. Larger loan transactions generally earn a lower fee percentage.

*Other revenues.* Other revenues increased to \$3.6 million for the three months ended September 30, 2016 from \$3.1 million for the same period in 2015, an increase of \$0.6 million or 17.9%.

#### *Total operating expenses*

Our total operating expenses were \$155.7 million for the three months ended September 30, 2016 compared to \$138.5 million for the same period in 2015, an increase of \$17.3 million, or 12.5%. Expenses increased primarily due to an increase in cost of services, which is predominantly variable commissions paid to our investment sales professionals and compensation-related costs related to our financing activities. Selling, general and administrative costs and to a lesser extent depreciation and amortization increased as well, as described below.

*Cost of services.* Cost of services for the three months ended September 30, 2016 increased \$11.8 million, or 11.6% to \$113.9 million from \$102.0 million for the same period in 2015. 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 increased to 63.0% for the three months ended September 30, 2016 compared to 61.5% for the same period in 2015 primarily due to an increase in proportion of transactions closed by our more senior investment sales professionals who are compensated generally at higher commissions rates, partially offset by a reduction in referral fees.

*Selling, general and administrative expense.* Selling, general and administrative expense for the three months ended September 30, 2016 increased \$5.1 million, or 14.3%, to \$40.7 million from \$35.7 million for the same period in 2015. Increases in our selling, general and administrative expense have been driven by our growth 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 \$1.9 million increase in salaries and related benefits as a result of increases in headcount in corporate and sales office support in connection with our growth and expansion of services supporting our investment sales and financing professionals; (ii) a \$1.9 million increase in facilities expenses due to expansion of existing offices; (iii) a \$1.2 million increase in sales and promotional marketing expenses to support increased sales activity; and (iv) a \$1.1 million increase in other expense categories, net, primarily driven by our expansion and growth. In addition, selling, general and administrative expense increased \$1.2 million due to legal costs and accruals, primarily driven by a settlement of outstanding litigation during the three months ended September 30, 2015, which reduced legal costs in that period; and decreased by (i) a \$1.9 million decrease in management performance related compensation driven by reduced bonus accruals due to management exceeding performance criteria during three months ended September 30, 2015 and (ii) a \$0.3 million decrease in stock-based compensation expense due to a decline in the Company's stock price partially offset by incremental stock-based awards granted since the third quarter of 2015.

*Depreciation and amortization expense.* Depreciation and amortization expense increased to \$1.1 million for the three months ended September 30, 2016 from \$0.8 million for the same period in 2015, an increase of \$0.3 million, or 43.3%. The increase is primarily driven by our expansion and growth.

#### *Other income (expense), net*

Other income (expense), net increased to \$0.7 million for the three months ended September 30, 2016 from \$(0.5) million for the same period in 2015. The increase was primarily driven by an increase in the value of our deferred compensation plan assets held in the rabbi trust, interest income on our investments in marketable securities, available-for-sale and foreign currency gains related to our Canadian operations.

#### *Interest expense*

Interest expense was \$0.4 million for each of the three months ended September 30, 2016 and 2015.

*Provision for income taxes*

The provision for income taxes was \$10.1 million for the three months ended September 30, 2016 as compared to \$11.4 million in the same period in 2015, a decrease of \$1.3 million or 11.4%. The effective income tax rate for the three months ended September 30, 2016 was 40.0%, compared with 42.9% for the same period in 2015. The decrease in the effective tax rate was due to a decrease in the effective state tax rate primarily as a result of changes in the Company's state apportionment and the associated discrete tax expense recognized in 2015.

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 excludes the difference in book and tax deductions associated with the settlement of shares under the Company's 2013 Plan and disqualifying dispositions of shares issued from our 2013 ESPP Plan. Such tax benefits were recorded directly to additional paid-in capital.

