

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2019

OR

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

For the transition period from _____ to _____

Commission File Number: 001-36155

MARCUS & MILLICHAP, INC.

(Exact name of registrant as specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

91302
(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	MMI	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter time period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, an non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

Number of shares of common stock, par value \$0.0001 per share, of the registrant issued and outstanding as of August 1, 2019 was 39,090,861 shares.

**MARCUS & MILLICHAP, INC.
TABLE OF CONTENTS**

[PART I. FINANCIAL INFORMATION](#)

	<u>Page</u>
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets at June 30, 2019 (Unaudited) and December 31, 2018	3
Condensed Consolidated Statements of Net and Comprehensive Income for the Three and Six Months Ended June 30, 2019 and 2018 (Unaudited)	4
Condensed Consolidated Statements of Stockholders' Equity for the Three and Six Months Ended June 30, 2019 and 2018 (Unaudited)	5
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2019 and 2018 (Unaudited)	7
Notes to Condensed Consolidated Financial Statements (Unaudited)	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3. Quantitative and Qualitative Disclosures About Market Risk	37
Item 4. Controls and Procedures	38
 PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	39
Item 1A. Risk Factors	39
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 3. Defaults Upon Senior Securities	39
Item 4. Mine Safety Disclosures	39
Item 5. Other Information	39
Item 6. Exhibits	40
 SIGNATURES	

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**MARCUS & MILLICHAP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except for shares and par value)**

	<u>June 30, 2019 (Unaudited)</u>	<u>December 31, 2018</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 206,758	\$ 214,683
Commissions receivable	5,768	4,948
Prepaid expenses	9,593	7,904
Income tax receivable	4,762	—
Marketable securities, available-for-sale	118,909	137,436
Other assets, net	6,233	6,368
Total current assets	<u>352,023</u>	<u>371,339</u>
Prepaid rent	—	13,892
Property and equipment, net	20,854	19,550
Operating lease right-of-use assets, net	93,090	—
Marketable securities, available-for-sale	80,329	83,209
Assets held in rabbi trust	9,119	8,268
Deferred tax assets, net	18,525	22,959
Goodwill and other intangible assets, net	14,889	15,385
Other assets	50,845	31,778
Total assets	<u>\$ 639,674</u>	<u>\$ 566,380</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other liabilities	\$ 11,115	\$ 11,035
Notes payable to former stockholders	6,564	1,087
Deferred compensation and commissions	31,638	47,910
Income tax payable	—	4,486
Operating lease liabilities	17,400	—
Accrued bonuses and other employee related expenses	14,050	28,338
Total current liabilities	<u>80,767</u>	<u>92,856</u>
Deferred compensation and commissions	38,964	49,887
Notes payable to former stockholders	—	6,564
Operating lease liabilities	67,429	—
Deferred rent and other liabilities	2,001	7,499
Total liabilities	<u>189,161</u>	<u>156,806</u>
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$0.0001 par value:		

Authorized shares – 25,000,000; issued and outstanding shares – none at June 30, 2019 and December 31, 2018, respectively	—	—
Common stock, \$0.0001 par value:		
Authorized shares – 150,000,000; issued and outstanding shares – 39,090,861 and 38,814,464 at June 30, 2019 and December 31, 2018, respectively	4	4
Additional paid-in capital	100,098	97,458
Stock notes receivable from employees	(4)	(4)
Retained earnings	348,258	311,341
Accumulated other comprehensive income	2,157	775
Total stockholders' equity	450,513	409,574
Total liabilities and stockholders' equity	\$ 639,674	\$ 566,380

See accompanying notes to condensed consolidated financial statements.

3

[Table of Contents](#)

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
<i>Revenues:</i>				
Real estate brokerage commissions	\$ 188,680	\$ 181,640	\$ 333,617	\$ 344,165
Financing fees	17,742	15,563	31,474	25,287
Other revenues	3,171	2,199	5,209	4,491
Total revenues	<u>209,593</u>	<u>199,402</u>	<u>370,300</u>	<u>373,943</u>
<i>Operating expenses:</i>				
Cost of services	127,847	119,869	219,535	221,518
Selling, general and administrative expense	52,836	49,080	101,754	97,133
Depreciation and amortization expense	1,932	1,503	3,764	2,878
Total operating expenses	<u>182,615</u>	<u>170,452</u>	<u>325,053</u>	<u>321,529</u>
Operating income	26,978	28,950	45,247	52,414
Other income (expense), net	3,119	1,724	6,494	2,933
Interest expense	(340)	(352)	(689)	(712)
Income before provision for income taxes	29,757	30,322	51,052	54,635
Provision for income taxes	8,478	8,155	14,135	14,457
Net income	<u>21,279</u>	<u>22,167</u>	<u>36,917</u>	<u>40,178</u>
<i>Other comprehensive income (loss):</i>				
Marketable securities, available-for-sale:				
Change in unrealized gains (losses)	856	(172)	1,714	(664)
Less: reclassification adjustment for net (gains) losses included in other income (expense), net	(9)	8	(18)	8
Net change, net of tax of \$283, \$(57), \$571 and \$(221) for the three and six months ended June 30, 2019 and 2018, respectively	847	(164)	1,696	(656)
Foreign currency translation (loss) gain, net of tax of \$0 for each of the three and six months ended June 30, 2019 and 2018	(216)	34	(314)	73
Total other comprehensive income (loss)	<u>631</u>	<u>(130)</u>	<u>1,382</u>	<u>(583)</u>
Comprehensive income	<u>\$ 21,910</u>	<u>\$ 22,037</u>	<u>\$ 38,299</u>	<u>\$ 39,595</u>
<i>Earnings per share:</i>				
Basic	\$ 0.54	\$ 0.57	\$ 0.94	\$ 1.03
Diluted	\$ 0.54	\$ 0.56	\$ 0.93	\$ 1.02
<i>Weighted average common shares outstanding:</i>				
Basic	39,395	39,154	39,353	39,124
Diluted	39,527	39,385	39,524	39,298

See accompanying notes to condensed consolidated financial statements.

4

[Table of Contents](#)

MARCUS & MILLICHAP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except for shares)
(Unaudited)

	Three Months Ended June 30, 2019								
	Preferred Stock		Common Stock		Additional Paid-In Capital	Stock Notes Receivable From Employees	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount					
Balance at March 31, 2019	—	\$ —	39,042,434	\$ 4	\$ 97,587	\$ (4)	\$ 326,979	\$ 1,526	\$ 426,092
Net and comprehensive income	—	—	—	—	—	—	21,279	631	21,910
<i>Stock-based award activity</i>									

Stock-based compensation	—	—	—	—	2,585	—	—	—	2,585
Shares issued pursuant to employee stock purchase plan	—	—	11,022	—	338	—	—	—	338
Issuance of common stock for vesting of restricted stock units	—	—	40,823	—	—	—	—	—	—
Issuance of common stock for unvested restricted stock awards	—	—	10,542	—	—	—	—	—	—
Shares withheld related to net share settlement of stock-based awards	—	—	(13,960)	—	(412)	—	—	—	(412)
Balance as of June 30, 2019	—	\$ —	39,090,861	\$ 4	\$ 100,098	\$ (4)	\$ 348,258	\$ 2,157	\$ 450,513

	Three Months Ended June 30, 2018								
	Preferred Stock		Common Stock		Additional Paid-In Capital	Stock Notes Receivable From Employees	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount					
Balance at March 31, 2018	—	\$ —	38,578,834	\$ 4	\$ 90,840	\$ (4)	\$ 242,095	\$ 474	\$ 333,409
Net and comprehensive income	—	—	—	—	—	—	22,167	(130)	22,037
<i>Stock-based award activity</i>									
Stock-based compensation	—	—	—	—	3,159	—	—	—	3,159
Shares issued pursuant to employee stock purchase plan	—	—	13,028	—	356	—	—	—	356
Issuance of common stock for vesting of restricted stock units	—	—	21,810	—	—	—	—	—	—
Issuance of common stock for unvested restricted stock awards	—	—	12,852	—	—	—	—	—	—
Shares withheld related to net share settlement of stock-based awards	—	—	(4,812)	—	(64)	—	—	—	(64)
Balance as of June 30, 2018	—	\$ —	38,621,712	\$ 4	\$ 94,291	\$ (4)	\$ 264,262	\$ 344	\$ 358,897

See accompanying notes to condensed consolidated financial statements.

[Table of Contents](#)

MARCUS & MILLICHAP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)
(in thousands, except for shares)
(Unaudited)

	Six Months Ended June 30, 2019								
	Preferred Stock		Common Stock		Additional Paid-In Capital	Stock Notes Receivable From Employees	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2018	—	\$ —	38,814,464	\$ 4	\$ 97,458	\$ (4)	\$ 311,341	\$ 775	\$ 409,574
Net and comprehensive income	—	—	—	—	—	—	36,917	1,382	38,299
<i>Stock-based award activity</i>									
Stock-based compensation	—	—	—	—	4,926	—	—	—	4,926
Shares issued pursuant to employee stock purchase plan	—	—	11,022	—	338	—	—	—	338
Issuance of common stock for vesting of restricted stock units	—	—	325,219	—	—	—	—	—	—
Issuance of common stock for unvested restricted stock awards	—	—	10,542	—	—	—	—	—	—
Shares withheld related to net share settlement of stock-based awards	—	—	(70,386)	—	(2,624)	—	—	—	(2,624)
Balance as of June 30, 2019	—	\$ —	39,090,861	\$ 4	\$ 100,098	\$ (4)	\$ 348,258	\$ 2,157	\$ 450,513

	Six Months Ended June 30, 2018								
	Preferred Stock		Common Stock		Additional Paid-In Capital	Stock Notes Receivable From Employees	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2017	—	\$ —	38,374,011	\$ 4	\$ 89,877	\$ (4)	\$ 224,071	\$ 940	\$ 314,888
Cumulative effect of a change in accounting principle	—	—	—	—	—	—	13	(13)	—
Balance at January 1, 2018, as adjusted	—	—	38,374,011	4	89,877	(4)	224,084	927	314,888
Net and comprehensive income	—	—	—	—	—	—	40,178	(583)	39,595
<i>Stock-based award activity</i>									
Stock-based compensation	—	—	—	—	5,772	—	—	—	5,772

Shares issued pursuant to employee stock purchase plan	—	—	13,028	—	356	—	—	—	356
Issuance of common stock for vesting of restricted stock units	—	—	274,740	—	—	—	—	—	—
Issuance of common stock for unvested restricted stock awards	—	—	12,852	—	—	—	—	—	—
Shares withheld related to net share settlement of stock-based awards	—	—	(52,919)	—	(1,714)	—	—	—	(1,714)
Balance as of June 30, 2018	—	\$ —	<u>38,621,712</u>	<u>\$ 4</u>	<u>\$ 94,291</u>	<u>\$ (4)</u>	<u>\$ 264,262</u>	<u>\$ 344</u>	<u>\$ 358,897</u>

See accompanying notes to condensed consolidated financial statements.