**Comparison of Nine Months Ended September 30, 2016 and 2015**

Below are key operating results for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 (dollar and share amounts in thousands, except per share amounts):

|  | Nine Months Ended September 30, 2016 |                       | Nine Months Ended September 30, 2015 |                       | Change           |               |
|--|--------------------------------------|-----------------------|--------------------------------------|-----------------------|------------------|---------------|
|  |                                      | Percentage of Revenue |                                      | Percentage of Revenue | Dollar           | Percentage    |
| <b>Revenues:</b>                                   |                                      |                       |                                      |                       |                  |               |
| Real estate brokerage commissions                  | \$ 489,477                           | 92.7%                 | \$ 446,356                           | 91.9%                 | \$43,121         | 9.7%          |
| Financing fees                                     | 30,779                               | 5.8                   | 30,046                               | 6.2                   | 733              | 2.4           |
| Other revenues                                     | 8,037                                | 1.5                   | 9,497                                | 1.9                   | (1,460)          | (15.4)        |
| Total revenues                                     | <u>528,293</u>                       | <u>100.0</u>          | <u>485,899</u>                       | <u>100.0</u>          | <u>42,394</u>    | <u>8.7</u>    |
| <b>Operating expenses:</b>                         |                                      |                       |                                      |                       |                  |               |
| Cost of services                                   | 323,131                              | 61.2                  | 293,725                              | 60.4                  | 29,406           | 10.0          |
| Selling, general, and administrative expense       | 123,403                              | 23.3                  | 109,064                              | 22.5                  | 14,339           | 13.1          |
| Depreciation and amortization expense              | 3,164                                | 0.6                   | 2,389                                | 0.5                   | 775              | 32.4          |
| Total operating expenses                           | <u>449,698</u>                       | <u>85.1</u>           | <u>405,178</u>                       | <u>83.4</u>           | <u>44,520</u>    | <u>11.0</u>   |
| Operating income                                   | 78,595                               | 14.9                  | 80,721                               | 16.6                  | (2,126)          | (2.6)         |
| Other income (expense), net                        | 1,567                                | 0.3                   | 23                                   | —                     | 1,544            | na            |
| Interest expense                                   | (1,155)                              | (0.2)                 | (1,349)                              | (0.3)                 | 194              | (14.4)        |
| Income before provision for income taxes           | 79,007                               | 15.0                  | 79,395                               | 16.3                  | (388)            | (0.5)         |
| Provision for income taxes                         | 31,524                               | 6.0                   | 32,994                               | 6.8                   | (1,470)          | (4.5)         |
| Net income   | <u>\$ 47,483</u>                     | <u>9.0%</u>           | <u>\$ 46,401</u>                     | <u>9.5%</u>           | <u>\$ 1,082</u>  | <u>2.3%</u>   |
| Adjusted EBITDA (1)                                | <u>\$ 87,014</u>                     | <u>16.5%</u>          | <u>\$ 88,886</u>                     | <u>18.3%</u>          | <u>\$(1,872)</u> | <u>(2.1)%</u> |
| <b>Earnings per share:</b>                         |                                      |                       |                                      |                       |                  |               |
| Basic  | \$ 1.22                              |                       | \$ 1.19                              |                       |                  |               |
| Diluted  | \$ 1.22                              |                       | \$ 1.19                              |                       |                  |               |
| <b>Weighted average common shares outstanding:</b> |                                      |                       |                                      |                       |                  |               |
| Basic  | 38,916                               |                       | 38,868                               |                       |                  |               |
| Diluted  | 39,034                               |                       | 39,051                               |                       |                  |               |

(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 \$528.3 million for the nine months ended September 30, 2016 compared to \$485.9 million for the same period in 2015, an increase of \$42.4 million, or 8.7%. Total revenues increased primarily as a result of increases in real estate brokerage commissions, which contributed substantially all of the total increase. A slight increase in financing fees, partially offset by a decrease in other revenues contributed the remaining change in total revenues.

*Real estate brokerage commissions.* Revenues from real estate brokerage commissions increased to \$489.5 million for the nine months ended September 30, 2016 from \$446.4 million for the same period in 2015, an increase of \$43.1 million, or 9.7%. The increase was driven by a combination of the growth in the number of investment sales transactions (6.3%) and average transaction size (12.1%), partially offset by a decrease in average commission rates (18 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 increased to \$30.8 million for the nine months ended September 30, 2016 from \$30.0 million for the same period in 2015, an increase of \$0.7 million or 2.4%. The increase was driven by an increase in the number of loan transactions (6.6%) due to an increase in the average number of financing professionals (18.1%), partially offset by a decrease in average fee rates (6 basis points) due in part to fees from certain larger loan transactions during the nine months ended September 30, 2016 as compared to the same period in 2015. Larger loan transactions generally earn a lower fee percentage.

*Other revenues.* Other revenues decreased to \$8.0 million for the nine months ended September 30, 2016 from \$9.5 million for the same period in 2015, a decrease of \$1.5 million or 15.4%. The decrease was primarily driven by a decrease in consulting and advisory services during the nine months ended September 30, 2016 as compared to the same period in 2015.

*Total operating expenses*

Our total operating expenses were \$449.7 million for the nine months ended September 30, 2016 compared to \$405.2 million for the same period in 2015, an increase of \$44.5 million, or 11.0%. Expenses increased primarily due to an increase in cost of services, which is predominantly variable commissions paid to our investment sales professionals and compensation-related costs related to our financing activities. Selling, general and administrative costs and to a lesser extent depreciation and amortization increased as well, as described below.

*Cost of services.* Cost of services for the nine months ended September 30, 2016 increased \$29.4 million, or 10.0% to \$323.1 million from \$293.7 million for the same period in 2015. 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 increased to 61.2% for the nine months ended September 30, 2016 compared to 60.4% for the same period in 2015 primarily due to an increase in proportion of transactions closed by our more senior investment sales professionals who are compensated generally at higher commissions rates, partially offset by a reduction in referral fees.

*Selling, general and administrative expense.* Selling, general and administrative expense for the nine months ended September 30, 2016 increased \$14.3 million, or 13.1%, to \$123.4 million from \$109.1 million for the same period in 2015. Increases in our selling, general and administrative expense have been driven by our growth 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 \$5.7 million increase in salaries and related benefits as a result of increases in headcount in corporate and sales office support in connection with our growth and expansion of services supporting our investment sales and financing professionals; (ii) a \$5.1 million increase in facilities expenses due to expansion of existing offices; (iii) a \$4.5 million increase in sales and promotional marketing expenses to support increased sales activity and our annual sales recognition event; and (iv) a \$2.4 million increase in other expense categories, net, primarily driven by our expansion and growth. In addition, selling, general and administrative expense increased \$1.7 million due to legal costs and accruals, partly driven by settlement of outstanding litigation and recoveries from a settlement with an insurance carrier during the nine months ended September 30, 2015, which reduced legal costs in that period; and decreased by (i) a \$3.3 million in management performance related compensation driven by reduced bonus accruals due to management exceeding performance criteria during the nine months ended September 30, 2015 and (ii) a \$1.8 million in stock-based compensation expense due to a decline in the Company's stock price partially offset by incremental stock-based awards granted since the third quarter of 2015.

*Depreciation and amortization expense.* Depreciation and amortization expense increased to \$3.1 million for the nine months ended September 30, 2016 from \$2.4 million for the same period in 2015, an increase of \$0.8 million, or 32.4%. The increase is primarily driven by our expansion and growth and investment in technology to improve the sales and marketing tools.

*Other income (expense), net*

Other income (expense), net increased to \$1.6 million for the nine months ended September 30, 2016 from \$23,000 for the same period in 2015. The increase was primarily driven by an increase in the value of our deferred compensation plan assets held in the rabbi trust, foreign currency gains related to our Canadian operations and interest income on our investments in marketable securities, available-for-sale. The increase was partially offset by realized losses on our investments in marketable securities, available-for-sale, due to a security sold during the nine months ended September 30, 2016, which no longer met criteria our investment policy.

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*Interest expense*

Interest expense decreased to \$1.2 million for the nine months ended September 30, 2016 from \$1.3 million for the same period in 2015, a decrease of \$0.2 million, or 14.4%.