6

[Table of Contents](#)

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

	Six Months Ended June 30,	
	2019	2018
Cash flows from operating activities		
Net income	\$ 36,917	\$ 40,178
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	3,764	2,878
Amortization of right-of-use assets	10,242	—
Recovery of bad debt expense	(13)	(29)
Stock-based compensation	4,926	5,772
Deferred taxes, net	3,863	1,489
Net realized gains on marketable securities, available-for-sale	(12)	(12)
Other non-cash items	(228)	151
Changes in operating assets and liabilities:		
Commissions receivable	(820)	2,861
Prepaid expenses	(1,689)	2,006
Prepaid rent	—	482
Other assets, net	(21,367)	(3,588)
Accounts payable and other liabilities	14	(1,525)
Income tax receivable/payable	(9,248)	1,525
Accrued bonuses and other employee related expenses	(14,228)	(6,751)
Deferred compensation and commissions	(28,291)	(23,066)
Operating lease liabilities	(8,169)	—
Deferred rent and other liabilities	(24)	675
Net cash (used in) provided by operating activities	<u>(24,363)</u>	<u>23,046</u>
Cash flows from investing activities		
Acquisition, net of cash received	—	(6,216)
Purchases of marketable securities, available-for-sale	(79,357)	(57,411)
Proceeds from sales and maturities of marketable securities, available-for-sale	103,108	64,969
Issuances of employee notes receivable	—	(125)
Payments received on employee notes receivable	1	6
Purchase of property and equipment	(4,126)	(2,643)
Net cash provided by (used in) investing activities	<u>19,626</u>	<u>(1,420)</u>
Cash flows from financing activities		
Taxes paid related to net share settlement of stock-based awards	(2,624)	(1,714)
Proceeds from issuance of shares pursuant to employee stock purchase plan	338	356
Principal payments on notes payable to former stockholders	(1,087)	(1,035)
Principal payments on stock appreciation rights liability	185	—
Net cash used in financing activities	<u>(3,188)</u>	<u>(2,393)</u>
Net (decrease) increase in cash and cash equivalents	(7,925)	19,233
Cash and cash equivalents at beginning of period	214,683	220,786
Cash and cash equivalents at end of period	<u>\$206,758</u>	<u>\$240,019</u>
Supplemental disclosures of cash flow information		
Interest paid during the period	<u>\$ 1,967</u>	<u>\$ 2,005</u>
Income taxes paid, net	<u>\$ 19,520</u>	<u>\$ 11,443</u>

See accompanying notes to condensed consolidated financial statements.

7

[Table of Contents](#)

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

1. Description of Business and Basis of Presentation

Description of Business

Marcus & Millichap, Inc. (the “Company”, “Marcus & Millichap”, or “MMI”), a Delaware corporation, is a brokerage firm specializing in commercial real estate investment sales, financing, research and advisory services. As of June 30, 2019, MMI operated 80 offices in the United States and Canada through its wholly-owned subsidiaries, including the operations of Marcus & Millichap Capital Corporation.

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, Marcus & Millichap Real Estate Investment Services, Inc. (“MMREIS”). Prior to the initial public offering (“IPO”) of MMI, all of the preferred and common stockholders of MMREIS (including MMC and employees of MMREIS) contributed all of their outstanding shares to MMI, in exchange for new MMI common stock. As a result, MMREIS became a wholly-owned subsidiary of MMI. Thereafter, MMC distributed 80.0% of the shares of MMI common stock to MMC’s shareholders and exchanged the remaining portion of its shares of MMI common stock for cancellation of indebtedness of MMC. MMI completed its IPO on October 30, 2013.

Basis of Presentation

The financial information presented in the accompanying unaudited condensed consolidated financial statements, has been prepared in accordance with rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and Article 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements and notes include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the condensed consolidated financial position, results of operations and cash flows for the periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2018 included in the Company’s Annual Report on Form 10-K filed on March 1, 2019 with the SEC. The results of the three and six months ended June 30, 2019 are not necessarily indicative of the results to be expected for the year ending December 31, 2019, for other interim periods or future years.

Consolidation

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

Use of Estimates

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

Segment Reporting

The Company follows U.S. GAAP for segment reporting, which requires reporting information on operating segments in interim and annual financial statements. Substantially all of the Company’s operations involve the delivery of commercial real estate services to our customers including real estate investment sales, financing (including mortgage servicing rights revenue) and consulting and advisory services. Management makes operating decisions, assesses performance and allocates resources based on an ongoing review of these integrated operations, which constitute the Company’s only operating segment for financial reporting purposes.

Reclassifications

Certain prior-period amounts in Note 13 – “Income Taxes” have been reclassified to conform to the current period presentation. These changes had no impact on the previously reported consolidated results of operations or any totals or subtotals therein.

[Table of Contents](#)

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

2. Accounting Policies and Recent Accounting Pronouncements

Accounting Policies

The complete list of the Company’s accounting policies is included in the Company’s Annual Report on Form 10-K filed on March 1, 2019 with the SEC. The following are updated or new accounting policies.

Leases

The Company utilizes operating leases for all its facilities and autos. The Company determines if an arrangement is a lease at inception. Right-of-use assets (“ROU assets”) represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s contractual obligation to make lease payments under the lease. Operating leases are included in operating lease ROU assets, non-current, and operating lease liabilities current and non-current captions in the condensed consolidated balance sheets.

Operating lease ROU assets and liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. Lease agreements may contain periods of free rent or reduced rent, predetermined fixed increases in the minimum rent and renewal or termination options, all impacting the determination of the lease term and lease payments to be used in calculating the lease liability. Certain facility leases provide for rental escalations related to increases in the lessors’ direct operating expenses. The Company uses the implicit rate in the lease when determinable. As most of the Company’s leases do not have a determinable implicit rate, the Company uses a derived incremental borrowing rate based on borrowing options under its credit agreement. The Company applies a spread over treasury rates for the indicated term of the lease based on the information available on the commencement date of the lease. The Company typically leases general purpose built-out office space, which reverts to the lessor upon termination of the lease. Any payments for completed improvements, determined to be owed by the lessor, net of incentives received, are recorded as an increase to the ROU asset and considered in the determination of the lease cost.

The Company has lease agreements with lease and non-lease components, which are accounted for as a single lease component. Lease cost is recognized on a straight-line basis over the lease term. Variable lease payments consist of common area costs, insurance, taxes, utilities, parking and other lease related costs, which are determined principally based on billings from landlords.

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), investments in marketable securities, available-for-sale, security deposits (included under other assets, non-current) and commissions receivable. Cash and cash equivalents are placed with high-credit quality financial institutions and invested in high-credit quality money market funds and commercial paper. Concentrations of marketable securities, available-for-sale are limited by the approved investment policy.

To reduce its credit risk, the Company monitors the credit standing of the financial institutions and money market funds that represent amounts recorded as cash and cash equivalents. The Company historically has not experienced any significant losses related to cash and cash equivalents.

The Company derives its revenues from a broad range of real estate investors, owners, and users in the United States and Canada, none of which individually represents a significant concentration of credit risk. The Company maintains allowances, as needed, for estimated credit losses based on management's assessment of the likelihood of collection. For the six months ended June 30, 2019 and 2018, no transaction represented 10% or more of total revenues. Further, while one or more transactions may represent 10% or more of commissions receivable at any reporting date, amounts due are typically collected within 10 days of settlement and, therefore, do not expose the Company to significant credit risk.

During the three and six months ended June 30, 2019 and 2018, the Company's Canadian operations represented less than % of total revenues.

During the three and six months ended June 30, 2019 and 2018, no office represented 10% or more of total revenues.

[Table of Contents](#)

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

Recent Accounting Pronouncements

Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 adopted the new standard effective January 1, 2019, which resulted in the recognition of ROU assets and lease liabilities for operating leases. Upon adoption, the Company, in determining ROU assets, also considered currently recorded amounts related to differences in straight line lease expense and cash lease payments and prepaid rent. ROU assets and operating lease obligations in connection with adoption of the new lease standard were \$76.7 million. At adoption date, the Company reclassified deferred rent in the amount of \$5.6 million (the noncurrent portion was included in deferred rent and other liabilities, and the current portion was included in accounts payable and other liabilities in the accompanying condensed consolidated balance sheets) and prepaid rent in the amount of \$13.4 million to ROU assets. The Company also reclassified prepaid rent in the amount of \$462,000 to other assets, current.

The adoption of the new standard had a material impact on the Company's condensed consolidated balance sheet, but did not have a material impact on the Company's condensed consolidated statements of net and comprehensive income.

The Company elected available practical expedients permitted under the guidance, which among other items, allow the Company to (i) carry forward its historical lease classification, (ii) not reassess leases for the definition of "lease" under the new standard, (iii) utilize a discount rate as of the effective date and (iv) not record leases that expired or were terminated prior to the effective date.

The Company made an accounting policy election to account for lease and non-lease components as a single lease component.

The Company implemented internal controls and key system functionality to enable the preparation of the required financial information.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities* ("ASU 2017-08"). The Company adopted the new standard effective January 1, 2019. ASU 2017-08 shortens the amortization period of a callable security that was acquired at a premium to the earliest call date of that security instead of the contractual life of the security. The adoption of ASU 2017-08 did not have a material effect on the Company's condensed consolidated financial statements.

Pending Adoption

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 on January 1, 2020. Under ASU 2016-13, the Company will be required to use an expected-loss model for its marketable securities available-for sale, which requires that credit losses be presented as an allowance rather than as an impairment write-down. Reversals of credit losses (in situations in which the estimate of credit losses declines) is permitted in the reporting period that the change occurs. Current U.S. GAAP prohibits reflecting reversals of impairment losses. At June 30, 2019, the Company had \$199.2 million in marketable securities, available for sale which would be subject to this new standard. As of June 30, 2019, these marketable securities, available for sale have an average credit rating of AA+ and no impairment write-downs have been recorded. The Company is currently evaluating the impact of this new standard on its investment policy and investments and does not expect the standard to have a material impact on its condensed consolidated financial statements at adoption or in subsequent periods. The Company does not plan to early adopt ASU 2016-13.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). ASU 2018-13 is effective for reporting periods beginning after December 15, 2019 and early adoption is permitted. For the Company, the new standard will be effective on January 1, 2020. ASU 2018-13 modifies prior disclosure requirements for fair value measurement. ASU 2018-13 removes certain disclosure requirements related to the fair value hierarchy, such as removing the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2, modifies existing disclosure requirements related to measurement uncertainty and adds new disclosure requirements for recurring and nonrecurring fair value measurements, such as disclosing the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. As of June 30, 2019, the Company had contingent consideration liability of \$2.9 million measured as Level 3. The Company is currently evaluating the impact of this new standard and does not expect ASU 2018-13 to have a material effect on its condensed consolidated financial statements.