*Provision for income taxes*

The provision for income taxes was \$31.5 million for the nine months ended September 30, 2016 as compared to \$33.0 million in the same period in 2015, a decrease of \$1.5 million or 4.5%. The effective income tax rate for the nine months ended September 30, 2016 was 39.9%, compared with 41.6% for the same period in 2015. The decrease in the effective tax rate was due to a decrease in the effective state tax rate primarily as a result of changes in the Company's state apportionment and the associated discrete tax expense recognized in 2015.

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 excludes the difference in book and tax deductions associated with the settlement of shares under the Company's 2013 Plan and disqualifying dispositions of shares issued from our 2013 ESPP Plan. Such tax benefits, which aggregated \$157,000 and \$534,000 during the nine months ended September 30, 2016 and 2015, respectively, were recorded directly to additional paid-in capital.

## 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/expense, (ii) net realized gains on marketable securities, available-for-sale, (iii) income tax expense, (iv) depreciation and amortization and (v) stock-based compensation expense. We use Adjusted EBITDA in our business operations to, among other things, evaluate the performance of our business, develop budgets and measure our performance against those budgets. We also believe that analysts and investors use Adjusted EBITDA as supplemental measures 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 it eliminates items related to capital structure and 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>September 30, |                 | Nine Months Ended<br>September 30, |                 |
|-------------------------------|-------------------------------------|-----------------|------------------------------------|-----------------|
|                               | 2016                                | 2015            | 2016                               | 2015            |
| Net income                    | \$15,144                            | \$15,176        | \$47,483                           | \$46,401        |
| Adjustments:                  |                                     |                 |                                    |                 |
| Interest income and other (1) | (514)                               | (323)           | (1,245)                            | (997)           |
| Interest expense              | 380                                 | 380             | 1,155                              | 1,349           |
| Provision for income taxes    | 10,100                              | 11,398          | 31,524                             | 32,994          |
| Depreciation and amortization | 1,149                               | 802             | 3,164                              | 2,389           |
| Stock-based compensation      | 1,833                               | 2,168           | 4,933                              | 6,750           |
| Adjusted EBITDA (2)           | <u>\$28,092</u>                     | <u>\$29,601</u> | <u>\$87,014</u>                    | <u>\$88,886</u> |

- (1) Other for the three months ended September 30, 2016 and 2015 includes \$16 and \$0, respectively, of net realized gains on marketable securities, available-for-sale. Other for the nine months ended September 30, 2016 and 2015 includes \$(119) and \$130, respectively, of net realized (losses) gains on marketable securities, available-for-sale.
- (2) The decrease in Adjusted EBITDA for the three and nine months ended September 30, 2016, compared to the same period in the prior year is primarily due to lower stock-based compensation expense and a higher proportion of operating expenses compared to revenues.

## 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. 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.

The Company invests excess cash in money market funds. In October 2016, new regulations issued by the SEC in July 2014 went into effect. As a result, certain of the investments in money market funds in which the Company invests may no longer maintain a stable NAV and may impose fees on redemptions and/or gate fees. The Company has evaluated all its investments in money market funds and determined based on current facts and circumstances that they continue to meet the criteria to be classified as cash and cash equivalents.

Cash held in our Canadian operations aggregated \$526,000 and \$763,000 at September 30, 2016 and December 31, 2015, respectively.

## Cash Flows

Our total cash and cash equivalents balance increased by \$25.8 million to \$122.0 million at September 30, 2016, compared to \$96.2 million at December 31, 2015. The following table sets forth our summary cash flows for the nine months ended September 30, 2016 and 2015 (in thousands):

|  | Nine Months Ended |           |
|--|-------------------|-----------|
|  | September 30,     |           |
|  | 2016              | 2015      |
| Net cash provided by operating activities            | \$ 41,518         | \$ 38,582 |
| Net cash used in investing activities                | (14,237)          | (123,805) |
| Net cash (used in) provided by financing activities  | (1,513)           | 3,696     |
| Net increase (decrease) in cash and cash equivalents | 25,768            | (81,527)  |
| Cash and cash equivalents at beginning of period     | \$ 96,185         | 149,159   |
| Cash and cash equivalents at end of period           | \$121,953         | \$ 67,632 |

### Operating Activities

Cash flows provided by operating activities were \$41.5 million for the nine months ended September 30, 2016, as compared to \$38.6 million for the same period in 2015. Net cash provided by operating activities is driven by our net income adjusted for non-cash items and changes in operating assets and liabilities. The \$2.9 million increase in cash flows provided by operating activities for the nine months ended September 30, 2016 compared to the same period in 2015 was primarily due to the net effect of our growth of business, differences in timing of payments and receipts, a reduction in the deferral of certain discretionary commissions and lower bonus accruals.

### Investing Activities

Cash flows used in investing activities were \$14.2 million for the nine months ended September 30, 2016, as compared to \$123.8 million for the same period in 2015. The decrease in cash flows used in investing activities for the nine months ended September 30, 2016, as compared to the same period in 2015 was primarily due to \$6.8 million in net purchases of marketable securities, available-for-sale for the nine months ended September 30, 2016 compared to \$119.9 million for the same period in 2015.

### Financing Activities

Cash flows used in financing activities were \$1.5 million for the nine months ended September 30, 2016, as compared to cash flows provided by financing activities of \$3.7 million for the same period in 2015. The change in cash flows provided by financing activities for the nine months ended September 30, 2016 compared to the same period in 2015, was primarily impacted by net changes in stock-based award activity, including excess tax benefit from stock-based award activity. See Note 9 – “Stock-Based Compensation Plans” of our Notes to Condensed Consolidated Financial Statements for additional information.

### 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, 2015 other than an acceleration of payments of the SARs liability and Deferred Compensation Plan liability due to the retirement of certain participants. Anticipated payments increased \$3.8 million (1-3 years) and \$3.6 million (3-5 years) and decreased \$7.3 million (more than 5 years) and \$3.6 million (other) from those reported as of December 31, 2015.

## 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 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 in our Annual Report on Form 10-K for the year ended December 31, 2015.

## Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, see Note 1 – “Description of business, basis of presentation and recent accounting pronouncements” of our Notes to Condensed Consolidated Financial Statements.

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

We maintain a portfolio of investments in a variety of fixed and variable rate securities, including U.S. government and federal agency securities, corporate debt securities and asset backed securities. As of September 30, 2016, the fair value of investments in marketable securities, available-for-sale was \$142.7 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 maturity, we may choose to sell any of the securities based on market opportunities to enhance our overall yield or maintain compliance with our investment policy. We do not use derivatives or similar instruments to manage our interest rate risk. We seek to invest in high quality investments, with a weighted average rating (exclusive of cash and cash equivalents) of AA+ as of September 30, 2016. 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):

| <u>Change in Interest Rates</u> | <u>Approximate Change in<br/>Fair Value of Investments</u> |
|---------------------------------|--|
| 2% Decrease                     | \$ 3,903   |
| 1% Decrease                     | \$ 2,465   |
| 1% Increase                     | \$ (2,749)   |
| 2% Increase                     | \$ (5,501)   |

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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 September 30, 2016, 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 September 30, 2016, 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 September 30, 2016 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, 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. 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 12 – “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, 2015.

### 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.

### Item 6. Exhibits

The documents listed in the Exhibit Index of this quarterly report on Form 10-Q are incorporated by reference or are filed with this quarterly report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

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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: November 7, 2016

By: /s/ Hessem Nadji

Hessem Nadji  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 7, 2016

By: /s/ Martin E. Louie

Martin E. Louie  
Chief Financial Officer  
(Principal Financial Officer)

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## EXHIBIT INDEX

| Exhibit<br>No. | Description  |
|----------------|--|
| 10.23*         | Second Amendment to Credit Agreement and Amended and Restated Revolving Line of Credit Note, between the Company and Wells Fargo Bank, National Association dated as of August 10, 2016                                  |
| 31.1*          | 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   |
| 31.2*          | 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   |
| 32.1*          | 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 |
| 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.