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

In August 2018, the FASB issued ASU No. 2018-15, *Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract* ("ASU 2018-15"). ASU 2018-15 is effective for reporting periods beginning after December 15, 2019 and early adoption is permitted. For the Company, the new standard will be effective on January 1, 2020. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license), by permitting a customer in a cloud computing arrangement that is a service contract to capitalize certain implementation costs as if the arrangement was an internal-use software project. The Company is currently evaluating the impact of this new standard and does not expect ASU2018-15 to have a material effect on its condensed consolidated financial statements.

3. Property and Equipment, Net

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

	June 30, 2019	December 31, 2018
Computer software and hardware equipment	\$ 22,960	\$ 20,427
Furniture, fixtures, and equipment	22,816	24,227
Less: accumulated depreciation and amortization	(24,922)	(25,104)
	<u>\$ 20,854</u>	<u>\$ 19,550</u>

During the six months ended June 30, 2019 and 2018, the Company wrote-off approximately \$3.1 million and \$0.8 million, respectively, of fully depreciated computer software and hardware equipment and furniture, fixtures and equipment.

As of June 30, 2019 and 2018, property and equipment additions incurred but not yet paid included in accounts payable and other liabilities were \$466,000 and \$398,000, respectively.

4. Operating Leases

The Company has operating leases for all of its facilities and autos. As of June 30, 2019, operating lease ROU assets were \$03.3 million and the related accumulated amortization was \$10.2 million.

The operating lease cost consisted of the following (in thousands):

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Operating lease cost:		
Lease cost ⁽¹⁾	\$ 6,106	\$ 12,015
Variable lease cost ⁽²⁾	1,284	2,490
Sublease income	(43)	(131)
	<u>\$ 7,347</u>	<u>\$ 14,374</u>

⁽¹⁾ Includes short-term lease cost and ROU asset amortization.

⁽²⁾ Primarily relates to common area maintenance, property taxes, insurance, utilities and parking.

Maturities of lease liabilities by fiscal year consisted of the following (in thousands):

	June 30, 2019
Remainder of 2019	\$ 10,242
2020	20,469
2021	17,842
2022	13,820
2023	10,741
Thereafter	21,237
Total future minimum lease payments	94,351
Less imputed interest	(9,522)
Present value of operating lease liabilities	<u>\$ 84,829</u>

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

Supplemental cash flow information and noncash activity related to the operating leases consisted of the following (in thousands):

	Six Months Ended June 30, 2019
Operating cash flow information:	
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 9,973
Noncash activity:	
ROU assets obtained in exchange for operating lease liabilities	\$ 16,264

Tenant improvements owned by lessor related to ROU assets ⁽¹⁾	\$ 2,532
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(1) Reclassification from other assets current.

Additional noncash activity in connection with the adoption of the new lease standard on January 1, 2019 included recording of \$76.7 million of ROU assets and operating lease liabilities, and reclassifying \$7.8 million in prepaid rent and deferred rent to ROU assets.

Other information related to the operating leases consisted of the following:

	June 30, 2019
Weighted average remaining operating lease term	5.35 years
Weighted average discount rate	3.9%

Prior to the adoption of the new leases standard (as previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018), future minimum lease payments under non-cancelable operating leases for office facilities and autos with terms in excess of one year consisted of the following (in thousands):

	December 31, 2018
2019	\$ 19,649
2020	19,287
2021	16,833
2022	12,368
2023	8,805
Thereafter	10,452
	<u>\$ 87,394</u>

[Table of Contents](#)

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

5. Investments in Marketable Securities

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

	June 30, 2019				December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>Short-term investments:</i>								
U.S. treasuries	\$ 95,607	\$ 143	\$ —	\$ 95,750	\$ 121,252	\$ 7	\$ (79)	\$ 121,180
U.S. government sponsored entities	—	—	—	—	3,512	—	(7)	3,505
Corporate debt securities	23,137	26	(4)	23,159	11,962	—	(11)	11,951
Asset-backed securities and other	—	—	—	—	806	—	(6)	800
	<u>\$ 118,744</u>	<u>\$ 169</u>	<u>\$ (4)</u>	<u>\$ 118,909</u>	<u>\$ 137,532</u>	<u>\$ 7</u>	<u>\$ (103)</u>	<u>\$ 137,436</u>
<i>Long-term investments:</i>								
U.S. treasuries	\$ 37,139	\$ 393	\$ (1)	\$ 37,531	\$ 44,997	\$ 128	\$ (115)	\$ 45,010
U.S. government sponsored entities	1,478	—	(18)	1,460	1,569	—	(62)	1,507
Corporate debt securities	32,967	826	(5)	33,788	32,467	3	(633)	31,837
Asset-backed securities and other	7,464	91	(5)	7,550	4,889	12	(46)	4,855
	<u>\$ 79,048</u>	<u>\$ 1,310</u>	<u>\$ (29)</u>	<u>\$ 80,329</u>	<u>\$ 83,922</u>	<u>\$ 143</u>	<u>\$ (856)</u>	<u>\$ 83,209</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):

	June 30, 2019		December 31, 2018	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Less than 12 months	\$ (7)	\$ 9,825	\$ (576)	\$ 127,326
12 months or longer	\$ (26)	\$ 4,045	\$ (383)	\$ 30,609

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Gross realized gains ⁽¹⁾	\$ 24	\$ 12	\$ 59	\$ 12
Gross realized losses ⁽¹⁾	\$ —	\$ —	\$ (47)	\$ —

(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 based on the specific identification method.

As of June 30, 2019, 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 has no current intent to sell, and it is not more likely than not that the Company will be required to sell these investments before recovery of their amortized cost basis, which may be at maturity. The Company may sell certain of its marketable securities, available-for-sale prior to their stated maturities for strategic reasons including, but not limited to, anticipated liquidity and capital requirements, anticipated credit deterioration, duration management or when a security no longer meets the criteria of the Company's investment policy.

[Table of Contents](#)

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

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

	June 30, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 118,744	\$118,909	\$ 137,532	\$137,436
Due after one year through five years	58,273	59,002	61,875	61,846
Due after five years through ten years	15,941	16,451	17,310	16,747
Due after ten years	4,834	4,876	4,737	4,616
	<u>\$ 197,792</u>	<u>\$199,238</u>	<u>\$ 221,454</u>	<u>\$220,645</u>
Weighted average contractual maturity	1.9 years		1.8 years	

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

6. Goodwill and Other Intangible Assets

Goodwill and intangible assets, net consisted of the following (in thousands):

	June 30, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Goodwill and intangible assets:						
Goodwill ⁽¹⁾	\$11,459	\$ —	\$11,459	\$11,459	\$ —	\$11,459
Intangible assets ⁽¹⁾	4,240	(810)	3,430	4,240	(314)	3,926
	<u>\$15,699</u>	<u>\$ (810)</u>	<u>\$14,889</u>	<u>\$15,699</u>	<u>\$ (314)</u>	<u>\$15,385</u>

⁽¹⁾ Represents additions from acquisitions.

Estimated amortization expense for intangible assets for the next five years and thereafter consisted of the following (in thousands):

	June 30, 2019
Remainder of 2019	\$ 410
2020	817
2021	734
2022	638
2023	508
Thereafter	323
	<u>\$ 3,430</u>

[Table of Contents](#)

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

7. Selected Balance Sheet Data

Other Assets

Other assets consisted of the following (in thousands):

	Current		Non-Current	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Mortgage servicing rights ("MSRs"), net of amortization	\$ —	\$ —	\$ 2,099	\$ 2,209
Due from independent contractors, net ^{(1) (2)}	2,288	3,831	46,328	27,157
Security deposits	—	—	1,301	1,196
Employee notes receivable ⁽³⁾	151	156	264	370
Customer trust accounts and other	3,794	2,381	853	846
	<u>\$6,233</u>	<u>\$ 6,368</u>	<u>\$50,845</u>	<u>\$ 31,778</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 \$98 and \$514 as of June 30, 2019 and December 31, 2018, respectively. The Company recorded a provision for bad debt expense of \$91 and \$77 and wrote-off \$100 and \$4 of these receivables for the three months ended June 30, 2019 and 2018, respectively. The Company recorded a recovery for bad debt expense of \$(13) and \$(29) and wrote-off \$103 and \$55 of these receivables for the six months ended June 30, 2019 and 2018, respectively. Any cash receipts on notes are applied first to unpaid principal balance prior to any income being recognized.

⁽³⁾ Reduction of accrued bonuses and other employee related expenses in settlement of employee notes receivable were \$0 and \$192 for the six months ended June 30, 2019 and 2018, respectively. See Note 9 – "Related-Party Transactions" for additional information.

MSRs

The net change in the carrying value of MSRs consisted of the following (in thousands):

	June 30, 2019	December 31, 2018
Beginning balance	\$2,209	\$ —
Additions from acquisition	—	2,121
Additions	165	391
Amortization	(275)	(303)
Ending balance	<u>\$2,099</u>	<u>\$ 2,209</u>

The portfolio of loans serviced by the Company aggregated \$1.5 billion and \$1.6 billion as of June 30, 2019 and December 31, 2018, respectively. See Note 10 – “Fair Value Measurements” for additional information on MSRs.

In connection with MSRs activities, the Company holds funds in escrow for the benefit of the lenders. These funds, which totaled \$2.5 million and \$2.1 million as of June 30, 2019 and December 31, 2018, respectively and the offsetting obligations, are not presented in the Company’s condensed consolidated financial statements as they do not represent assets and liabilities of the Company. Revenue from the fees on such accounts is included in financing revenue in the condensed consolidated statements of net and comprehensive income.

Deferred Compensation and Commissions

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

	Current		Non-Current	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Stock appreciation rights (“SARs”) liability ⁽¹⁾	\$ 1,969	\$ 1,810	\$17,856	\$ 19,299
Commissions payable to investment sales and financing professionals	28,218	44,812	13,939	23,983
Deferred compensation liability ⁽¹⁾	1,451	1,288	7,169	6,605
	<u>\$31,638</u>	<u>\$ 47,910</u>	<u>\$38,964</u>	<u>\$ 49,887</u>

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

[Table of Contents](#)

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

SARs Liability

Prior to the IPO, certain employees of the Company were granted SARs under a stock-based compensation program assumed by MMC. In connection with the IPO, the SARs agreements were revised, the MMC liability of \$20.0 million for the SARs was frozen as of March 31, 2013, and was transferred to MMI through a capital distribution. The SARs liability will be settled with each participant in ten annual installments in January of each year upon retirement or termination from service, or in full upon consummation of a change in control of the Company.

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, 2019 and 2018 were 4.684% and 4.409%, respectively. MMI recorded interest expense related to this liability of \$226,000 and \$224,000 for the three months ended June 30, 2019 and 2018, respectively, and \$452,000 and \$449,000 for the six months ended June 30, 2019 and 2018, respectively.