**SECOND AMENDMENT TO CREDIT AGREEMENT**

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of August 10, 2016, by and between MARCUS & MILLICHAP, INC., a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

**RECITALS**

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of June 1, 2014, as amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

**1. Amendments.**

(a) Section 1.1.(a) of the Credit Agreement is hereby deleted in its entirety, and the following substituted therefor:

"(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including June 1, 2019, not to exceed at any time the aggregate principal amount of Sixty Million Dollars (\$60,000,000) ("Line of Credit"), the proceeds of which shall be used for working capital and general corporate needs (including, without limitation, mergers and acquisitions and international expansion permitted or not prohibited under this Agreement). Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated as of June 1, 2014 (as amended from time to time, "Line of Credit Note"), all terms of which are incorporated herein by this reference."

(b) Section 5.3. of the Credit Agreement is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 5.3. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity (provided that any Obligor other than Borrower may merge into any other Obligor); make any substantial change in the nature of such Obligor's business as conducted as of the date hereof; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of such Obligor's assets except in the ordinary course of its business, and except, to the extent they constitute transfers of assets, advances, loans and investments allowed under Section 5.6 below."

(c) Section 5.6. of the Credit Agreement is hereby deleted in its entirety, and the following substituted therefor:

"SECTION 5.6. LOANS, ADVANCES, INVESTMENTS. With respect to Borrower and the other Obligors on a combined basis, make any loans or advances to or investments in any person or entity, except for (i) loans, advances and investments to or in one or more persons or entities, which are considered employees or independent contractors up to an aggregate amount not to exceed \$45,000,000

outstanding at any one time (in addition to acquisitions allowed under Section 5.4 above), (ii) loans, advances and investments to or in non-Obligor entities that are organized outside the United States up to an aggregate amount not to exceed \$15,000,000 outstanding at any one time, and (iii) investments in marketable securities pursuant to Borrower's investment policy as approved by its Board of Directors from time to time."

(d) The Bank's contact information in Section 7.2 of the Credit Agreement is hereby deleted in its entirety, and the following substituted therefor:

"BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION  
21255 Burbank Blvd., Suite 110  
Woodland Hills, CA 91367  
Attention: Jamie Chen"

2. Amendment and Renewal Fee. In consideration of the changes set forth in this Amendment and as a condition to the effectiveness hereof, Borrower shall pay to Bank a non-refundable fee of \$35,000.00.

3. Affirmation. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

4. Borrower Representations and Certifications. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set for therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first written above.

MARCUS & MILICHAP, INC.

By: 

Name: Martin E. Louie  
Title: Senior Vice President and CFO

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: 

Name: Jamie Chen  
Title: Senior Vice President

AMENDED AND RESTATED REVOLVING LINE OF CREDIT NOTE

\$60,000,000

Los Angeles, California

August 10, 2016

FOR VALUE RECEIVED, the undersigned MARCUS & MILLICHAP, INC., a Delaware corporation ("Borrower") promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank") at its office at 21255 Burbank Blvd., Suite 110, Woodland Hills, CA 91367, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Sixty Million Dollars (\$60,000,000), or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein. This Note amends, restates and replaces in full that certain Revolving Line of Credit Note dated June 1, 2014, as amended to the date hereof.

DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

(a) "Base Rate" means, for any day, a fluctuating rate equal to the highest of: (i) the Prime Rate in effect on such day, (ii) a rate determined by Bank to be one and one-half percent (1.50%) above Daily One Month LIBOR in effect on such day, and (iii) the Federal Funds Rate plus one and one-half percent (1.50%).

(b) "Daily One Month LIBOR" means, for any day, the rate of interest equal to LIBOR then in effect for delivery for a one (1) month period.

(c) "Federal Funds Rate" means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers for the immediately preceding day, as published by the Federal Reserve Bank of New York; provided that if no such rate is so published on any day, then the Federal Funds Rate for such day shall be the rate most recently published, and further provided that if the Federal Funds Rate determined as provided above would be less than zero percent (0.0%), then the Federal Funds Rate shall be deemed to be zero percent (0.0%).