Estimated payouts within the next twelve months for participants that have separated from service have been classified as current. During the six months ended June 30, 2019 and 2018, the Company made total payments of \$1.7 million (consisting of principal and accumulated interest) and \$1.5 million, respectively (consisting of accumulated interest).

Commissions Payable

Certain investment sales professionals have the ability to earn additional commissions after meeting certain annual revenue thresholds. These commissions are recognized as cost of services in the period in which they are earned as they relate to specific transactions closed. The Company has the ability to defer payment of certain commissions, at its election, for up to three years. Commissions payable that are not expected to be paid within twelve months are classified as long-term.

Deferred Compensation Liability

A select group of management is eligible to participate in the Marcus & Millichap Deferred Compensation Plan (the “Deferred Compensation Plan”). The Deferred Compensation Plan is a non-qualified deferred compensation plan that is intended to comply with Section 409A of the Internal Revenue Code and permits participants to defer compensation up to limits set forth in the Deferred Compensation 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, in which case the trust assets are subject to the claims of the Company’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 or elected in service payout have been classified as current. During the six months ended June 30, 2019 and 2018, the Company made total payments to participants of \$786,000 and \$387,000, respectively.

The net change in the carrying value of the assets held in the rabbi trust and the net change in the carrying value of the deferred compensation

liability, each exclusive of additional contributions, distributions and trust expenses, consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Increase in the carrying value of the assets held in the rabbi trust ⁽¹⁾	\$ 225	\$ 176	\$ 928	\$ 190
Increase in the net carrying value of the deferred compensation obligation ⁽²⁾	\$ 227	\$ 188	\$ 912	\$ 188

(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.

[Table of Contents](#)

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

Deferred Rent and Other Liabilities

Deferred rent and other liabilities consisted of the following (in thousands):

	Non-Current	
	June 30, 2019	December 31, 2018
Deferred rent ⁽¹⁾	\$ —	\$ 5,445
Contingent consideration and other ⁽²⁾	2,001	2,054
	<u>\$2,001</u>	<u>\$ 7,499</u>

(1) The Company does not have deferred rent in 2019 due to adoption of the new lease standard on January 1, 2019.

(2) The current portions of contingent consideration in the amounts of \$853 and \$821 as of June 30, 2019 and December 31, 2018, respectively, are included in accounts payable and other liabilities in the condensed consolidated balance sheets.

8. Notes Payable to Former Stockholders

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

9. Related-Party Transactions

Shared and Transition Services

Certain services are provided to the Company under a Transition Services Agreement (“TSA”) between MMC and the Company. The TSA is intended to provide certain services until the Company acquires the services separately. Under the TSA, the Company incurred net costs during the three months ended June 30, 2019 and 2018 of \$32,000 and \$55,000, respectively, and during the six months ended June 30, 2019 and 2018 of \$75,000 and \$127,000, respectively. These amounts are included in selling, general and administrative expense in the accompanying condensed consolidated statements of net and comprehensive income.

Brokerage and Financing Services with the Subsidiaries of MMC

MMC has wholly or majority owned subsidiaries that buy and sell commercial real estate properties. The Company performs certain brokerage and financing services related to transactions of the subsidiaries of MMC. For the three months ended June 30, 2019 and 2018, the Company earned real estate brokerage commissions and financing fees of \$1.9 million and \$560,000, respectively, from transactions with subsidiaries of MMC related to these services. The Company incurred cost of services of \$1.1 million and \$321,000, respectively, related to these revenues. For the six months ended June 30, 2019 and 2018, the Company earned real estate brokerage commissions and financing fees of \$2.8 million and \$3.1 million, respectively, from transactions with subsidiaries of MMC related to these services. The Company incurred cost of services of \$1.6 million and \$1.8 million, respectively, related to these revenues.

Operating Lease with MMC

The Company has an operating lease with MMC for a single-story office building located in Palo Alto, California, which expires on May 31, 2022. The related operating lease cost for the three months ended June 30, 2019 and 2018 was \$333,000 and \$255,000, respectively, and for the six months ended June 30, 2019 and 2018 was \$666,000 and \$508,000, respectively. Operating lease cost is included in selling, general and administrative expense in the accompanying condensed consolidated statements of net and comprehensive income. See Note 4 – “Operating Leases” for additional information.

Accounts Payable and Other Liabilities with MMC

As of June 30, 2019 and December 31, 2018, accounts payable and other liabilities with MMC totaling \$2,000 and \$101,000, respectively, remain unpaid and are included in accounts payable and other liabilities in the accompanying condensed consolidated balance sheets.

[Table of Contents](#)

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

Other

The Company makes advances to non-executive employees from time-to-time. At June 30, 2019 and December 31, 2018, the aggregate principal

amount for employee notes receivable was \$415,000 and \$526,000, respectively, which is included in other assets (current and non-current), in the accompanying condensed consolidated balance sheets. See Note 7 – “Selected Balance Sheet Data” for additional information.

As of June 30, 2019, George M. Marcus, the Company’s founder and Co-Chairman, beneficially owned approximately 40% of the Company’s issued and outstanding common stock, including shares owned by Phoenix Investments Holdings, LLC and the Marcus Family Foundation II.

10. 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 investments carried at fair value and the supporting methodologies and assumptions. The Company uses various pricing sources and third parties to validate the values utilized.

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

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

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

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

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

Recurring Fair Value Measurements

The Company values its investments including commercial paper and floating NAV money market funds recorded in cash and cash equivalents, investments in marketable securities, available-for-sale, assets held in the Rabbi Trust, acquired MSR contracts and contingent consideration at fair value on a recurring basis. Fair values for investments included in cash and cash equivalents and marketable securities, available-for-sale were determined for each individual security in the investment portfolio and all these securities are Levels 1 or 2 measurements as appropriate.

Fair values for assets held in the Rabbi Trust and related deferred compensation liability were determined based on the cash surrender value of the company owned variable life insurance policies and underlying investments in the trust, and are Level 2 and Level 1 measurements, respectively.

Contingent consideration, in connection with acquisitions, is carried at fair value and determined on a contract-by-contract basis calculated using a probability weighted discounted cash flows based on the probability of achieving EBITDA and other service requirements and is a Level 3 measurement.

The Company values MSRs at fair value upon acquisition of a servicing contract. MSRs do not trade in an active, open market with readily observable prices, and are a Level 3 measurement.

[Table of Contents](#)

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

Assets and liabilities carried at fair value on a recurring basis consisted of the following (in thousands):

	June 30, 2019				December 31, 2018			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets:								
Assets held in rabbi trust	\$ 9,119	\$ —	\$ 9,119	\$ —	\$ 8,268	\$ —	\$ 8,268	\$ —
Cash equivalents ⁽¹⁾ :								
Commercial paper and other	\$ 1,496	\$ —	\$ 1,496	\$ —	\$ 1,599	\$ 1,599	\$ —	\$ —
Money market funds	171,663	171,663	—	—	163,126	163,126	—	—
	<u>\$173,159</u>	<u>\$171,663</u>	<u>\$ 1,496</u>	<u>\$ —</u>	<u>\$164,725</u>	<u>\$164,725</u>	<u>\$ —</u>	<u>\$ —</u>
Marketable securities, available-for-sale:								
<i>Short-term investments:</i>								
U.S. treasuries	\$ 95,750	\$ 95,750	\$ —	\$ —	\$121,180	\$121,180	\$ —	\$ —
U.S. government sponsored entities	—	—	—	—	3,505	—	3,505	—
Corporate debt securities	23,159	—	23,159	—	11,951	—	11,951	—
Asset-backed securities and other	—	—	—	—	800	—	800	—
	<u>\$118,909</u>	<u>\$ 95,750</u>	<u>\$23,159</u>	<u>\$ —</u>	<u>\$137,436</u>	<u>\$121,180</u>	<u>\$16,256</u>	<u>\$ —</u>
<i>Long-term investments:</i>								
U.S. treasuries	\$ 37,531	\$ 37,531	\$ —	\$ —	\$ 45,010	\$ 45,010	\$ —	\$ —
U.S. government sponsored entities	1,460	—	1,460	—	1,507	—	1,507	—
Corporate debt securities	33,788	—	33,788	—	31,837	—	31,837	—
Asset-backed securities and other	7,550	—	7,550	—	4,855	—	4,855	—
	<u>\$ 80,329</u>	<u>\$ 37,531</u>	<u>\$42,798</u>	<u>\$ —</u>	<u>\$ 83,209</u>	<u>\$ 45,010</u>	<u>\$38,199</u>	<u>\$ —</u>
Liabilities:								
Contingent consideration ⁽²⁾	\$ 2,859	\$ —	\$ —	\$2,859	\$ 2,875	\$ —	\$ —	\$2,875
Deferred compensation liability	\$ 8,620	\$ 8,620	\$ —	\$ —	\$ 7,893	\$ 7,893	\$ —	\$ —

(1) Included in cash and cash equivalents on the accompanying condensed consolidated balance sheets.

(2) Assuming the achievement of the applicable performance criteria, the Company anticipates these earn-out payments will be made over the next three to seven-year period. A reconciliation of contingent consideration measured at fair value on a recurring basis consisted of the following (in thousands):

	June 30, 2019	December 31, 2018
Beginning balance	\$2,875	\$ —
Contingent consideration in connection with acquisitions	—	2,674
Change in fair value of contingent consideration	(16)	201
Payments of contingent consideration	—	—
Ending balance	<u>\$2,859</u>	<u>\$ 2,875</u>

There were no transfers in or out of Level 1, Level 2 and Level 3 during the six months ended June 30, 2019.

[Table of Contents](#)

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

Nonrecurring Fair Value Measurements

The Company reviews the carrying value of MSRs, intangibles, goodwill and other assets for indications of impairment quarterly. When indications of potential impairment are identified, the Company may be required to determine the fair value of those assets and record an adjustment for the carrying amount in excess of the fair value determined. Any fair value determination would be based on valuation approaches appropriate in the circumstances and utilize Level 2 and Level 3 measurements as required. In accordance with U.S. GAAP, from time to time, the Company measures certain assets at fair value on a nonrecurring basis. MSRs are initially recorded at fair value based on internal models and are a Level 3 measurement. The Company's MSRs do not trade in an active, open market with readily observable prices. The Company has elected the amortization method for the subsequent measurement of MSRs. The estimated fair value of the Company's MSRs were developed using discounted cash flow models that calculate the present value of estimated future net servicing income. The model considers contractual provisions and assumptions of market participants including specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service, and other economic factors. The Company periodically reassesses and adjusts, when necessary, the underlying inputs and assumptions used in the model to reflect observable market conditions and assumptions that a market participant would consider in valuing an MSR asset. MSRs are carried at the lower of amortized cost or fair value. The fair value of the MSRs approximated the carrying value at June 30, 2019 and December 31, 2018. See Note 7 – "Selected Balance Sheet Data – Other Assets – MSR's" for additional information.

11. Stockholders' Equity

Common Stock

As of June 30, 2019 and December 31, 2018, there were 39,090,861 and 38,814,464 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 14 – "Earnings per Share" for additional information.

Preferred Stock

The Company has 25,000,000 authorized shares of preferred stock with a par value \$0.0001 per share. At June 30, 2019 and December 31, 2018, there were no preferred shares issued or outstanding.

Accumulated Other Comprehensive Income/Loss

Amounts reclassified from accumulated other comprehensive income/loss are 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.

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.

12. Stock-Based Compensation Plans

2013 Omnibus Equity Incentive Plan

The Company's board of directors adopted the 2013 Omnibus Equity Incentive Plan (the "2013 Plan"), which became effective upon the Company's IPO. In February 2017, the board of directors amended and restated the 2013 Plan, which was approved by the Company's stockholders in May 2017. Grants are made from time to time by the compensation committee of 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. In addition, non-employee directors receive annual grants under a director compensation policy. As of June 30, 2019, there were 5,322,813 shares available for future grants under the 2013 Plan.

Awards Granted and Settled

Under the 2013 Plan, the Company has issued restricted stock awards ("RSAs") to non-employee directors and restricted stock units ("RSUs") to employees and independent contractors. RSAs vest in equal annual installments over a one-year or three-year period from the date of grant. All RSUs vest in equal annual installments over a five-year period from the date of grant or earlier as approved by the compensation committee of the Company's board of directors. Any unvested awards are canceled upon termination as a service provider. Awards accelerate upon death subject to approval by the compensation committee. As of June 30, 2019, there were no issued or outstanding options, SARs, performance units or performance shares awards under the 2013 Plan.

[Table of Contents](#)

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

During the six months ended June 30, 2019, 325,219 shares of RSUs were vested and delivered. Additionally, 70,386 shares of common stock were withheld to pay applicable required employee statutory withholding taxes based on the market value of the shares on the vesting date. The shares withheld

for taxes were returned to the share reserve and are available for future issuance in accordance with provisions of the 2013 Plan.

Outstanding Awards

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

	RSA Grants to Non-employee Directors	RSU Grants to Employees	RSU Grants to Independent Contractors	Total	Weighted- Average Grant Date Fair Value Per Share
Nonvested shares at December 31, 2018	27,096	471,782	392,697	891,575	\$ 27.59
Granted					
February 2019	—	204,060	7,731	211,791	
May 2019	10,542	32,926	7,026	50,494	
Total Granted	10,542	236,986	14,757	262,285	40.07
Vested	(22,422)	(177,154)	(148,065)	(347,641)	23.00
Transferred	—	(8,136)	8,136	—	29.68
Forfeited/canceled	—	(3,277)	(20,274)	(23,551)	31.36
Nonvested shares at June 30, 2019 ⁽¹⁾	15,216	520,201	247,251	782,668	\$ 33.70
Unrecognized stock-based compensation expense as of June 30, 2019 ⁽²⁾	\$ 477	\$ 15,847	\$ 7,575	\$ 23,899	
Weighted average remaining vesting period (years) as of June 30, 2019	0.84	3.86	3.17	3.58	

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

(2) The total unrecognized compensation expense is expected to be recognized over a weighted-average period of approximately 3.58 years.

Employee Stock Purchase Plan

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

The ESPP initially had 366,667 shares of common stock reserved and 214,872 shares of common stock remain available for issuance at June 30, 2019. The ESPP provides for annual increases in the number of shares available for issuance under the ESPP, equal to the least of (i) 366,667 shares, (ii) 1% of the outstanding shares on such date, or (iii) an amount determined by the compensation committee of the Company’s board of directors. Pursuant to the provisions of the ESPP, the board of directors has determined to not provide for any annual increases to date. At June 30, 2019, total unrecognized compensation cost related to the ESPP was \$61,000 and is expected to be recognized over a weighted average period of 0.38 years.

SARs and Deferred Stock Units (“DSUs”)

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

Table of Contents

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

Future share settlements of fully vested DSUs by year consisted of the following:

	June 30, 2019
2021	60,373
2022	281,193
	341,566

Summary of Stock-Based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Employee stock purchase plan	\$ 38	\$ 24	\$ 68	\$ 63
RSAs – non-employee directors	154	165	324	276
RSUs – employees ⁽¹⁾	1,622	1,096	2,967	2,049
RSUs – independent contractors ⁽²⁾	771	1,874	1,567	3,384
	\$ 2,585	\$ 3,159	\$ 4,926	\$ 5,772

(1) 2019 includes expense related to the acceleration of vesting of certain RSUs.

- (2) The Company grants RSUs to independent contractors (i.e. investment sales and financing professionals), who are considered non-employees. Prior to the adoption of ASU No. 2018-07 on July 1, 2018, such awards were required to be measured at fair value at the end of each reporting period until settlement. Stock-based compensation expense was therefore impacted by the changes in the Company's common stock price during each reporting period prior to the date of adoption. New awards after the date of adoption are measured based on the grant date closing price of the Company's common stock consistent with awards made to the Company's employees and non-employee directors.

13. Income Taxes

The Company's effective tax rate for the three and six months ended June 30, 2019 was 28.5% and 27.7%, respectively, compared to 26.9% and 26.4% for the three and six months ended June 30, 2018, respectively. The Company provides for the effects of income taxes in interim financial statements based on the Company's estimate of its annual effective tax rate for the full year, which is based on forecasted income by jurisdiction where the Company operates, adjusted for the tax effects of items that relate discretely to the period, if any.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019		2018		2019		2018	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Income tax expense at the federal statutory rate	\$6,249	21.0%	\$6,368	21.0%	\$10,721	21.0%	\$11,474	21.0%
State income tax expense, net of federal benefit	1,346	4.5%	1,415	4.7%	2,240	4.4%	2,511	4.6%
Windfall tax benefits, net related to stock-based compensation	11	—	(28)	(0.1)%	(254)	(0.5)%	(245)	(0.5)%
Change in valuation allowance	200	0.7%	74	0.2%	466	0.9%	121	0.2%
Permanent and other items ⁽¹⁾	672	2.3%	326	1.1%	962	1.9%	596	1.1%
	<u>\$8,478</u>	<u>28.5%</u>	<u>\$8,155</u>	<u>26.9%</u>	<u>\$14,135</u>	<u>27.7%</u>	<u>\$14,457</u>	<u>26.4%</u>

- (1) Permanent items relate principally to compensation charges, qualified transportation fringe benefits and meals and entertainment.

[Table of Contents](#)

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

14. Earnings per Share

Basic and diluted earnings per share for the three and six months ended June 30, 2019 and 2018, respectively consisted of the following (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Numerator (Basic and Diluted):				
Net income	<u>\$21,279</u>	<u>\$22,167</u>	<u>\$36,917</u>	<u>\$40,178</u>
Denominator:				
<i>Basic</i>				
Weighted average common shares issued and outstanding	39,073	38,606	39,035	38,576
Deduct: Unvested RSAs ⁽¹⁾	(20)	(31)	(24)	(31)
Add: Fully vested DSUs ⁽²⁾	342	579	342	579
Weighted Average Common Shares Outstanding	<u>39,395</u>	<u>39,154</u>	<u>39,353</u>	<u>39,124</u>
Basic earnings per common share	<u>\$ 0.54</u>	<u>\$ 0.57</u>	<u>\$ 0.94</u>	<u>\$ 1.03</u>
<i>Diluted</i>				
Weighted Average Common Shares Outstanding from above	39,395	39,154	39,353	39,124
Add: Dilutive effect of RSUs, RSAs & ESPP	132	231	171	174
Weighted Average Common Shares Outstanding	<u>39,527</u>	<u>39,385</u>	<u>39,524</u>	<u>39,298</u>
Diluted earnings per common share	<u>\$ 0.54</u>	<u>\$ 0.56</u>	<u>\$ 0.93</u>	<u>\$ 1.02</u>
Antidilutive shares excluded from diluted earnings per common share ⁽³⁾	<u>272</u>	<u>55</u>	<u>260</u>	<u>242</u>

- (1) RSAs were issued and outstanding to the non-employee directors and have a one-year or three-year vesting term subject to service requirements. See Note 12 – "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 12 – "Stock-Based Compensation Plans" for additional information.
- (3) Primarily pertaining to RSU grants to the Company's employees and independent contractors.

15. Commitments and Contingencies

Credit Agreement

On June 18, 2014, the Company entered into a Credit Agreement with Wells Fargo Bank, National Association (the "Bank"), dated as of June 1, 2014, which was amended and restated on May 28, 2019 (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 and restated, matures on June 1, 2022. 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 June 30, 2019. Borrowings under the Credit Facility will bear interest, at the Company's option, at either (i) a fluctuating rate per annum 2.00% below the Base Rate (defined as the highest of (a) the Bank's prime rate, (b) one-month LIBOR plus 1.50%, and (c) the federal funds rate plus 1.50%), or (ii) at a fixed rate per annum determined by Bank to be 0.875% above LIBOR. In connection with executing the Credit Agreement, as amended and restated, the Company paid bank fees and other expenses, which are being amortized over the remaining term of the Credit Agreement. The Company pays a commitment fee of up to 0.1% per annum, payable quarterly, based on the amount of unutilized commitments under the Credit Facility. The amortization and commitment fee is included in interest expense

in the accompanying condensed consolidated statements of net and comprehensive income and was \$ 26,000 during both the three months ended June 30, 2019 and 2018, and \$52,000 during both the six months ended June 30, 2019 and 2018. As of June 30, 2019 and December 31, 2018, there were no amounts outstanding under the Credit Agreement.

[Table of Contents](#)

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

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, determined on a rolling four-quarter basis, (ii) total funded debt to EBITDA not greater than 2.0:1.0 as of each quarter end, determined on a rolling four-quarter basis and (iii) limits investments in foreign entities and caps certain other loans. 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), in which case no such pledge is required. As of June 30, 2019, the Company was in compliance with all financial and non-financial covenants and has not experienced any limitation in its operations as a result of the covenants.

Other

In connection with certain agreements with current and prospective investment sales and financing professionals, the Company has commitments as of June 30, 2019 and December 31, 2018, aggregating \$9.8 million and \$1.0 million, respectively, including amounts committed to through the date these condensed consolidated financial statements were issued. These commitments are subject to various conditions and/or reaching of performance goals.

[Table of Contents](#)

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

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

Forward-Looking Statements

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors. The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2019, 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, 2018 filed with the SEC on March 1, 2019, 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 June 30, 2019, we had 1,965 investment sales and financing professionals that are primarily exclusive independent contractors operating in 80 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 six months ended June 30, 2019, we closed 2,535 and 4,485 investment sales, financing and other transactions with total volume of approximately \$13.0 billion and \$22.8 billion, respectively. During the year ended December 31, 2018, we closed 9,472 investment sales, financing and other transactions with total sales volume of approximately \$46.4 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 both the three and six months ended June 30, 2019, approximately 90% of our revenues were generated from real estate brokerage commissions, 9% from financing fees and 1% from other revenues, including consulting and advisory services. During the year ended December 31, 2018, approximately 92% of our revenues were generated from real estate brokerage commissions, 7% from financing fees and 1% from other revenues, including consulting and advisory services.