(d) "LIBOR" means (i) for the purpose of calculating effective rates of interest for loans making reference to LIBOR Periods, the rate of interest per annum determined by Bank based on the rate for United States dollar deposits for delivery on the first day of each LIBOR Period for a period approximately equal to such LIBOR Period as reported on Reuters Screen LIBOR01 page (or any successor page) at approximately 11:00 a.m., London time, two London Business Days prior to the first day of such LIBOR Period (or if not so reported, then as determined by Bank from another recognized source or interbank quotation), or (ii) for the purpose of calculating effective rates of interest for loans making reference to the Daily One Month LIBOR Rate, the rate of interest per annum determined by Bank based on the rate for United States dollar deposits for delivery of funds for one (1) month as reported on Reuters Screen LIBOR01 page (or any successor page) at approximately 11:00 a.m., London time, or, for any day not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by Bank from another recognized source or interbank quotation); provided, however, that if LIBOR determined as provided above would be less than zero percent (0.0%), the LIBOR shall be deemed to be zero percent (0.0%).

Amended and Restated Revolving Note

(e) "LIBOR Period" means a period commencing on a Los Angeles Business Day and continuing for one, two, three, six or twelve months, as designated by Borrower, during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to LIBOR; provided however, that (i) no LIBOR Period may be selected for a principal amount less than One Million Dollars (\$1,000,000), (ii) if the day after the end of any LIBOR Period is not a Los Angeles Business Day (so that a new LIBOR Period could not be selected by Borrower to start on such day), then such LIBOR Period shall continue up to, but shall not include, the next Los Angeles Business Day after the end of such LIBOR Period, unless the result of such extension would be to cause any immediately following LIBOR Period to begin in the next calendar month in which event the LIBOR Period shall continue up to, but shall not include, the Los Angeles Business Day immediately preceding the last day of such LIBOR Period, and (iii) no LIBOR Period shall extend beyond the scheduled maturity date hereof.

(f) "London Business Day" means any day that is a day for trading by and between banks in Dollar deposits in the London interbank market.

(g) "Los Angeles Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in Los Angeles are authorized or required by law to close.

(h) "Prime Rate" means at any time the rate of interest most recently announced within Bank at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Bank's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate. If the rate of interest announced by Bank as its Prime Rate at any time is less than zero percent (0.0%), then for purposes of this Note the Prime Rate shall be deemed to be zero percent (0.0%).

(i) "State Business Day" means any day except a Saturday, Sunday or any other day on which commercial banks in the jurisdiction described in "Governing Law" herein are authorized or required by law to close.

#### INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (i) at a fluctuating rate per annum zero percent (0.00%) above the Base Rate in effect from time to time, or (ii) at a fixed rate per annum determined by Bank to be eight hundred seventy five one thousandths of one percent (0.875%) above LIBOR in effect on the first day of the applicable LIBOR Period. When interest is determined in relation to the Base Rate, each change in the rate of interest hereunder shall become effective on the date each Base Rate change is announced within Bank. With respect to each LIBOR selection hereunder, Bank is hereby authorized to note the date, principal amount, interest rate and LIBOR Period applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

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(b) Selection of Interest Rate Options. Subject to the provisions herein regarding LIBOR Periods and the prior notice required for the selection of a LIBOR interest rate, (i) at any time any portion of this Note bears interest determined in relation to LIBOR for a LIBOR Period, it may be continued by Borrower at the end the LIBOR Period applicable thereto so that all or a portion thereof bears interest determined in relation to the Base Rate or to LIBOR for a new LIBOR Period designated by Borrower, (ii) at any time any portion of this Note bears interest determined in relation to the Base Rate, Borrower may convert all or a portion thereof so that it bears interest determined in relation to LIBOR for a LIBOR Period designated by Borrower, and (iii) at the time an advance is made hereunder, Borrower may choose to have all or a portion thereof bear interest determined in relation to the Base Rate or to LIBOR for a LIBOR Period designated by Borrower.