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

- Properties priced 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 65% of our real estate brokerage commissions during the three months ended June 30, 2019 and 2018, respectively, and approximately 67% and 65% of our real estate brokerage commissions during the six months ended June 30, 2019 and 2018, respectively. The following tables set forth the number of transactions, and amount of sales volume and revenues by commercial real estate market segment for real estate brokerage:

	Three Months Ended June 30,								
	2019			2018			Change		
	Number	Volume (in millions)	Revenues (in thousands)	Number	Volume (in millions)	Revenues (in thousands)	Number	Volume (in millions)	Revenues (in thousands)
<i>Real Estate Brokerage</i>									
<\$1 million	258	\$ 170	\$ 7,137	251	\$ 161	\$ 6,727	7	\$ 9	\$ 410
Private client market (\$1 - \$10 million)	1,392	4,582	128,526	1,299	4,096	118,152	93	486	10,374

Middle market (≥\$10 - \$20 million)	111	1,523	26,944	118	1,602	27,555	(7)	(79)	(611)
Larger transaction market (≥\$20 million)	73	2,958	26,073	84	3,089	29,206	(11)	(131)	(3,133)
	<u>1,834</u>	<u>\$ 9,233</u>	<u>\$ 188,680</u>	<u>1,752</u>	<u>\$ 8,948</u>	<u>\$ 181,640</u>	<u>82</u>	<u>\$ 285</u>	<u>\$ 7,040</u>

25

Table of Contents

	Six Months Ended June 30,								
	2019			2018			Change		
	Number	Volume (in millions)	Revenues (in thousands)	Number	Volume (in millions)	Revenues (in thousands)	Number	Volume (in millions)	Revenues (in thousands)
<i>Real Estate Brokerage</i>									
<\$1 million	459	\$ 301	\$ 12,425	496	\$ 323	\$ 13,595	(37)	\$ (22)	\$ (1,170)
Private client market (\$1 - \$10 million)	2,452	7,902	224,584	2,467	7,656	224,164	(15)	246	420
Middle market (≥\$10 - \$20 million)	203	2,768	50,524	231	3,208	54,826	(28)	(440)	(4,302)
Larger transaction market (≥\$20 million)	125	5,365	46,084	143	5,677	51,580	(18)	(312)	(5,496)
	<u>3,239</u>	<u>\$ 16,336</u>	<u>\$ 333,617</u>	<u>3,337</u>	<u>\$ 16,864</u>	<u>\$ 344,165</u>	<u>(98)</u>	<u>\$ (528)</u>	<u>\$ (10,548)</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 opportunities where we believe the markets will benefit from our business model. In 2018, we completed acquisitions that expanded our presence in the financing market in the Midwest and in the real estate brokerage market in Canada. In 2018, we also added commercial mortgage servicing to our financing services.

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 that 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 identify those that need financing and refinancing. We principally monitor the commercial real estate market through four factors, which generally drive our business. The factors are the economy, commercial real estate supply and demand, capital markets and investment sentiment 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, retail spending and confidence trends can have a positive or a negative impact on our business. Overall market conditions, including global trade, interest rate changes and job creation, can affect investor sentiment and, ultimately, the demand for our services from investors in real estate.

Commercial Real Estate Supply and Demand

Our business is dependent on the willingness of investors to invest in or sell commercial real estate, which is affected by factors beyond our control. These factors include the supply of commercial real estate coupled with user demand for these properties and the performance of real estate assets when compared with other investment alternatives, such as stocks and bonds.

Capital Markets

Credit and liquidity issues in the financial markets have a direct impact on the flow of capital to the commercial real estate market. Real estate purchases are often financed with debt and, as a result, credit and liquidity impact transaction activity and prices. Changes in interest rates, as well as steady and protracted movements of interest rates in one direction, whether increases or decreases, could adversely or positively affect the operations and income potential of commercial real estate properties, as well as lender and equity underwriting for real estate investments. These changes influence the demand of investors for commercial real estate investments.

Investor Sentiment and Investment Activity

We rely on investors to buy and sell properties in order to generate commissions. Investors' desires to engage in real estate transactions are dependent on many factors that are beyond our control. The economy, supply and demand for properly positioned properties, available credit and market events impact investor sentiment and, therefore, transaction velocity. In addition, our private clients are often motivated to buy, sell and/or refinance properties due to personal circumstances such as death, divorce, partnership breakups and estate planning.

26

Table of Contents

Investors have been reinvigorated by the interest rate decline as the widening spread between asset yields and debt financing costs has granted increased underwriting latitude. However, the combination of economic momentum and strong fundamentals across most property types has raised seller expectations, causing them to price assets aggressively in many cases. Buyers, however, continue to demonstrate increased caution as they consider the maturing growth cycle and the prospects of a recession occurring during their hold period. The resulting gap in expectations remains a modest but steady headwind, extending asset marketing and closing timelines. We believe that sustained economic and fundamentals performance momentum is balancing with caution surrounding financial market volatility, international trade relations and the maturing cycle to offer a generally stable investment climate.

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 industry-wide 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, pursuant to 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

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

Key Financial Measures and Indicators

Revenues

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

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

A small percentage of our transactions include retainer fees and/or breakage fees. Retainer fees are credited against a success-based fee paid 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 that 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.

Table of Contents

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 mortgage servicing revenue, mortgage servicing fees and ancillary fees associated with financing activities. We recognize mortgage servicing revenues upon the acquisition of a servicing obligation. We generate mortgage servicing fees through the provision of collection, remittance, recordkeeping, reporting and other related mortgage servicing functions, activities and services.

Other Revenues

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

Operating Expenses

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

Cost of Services

The majority of our cost of services expense is variable commissions paid to our investment sales professionals and compensation-related costs related to our financing activities. Commission expenses are directly attributable to providing services to our clients for investment sales and financing services. Most of our investment sales and financing professionals are independent contractors and are paid commissions; however, because there are some who are initially paid a salary and certain of our financing professionals are employees, 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 our 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 we are 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 and 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, transaction costs related to acquisitions, changes in fair value for contingent consideration 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 Amended and Restated 2013 Omnibus Equity Incentive Plan ("2013 Plan") and the 2013 Employee Stock Purchase Plan ("ESPP").

Depreciation and Amortization Expense

Depreciation expense consists of depreciation recorded on our computer software and hardware and furniture, fixture and equipment. Depreciation is provided over estimated useful lives ranging from three to seven years for owned assets. Amortization expense consists of (i) amortization recorded on our mortgage servicing rights (“MSRs”) using the interest method over the period that servicing income is expected to be received and (ii) amortization recorded on intangible assets amortized on a straight-line basis using a useful life between one and six years.

Other Income (Expense), Net

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

Table of Contents

Interest Expense

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

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 and other permanent items. Our provision for income taxes includes the windfall tax benefits, net, from shares issued in connection with our 2013 Plan and ESPP.

We record deferred taxes, net based on the tax rate expected to be in effect at the time those items are expected to be recognized for tax purposes.

Results of Operations

Following is a discussion of our results of operations for the three and six months ended June 30, 2019 and 2018. 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.

Key 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 June 30, 2019 and 2018, we closed more than 2,500 and 2,300 investment sales, financing and other transactions, respectively, with total sales volume of approximately \$13.0 billion and \$11.4 billion, respectively. During the six months ended June 30, 2019 and 2018, we closed more than 4,400 investment sales, financing and other transactions in each period, with total sales volume of approximately \$22.8 billion and \$21.1 billion, respectively. Such key metrics for real estate brokerage and financing activities are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>Real Estate Brokerage</i>				
Average Number of Investment Sales Professionals	1,834	1,694	1,826	1,682
Average Number of Transactions per Investment Sales Professional	1.00	1.03	1.77	1.98
Average Commission per Transaction	\$ 102,879	\$ 103,676	\$ 103,000	\$ 103,136
Average Commission Rate	2.04%	2.03%	2.04%	2.04%
Average Transaction Size (in thousands)	\$ 5,034	\$ 5,107	\$ 5,044	\$ 5,054
Total Number of Transactions	1,834	1,752	3,239	3,337
Total Sales Volume (in millions)	\$ 9,233	\$ 8,948	\$ 16,336	\$ 16,864
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>Financing⁽¹⁾</i>				
Average Number of Financing Professionals	104	96	106	94
Average Number of Transactions per Financing Professional	4.65	4.51	8.23	8.05
Average Fee per Transaction	\$ 35,406	\$ 35,125	\$ 34,576	\$ 32,519
Average Fee Rate	0.92%	0.93%	0.91%	0.93%
Average Transaction Size (in thousands)	\$ 3,851	\$ 3,774	\$ 3,812	\$ 3,490
Total Number of Transactions	484	433	872	757
Total Financing Volume (in millions)	\$ 1,864	\$ 1,634	\$ 3,324	\$ 2,642

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

Table of Contents

Comparison of Three Months Ended June 30, 2019 and 2018

Below are key operating results for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 (dollar and share amounts in thousands, except per share amounts):

	Three Months Ended June 30,	Percentage of	Three Months Ended June 30,	Percentage of	Change	
	2019	Revenue	2018	Revenue	Dollar	Percentage
Revenues:						

Real estate brokerage commissions	\$ 188,680	90.0%	\$ 181,640	91.1%	\$ 7,040	3.9%
Financing fees	17,742	8.5	15,563	7.8	2,179	14.0%
Other revenues	3,171	1.5	2,199	1.1	972	44.2%
Total revenues	209,593	100.0	199,402	100.0	10,191	5.1%
Operating expenses:						
Cost of services	127,847	61.0	119,869	60.1	7,978	6.7%
Selling, general and administrative expense	52,836	25.2	49,080	24.6	3,756	7.7%
Depreciation and amortization expense	1,932	0.9	1,503	0.8	429	28.5%
Total operating expenses	182,615	87.1	170,452	85.5	12,163	7.1%
Operating income	26,978	12.9	28,950	14.5	(1,972)	(6.8)%
Other income (expense), net	3,119	1.5	1,724	0.9	1,395	80.9%
Interest expense	(340)	(0.2)	(352)	(0.2)	12	(3.4)%
Income before provision for income taxes	29,757	14.2	30,322	15.2	(565)	(1.9)%
Provision for income taxes	8,478	4.0	8,155	4.1	323	4.0%
Net income	\$ 21,279	10.2%	\$ 22,167	11.1%	\$ (888)	(4.0)%
Adjusted EBITDA ⁽¹⁾	\$ 32,016	15.3%	\$ 33,721	16.9%	\$ (1,705)	(5.1)%
Earnings per share:						
Basic	\$ 0.54		\$ 0.57			
Diluted	\$ 0.54		\$ 0.56			
Weighted average common shares outstanding:						
Basic	39,395		39,154			
Diluted	39,527		39,385			

(1) Adjusted EBITDA is not a measurement of our financial performance under U.S. generally accepted accounting principles (“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 \$209.6 million for the three months ended June 30, 2019 compared to \$199.4 million for the same period in 2018, an increase of \$10.2 million, or 5.1%. Total revenues increased as a result of increases in real estate brokerage commissions, financing fees and other revenues, as described below.