To select an interest rate option hereunder determined in relation to LIBOR for a LIBOR Period, Borrower shall give Bank notice thereof that is received by Bank prior to 11:00 a.m. California time on a State Business Day at least two State Business Days prior to the first day of the LIBOR Period, or at a later time during such State Business Day if Bank, at its sole discretion, accepts Borrower's notice and quotes a fixed rate to Borrower. Such notice shall specify: (A) the interest rate option selected by Borrower, (B) the principal amount subject thereto, and (C) for each LIBOR selection, the length of the applicable LIBOR Period. If Bank has not received such notice in accordance with the foregoing before an advance is made hereunder or before the end of any LIBOR Period, Borrower shall be deemed to have made a Base Rate interest selection for such disbursement or the principal amount to which such LIBOR Period applied. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as it is given in accordance with the foregoing and, with respect to each LIBOR selection, if requested by Bank, Borrower provides to Bank written confirmation thereof not later than three State Business Days after such notice is given. Borrower shall reimburse Bank immediately upon demand for any loss or expense (including any loss or expense incurred by reason of the liquidation or redeployment of funds obtained to fund or maintain a LIBOR borrowing) incurred by Bank as a result of the failure of Borrower to accept or complete a LIBOR borrowing hereunder after making a request therefor. Any reasonable determination of such amounts by Bank shall be conclusive and binding upon Borrower.

(c) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately within ten (10) Los Angeles Banking Days after written demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (ii) costs, expenses and liabilities arising from or in connection with reserve percentages prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

(d) Payment of Interest. Interest accrued on this Note shall be payable on the first day of each calendar month, commencing September 1, 2016.

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(e) Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, or at Bank's option upon the occurrence, and during the continuance of an Event of Default, the outstanding principal balance of this Note shall bear interest at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to two percent (2%) above the rate of interest from time to time applicable to this Note.

**BORROWING AND REPAYMENT:**

(a) Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount stated above. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on June 1, 2019.

(b) Advances. Advances hereunder, to the total amount of the principal sum stated above and subject to the terms and conditions of the Credit Agreement defined below, may be made by the holder at the written request of (i) Borrower's Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (ii) any person, with respect to advances deposited to the credit of any deposit account of Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by Borrower.

(c) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Base Rate, if any, and second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest LIBOR Period first.

**PREPAYMENT:**

(a) Base Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Base Rate at any time, in any amount and without penalty.

(b) LIBOR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to LIBOR at any time and in the minimum amount of One Million Dollars (\$1,000,000); provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment

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option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the LIBOR Period applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such LIBOR Period matures, calculated as follows for each such month:

- (i) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the LIBOR Period applicable thereto.
- (ii) Subtract from the amount determined in (i) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such LIBOR Period at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.
- (iii) If the result obtained in (ii) for any month is greater than zero, discount that difference by LIBOR used in (ii) above.

Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum zero percent (0.00%) above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed).

#### EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of June 1, 2014, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

#### MISCELLANEOUS:

(a) Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

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(b) Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

MARCUS & MILLICHAP, INC.

By:



Name: Martin E. Louie

Title: Senior Vice President and CFO

Amended and Restated Revolving Note

**Certification of Chief Executive Officer of Marcus & Millichap, Inc. pursuant to  
Rule 13a-14(a) under the Exchange Act,  
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Hessam Nadji, certify that:

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

Date: November 7, 2016

/s/ Hessam Nadji  
Hessam Nadji  
President and Chief Executive Officer

**Certification of Chief Financial Officer of Marcus & Millichap, Inc. pursuant to  
Rule 13a-14(a) under the Exchange Act,  
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Martin E. Louie, certify that:

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

Date: November 7, 2016

/s/ Martin E. Louie

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Martin E. Louie  
Chief Financial Officer

**Certifications of Chief Executive Officer and Chief Financial Officer of Marcus & Millichap, Inc. 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**

In connection with the quarterly report of Marcus & Millichap, Inc. on Form 10-Q for the period ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Hessam Nadji, President and Chief Executive Officer of the Company, and Martin E. Louie, Chief Financial Officer of the Company, certify, to the best of our knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 7, 2016

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/s/ Hessam Nadji  
Hessam Nadji  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 7, 2016

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/s/ Martin E. Louie  
Martin E. Louie  
Chief Financial Officer  
(Principal Financial Officer)