Real estate brokerage commissions. Revenues from real estate brokerage commissions increased to \$188.7 million for the three months ended June 30, 2019 from \$181.6 million for the same period in 2018, an increase of \$7.0 million, or 3.9%. The increase was primarily driven by the increase in the number of brokerage transactions (4.7%) and average commission rates (1 basis point), partially offset by a decrease in average transaction size (1.4%).

Financing fees. Revenues from financing fees increased to \$17.7 million for the three months ended June 30, 2019 from \$15.6 million for the same period in 2018, an increase of \$2.2 million, or 14.0%, in part spurred by growth from acquisitions during 2018. The increase was primarily driven by the increase in the number of financing transactions (11.8%) and an increase in average transaction size (2.1%). These factors combined generated the increase in financing volume of 14.1%. This increase was partially offset by a decrease in average fee rates (1 basis point).

Other revenues. Other revenues increased to \$3.2 million for the three months ended June 30, 2019 from \$2.2 million for the same period in 2018, an increase of \$1.0 million, or 44.2%. The increase was primarily driven by increases in consulting and advisory services during the three months ended June 30, 2019 compared to the same period in 2018.

Table of Contents

Total Operating Expenses

Our total operating expenses were \$182.6 million for the three months ended June 30, 2019 compared to \$170.5 million for the same period in 2018, an increase of \$12.2 million, or 7.1%. The increase was primarily due to increases in cost of services, which are variable commissions paid to our investment sales professionals and compensation related costs in connection with our financing activities, selling, general and administrative costs and to a lesser extent depreciation and amortization, as described below.

Cost of services. Cost of services increased to \$127.8 million for the three months ended June 30, 2019 from \$119.9 million for the same period in 2018, an increase of \$8.0 million, or 6.7%. 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 61.0% compared to 60.1% for the same period in 2018 primarily due to transaction size, mix and brokerage compensation.

Selling, general and administrative expense. Selling, general and administrative expense increased to \$52.8 million for the three months ended June 30, 2019 from \$49.1 million for the same period in 2018, an increase of \$3.8 million, or 7.7%. The increases in our selling, general and administrative expense has been driven by our growth plans and spending’s in technology, sales and marketing tools and marketing and expansion of our services supporting our investment sales and financing professionals. These initiatives have primarily driven (i) a \$1.8 million increase in compensation related costs, including salaries and related benefits; (ii) a \$1.7 million increase in sales operations support and promotional marketing expenses to support sales activity; (iii) a \$0.8 million increase in net other expense categories, primarily driven by the increase in certain licensing fees; and (iv) a \$0.7 million increase in facilities expenses due to expansion of existing offices. These increases were partially offset by (i) a \$0.6 million decrease in legal costs and (ii) a \$0.6 million decrease in stock-based compensation.

Depreciation and amortization expense. Depreciation and amortization expense increased to \$1.9 million for the three months ended June 30, 2019 from \$1.5 million for the same period in 2018, an increase of \$0.4 million, or 28.5%. The increase was primarily driven by capital expenditures due to our expansion and growth and the amortization of intangible assets and MSRs.

Other Income (Expense), Net

Other income (expense), net increased to \$3.1 million for the three months ended June 30, 2019 from \$1.7 million for the same period in 2018. The increase was primarily driven by increases in interest income on our investments in marketable securities, available-for-sale and foreign currency gains.

Interest Expense

There were no significant changes in interest expense for the three months ended June 30, 2019 compared to the same period in 2018.

Provision for Income Taxes

The provision for income taxes was \$8.5 million for the three months ended June 30, 2019 compared to \$8.2 million in the same period in 2018, an increase of \$0.3 million, or 4.0%. The effective income tax rate for the three months ended June 30, 2019 was 28.5% compared to 26.9% for the same period in 2018. The effective income tax rate increased primarily due to an increase in permanent items, the effect of permanent items from a decreased pre-tax income and an increase of a valuation allowance with respect to our Canadian operations.

Table of Contents

Comparison of Six Months Ended June 30, 2019 and 2018

Below are key operating results for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 (dollar and share amounts in thousands, except per share amounts):

	Six Months	Percentage of Revenue	Six Months	Percentage of Revenue	Change	
	Ended June 30, 2019		Ended June 30, 2018		Dollar	Percentage
Revenues:						
Real estate brokerage commissions	\$ 333,617	90.1%	\$ 344,165	92.0%	\$ (10,548)	(3.1)%
Financing fees	31,474	8.5	25,287	6.8	6,187	24.5%
Other revenues	5,209	1.4	4,491	1.2	718	16.0%
Total revenues	370,300	100.0	373,943	100.0	(3,643)	(1.0)%
Operating expenses:						
Cost of services	219,535	59.3	221,518	59.2	(1,983)	(0.9)%
Selling, general, and administrative expense	101,754	27.5	97,133	26.0	4,621	4.8%
Depreciation and amortization expense	3,764	1.0	2,878	0.8	886	30.8%
Total operating expenses	325,053	87.8	321,529	86.0	3,524	1.1%
Operating income	45,247	12.2	52,414	14.0	(7,167)	(13.7)%
Other income (expense), net	6,494	1.8	2,933	0.8	3,561	121.4%
Interest expense	(689)	(0.2)	(712)	(0.2)	23	(3.2)%
Income before provision for income taxes	51,052	13.8	54,635	14.6	(3,583)	(6.6)%
Provision for income taxes	14,135	3.8	14,457	3.9	(322)	(2.2)%
Net income	36,917	10.0%	\$ 40,178	10.7%	\$ (3,261)	(8.1)%
Adjusted EBITDA ⁽¹⁾	\$ 55,175	14.9%	\$ 61,154	16.4%	\$ (5,979)	(9.8)%
Earnings per share:						
Basic	\$ 0.94		\$ 1.03			
Diluted	\$ 0.93		\$ 1.02			
Weighted average common shares outstanding:						
Basic	39,353		39,124			
Diluted	39,524		39,298			

- (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 \$370.3 million for the six months ended June 30, 2019 compared to \$373.9 million for the same period in 2018, a decrease of \$3.6 million, or 1.0%. Total revenues decreased as a result of decreased real estate brokerage commissions, partially offset by increases in financing fees and other revenues, as described below.

Real estate brokerage commissions. Revenues from real estate brokerage commissions decreased to \$333.6 million for the six months ended June 30, 2019 from \$344.2 million for the same period in 2018, a decrease of \$10.5 million, or 3.1%. The decrease was primarily driven by the decrease in the number of investment sales transactions (2.9%) and a decrease in average transaction size (0.2%). These factors combined generated a decrease in sales volume of 3.1%.

Financing fees. Revenues from financing fees increased to \$31.5 million for the six months ended June 30, 2019 from \$25.3 million for the same period in 2018, an increase of \$6.2 million, or 24.5% in part spurred by growth from acquisitions during 2018. The increase was primarily driven by the increase in the number of financing transactions (15.2%) and an increase in average transaction size (9.2%). These factors combined generated the increase in financing volume of 25.8%. This increase was partially offset by a decrease in average fee rates (2 basis points).

Other revenues. Other revenues increased to \$5.2 million for the six months ended June 30, 2019 from \$4.5 million for the same period in 2018, an increase of \$0.7 million, or 16.0%. The increase was primarily driven by increases in consulting and advisory services during the six months June 30, 2019 compared to the same period in 2018.

Table of Contents

Total operating expenses

Our total operating expenses were \$325.1 million for the six months ended June 30, 2019 compared to \$321.5 million for the same period in 2018, an increase of \$3.5 million, or 1.1%. The increase was primarily due to an increase in selling, general and administrative costs and to a lesser extent depreciation and amortization, partially offset by a decrease in cost of services, which are variable commissions paid to our investment sales professionals and compensation related costs in connection with our financing activities, as described below.

Cost of services. Cost of services decreased to \$219.5 million for the six months ended June 30, 2019 from \$221.5 million for the same period in 2018, a decrease of \$2.0 million, or 0.9%. The decrease was primarily due to decreased commission expenses driven by the related decreased revenues noted above. Cost of services as a percent of total revenues slightly increased to 59.3% for the six months ended June 30, 2019 compared to 59.2% for the same period in 2018.

Selling, general and administrative expense. Selling, general and administrative expense increased to \$101.8 million for the six months ended June 30, 2019 from \$97.1 million for the same period in 2018, an increase of \$4.6 million, or 4.8%. Increases in our selling, general and administrative expense have been driven by our growth plans and spending's 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 \$3.0 million increase in sales and promotional marketing expenses to support increased sales activity; (ii) a \$1.7 million increase in net other expense categories, primarily driven by the increase in certain licensing fees; (iii) a \$1.2 million increase in facilities expenses due to expansion of existing offices; and (iv) a \$1.0 million increase in salaries and related benefits, partially offset by decreases in management performance compensation. These increases were partially offset by (i) a \$1.5 million decrease in legal costs and (ii) a \$0.8 million decrease in stock-based compensation.

Depreciation and amortization expense. Depreciation and amortization expense increased to \$3.8 million for the six months ended June 30, 2019 from \$2.9 million for the same period in 2018, an increase of \$0.9 million, or 30.8%. The increase was primarily driven by capital expenditures due to our expansion and growth and the amortization of intangible assets and MSRs.

Other income (expense), net

Other income (expense), net increased to \$6.5 million for the six months ended June 30, 2019 from \$2.9 million for the same period in 2018. The increase was primarily driven by increases in interest income on our investments in marketable securities, available-for-sale, the value of our deferred compensation plan assets held in the Rabbi Trust and foreign currency gains.

Interest expense

There were no significant changes in interest expense for the six months ended June 30, 2019 compared to the same period in 2018.

Provision for income taxes

The provision for income taxes was \$14.1 million for the six months ended June 30, 2019 compared to \$14.5 million in the same period in 2018, a decrease of \$0.3 million, or 2.2%. The effective income tax rate for the six months ended June 30, 2019 was 27.7% compared to 26.4% for the same period in 2018. The effective income tax rate increased primarily due to an increase in permanent items, the effect of permanent items from a decreased pre-tax income and an increase of a valuation allowance with respect to our Canadian operations.

[Table of Contents](#)

Non-GAAP Financial Measure

In this quarterly report on Form 10-Q, we include a non-GAAP financial measure, adjusted earnings before interest income/expense, taxes, depreciation and amortization and stock-based compensation, or Adjusted EBITDA. We define Adjusted EBITDA as net income before (i) interest income and other, including net realized gains (losses) on marketable securities, available-for-sale and cash and cash equivalents, (ii) interest expense, (iii) provision for income taxes, (iv) depreciation and amortization, (v) stock-based compensation expense and (vi) non-cash MSRs activity. We use Adjusted EBITDA in our business operations to evaluate the performance of our business, develop budgets and measure our performance against those budgets, among other things. We also believe that analysts and investors use Adjusted EBITDA as a supplemental measure to evaluate our overall operating performance. However, Adjusted EBITDA has material limitations as an analytical tool and should not be considered in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. We find Adjusted EBITDA as a useful tool to assist in evaluating performance because Adjusted EBITDA eliminates items related to capital structure, taxes and non-cash items. 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	\$ 21,279	\$ 22,167	\$ 36,917	\$ 40,178
Adjustments:				
Interest income and other ⁽¹⁾	(2,562)	(1,574)	(5,103)	(2,802)
Interest expense	340	352	689	712
Provision for income taxes	8,478	8,155	14,135	14,457
Depreciation and amortization	1,932	1,503	3,764	2,878
Stock-based compensation	2,585	3,159	4,926	5,772
Non-cash MSRs activity ⁽²⁾	(36)	(41)	(153)	(41)
Adjusted EBITDA ⁽³⁾	<u>\$ 32,016</u>	<u>\$ 33,721</u>	<u>\$ 55,175</u>	<u>\$ 61,154</u>

(1) Other for the three and six months ended June 30, 2019 and 2018 includes net realized gains (losses) on marketable securities available-for-sale.

(2) Non-cash MSRs activity relates to the assumption of servicing obligations.

(3) The decrease in Adjusted EBITDA for the three months ended June 30, 2019 compared to the same period in 2018 is primarily due to higher proportion of operating expenses compared to revenues. The decrease in Adjusted EBITDA for the six months ended June 30, 2019 compared to the same period in 2018 is primarily due to lower total revenues 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. Certain of our investments in money market funds may not maintain a stable net asset value and may impose fees on redemptions and/or gate fees. Although we have historically

funded our operations through operating cash flows, there can be no assurance that we can continue to meet our cash requirements entirely through our operations, cash and cash equivalents, proceeds from the sale of marketable securities, available-for-sale or availability under our credit agreement.

[Table of Contents](#)

Cash Flows

Our total cash and cash equivalents balance decreased by \$7.9 million to \$206.8 million at June 30, 2019 compared to \$214.7 million at December 31, 2018. The following table sets forth our summary cash flows for the six months ended June 30, 2019 and 2018 (in thousands):

	Six Months Ended June 30,	
	2019	2018
Net cash (used in) provided by operating activities	\$ (24,363)	\$ 23,046
Net cash provided by (used in) investing activities	19,626	(1,420)
Net cash used in financing activities	(3,188)	(2,393)
Net (decrease) increase in cash and cash equivalents	(7,925)	19,233
Cash and cash equivalents at beginning of period	214,683	220,786
Cash and cash equivalents at end of period	<u>\$ 206,758</u>	<u>\$ 240,019</u>

Operating Activities

Cash flows used in operating activities were \$24.4 million for the six months ended June 30, 2019 compared to cash flows provided by operating activities of \$23.0 million for the same period in 2018. Net cash (used in) provided by operating activities is driven by our net income adjusted for non-cash items and changes in operating assets and liabilities. The \$47.4 million increased usage in operating cash flows for the six months ended June 30, 2019 compared to the same period in 2018 was primarily due to a decrease in our real estate brokerage revenue and a higher proportion of operating expenses compared to total revenues, differences in timing of certain payments and receipts, an increase in advances to our investment sales and financing professionals, a reduction in bonus accruals and a reduction in the deferral of certain discretionary commissions.

Investing Activities

Cash flows provided by investing activities were \$19.6 million for the six months ended June 30, 2019 compared to cash flows used in investing activities of \$1.4 million for the same period in 2018. The \$21.0 million decreased usage in investing cash flows for the six months ended June 30, 2019 compared to the same period in 2018 was primarily due to a \$23.8 million in net proceeds from sales and maturities of marketable securities, available-for-sale for the six months ended June 30, 2019 compared to a \$7.6 million in net proceeds of marketable securities, available-for-sale for the same period in 2018 and a \$6.2 million of outflow for acquisitions, net of cash received during the six months ended June 30, 2018 with no such comparable outflow for the same period in 2019.

Financing Activities

Cash flows used in financing activities were \$3.2 million for the six months ended June 30, 2019 compared to \$2.4 million for the same period in 2018. The change in cash flows used in financing activities for the six months ended June 30, 2019 compared to the same period in 2018 was primarily impacted by taxes paid related to net share settlement of stock-based awards. See Note 12 – “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 (defined below) will be sufficient to satisfy our operating requirements for the foreseeable future. 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 agreements have provisions, which could accelerate repayment of outstanding principal and accrued interest and adversely impact our liquidity.

[Table of Contents](#)

Credit Agreement

On June 18, 2014, we entered into a Credit Agreement with Wells Fargo Bank, National Association (the “Bank”), dated as of June 1, 2014, which was amended and restated on May 28, 2019 (the “Credit Agreement”). The Credit Agreement is intended to provide for future liquidity needs, if needed. The Credit Agreement provides for a \$60.0 million principal amount senior secured revolving credit facility that is guaranteed by all of our domestic subsidiaries (the “Credit Facility”), which, as amended and restated, matures on June 1, 2022. We 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. We must pay a commitment fee of up to 0.1% per annum, payable quarterly, based on the amount of unutilized commitments under the Credit Facility.

The Credit Facility includes a \$10.0 million sublimit for the issuance of standby letters of credit, of which \$533,000 was utilized as of June 30, 2019. As of June 30, 2019, there were no amounts outstanding under the Credit Agreement.

Borrowings under the Credit Facility bear interest, at our option, at either (i) a fluctuating rate per annum 2.00% below the Base Rate (defined as the highest of (a) the Bank’s prime rate, (b) one-month LIBOR plus 1.50%, and (c) the federal funds rate plus 1.50%), or (ii) at a fixed rate per annum determined by Bank to be 0.875% above LIBOR.

The Credit Facility contains customary covenants, including financial and other covenant reporting requirements and events of default. Financial covenants require us, on a combined basis with our 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, determined on a rolling four-quarter basis, (ii) total funded debt to EBITDA not greater than 2.0:1.0 as of each quarter end, determined on a rolling four-quarter basis and (iii) limits investments in foreign entities and caps certain other loans. The Credit Facility is secured by substantially all of our assets, 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), in which case no such pledge is required.

See Note 15 – “Commitments and Contingencies” of our Notes to Condensed Consolidated Financial Statements for additional information on the Credit Agreement.

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, 2018 through the date the condensed consolidated financial statements were issued other than an increase of operating lease obligations of \$8.1 million due to new or extended leases and commitments of \$9.8 million to current and prospective investment sales and financing professionals, subject to certain conditions and/or reaching performance goals.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Inflation

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

Critical Accounting Policies; Use of Estimates

We prepare our financial statements in accordance with U.S. GAAP. In applying many of these accounting principles, we make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our condensed consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective and our actual results may change based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. There were no material changes in our critical accounting policies, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018 except for the following:

Leases

We utilize operating leases for all our facilities and autos. We determine if an arrangement is a lease at inception. Right-of-use assets (“ROU assets”) represent our right to use an underlying asset for the lease term and lease liabilities represent our contractual obligation to make lease payments under the lease. Operating leases are included in the operating lease ROU assets, non-current, and operating lease liabilities, current and non-current, captions in the condensed consolidated balance sheets.

[Table of Contents](#)

Operating lease ROU assets and liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. Lease agreements may contain periods of free rent or reduced rent, predetermined fixed increases in the minimum rent and renewal or termination options, all impacting the determination of the lease term and lease payments to be used in calculating the lease liability. Certain facility leases provide for rental escalations related to increases in the lessors’ direct operating expenses. We use the implicit rate in the lease when determinable. As most of our leases do not have a determinable implicit rate, we use a derived incremental borrowing rate based on borrowing options under our credit agreement. We apply a spread over treasury rates for the indicated term of the lease based on the information available on the commencement date of the lease. We typically lease general purpose built-out office space, which reverts to the lessor upon termination of the lease. Any payments for completed improvements, determined to be owed by the lessor, net of incentives received, are recorded as an increase to the ROU asset and considered in the determination of the lease cost.

We have lease agreements with lease and non-lease components, which are accounted for as a single lease component. Lease cost is recognized on a straight-line basis over the lease term. Variable lease payments consist of common area costs, insurance, taxes and other lease related costs, which are determined principally based on billings from landlords.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, see Note 2 – “Accounting Policies and Recent Accounting Pronouncements” of our Notes to Condensed Consolidated Financial Statements. The accounting pronouncement related to leases had a material impact on our condensed consolidated balance sheets but did not have a material impact on our condensed consolidated statements of net and comprehensive income. Although we do not believe any of the other accounting pronouncements listed in that note will have a significant impact on our business, we are still in the process of determining the impact some of the new pronouncements may have on our 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 debt rate securities, including U.S. government and federal agency securities, corporate debt securities, asset backed securities and other. As of June 30, 2019, the fair value of investments in marketable securities, available-for-sale was \$199.2 million. The primary objective of our investment activity is to maintain the safety of principal, and to provide for future liquidity requirements while maximizing yields without significantly increasing risk. While some investments may be securities of companies in foreign countries, all investments are denominated and payable in U.S. Dollars. We do not enter into investments for trading or speculative purposes. While our intent is not to sell these investment securities prior to their stated maturities, we may choose to sell any of the securities for strategic reasons including, but not limited to, anticipated capital requirements, anticipation of credit deterioration, duration management and because a security no longer meets the criteria of 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. The weighted average rating (exclusive of cash and cash equivalents) was AA+ as of June 30, 2019. 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 or positively impact their fair market value should interest rates generally rise or fall. Accordingly, we also may have interest rate risk with variable interest 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 as of June 30, 2019 from changes in interest rates based on the weighted average duration of the securities in our portfolio (in thousands):

<u>Change in Interest Rates</u>	<u>Approximate Change in Fair Value of Investments Increase (Decrease)</u>
2% Decrease	\$ 5,024
1% Decrease	\$ 2,556
1% Increase	\$ (2,555)
2% Increase	\$ (5,109)

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.

37

[Table of Contents](#)

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2019, 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 June 30, 2019, 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 June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

38

[Table of Contents](#)

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 proceedings cannot be determined, we review the need for our accrual for loss contingencies quarterly and record 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.

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, 2018.

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.

[Table of Contents](#)**Item 6. Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
10.22	Amended and Restated Credit Agreement, between the Company and Wells Fargo Bank, National Association dated May 28, 2019 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on June 3, 2019).
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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document

* Filed herewith.

** Furnished, not filed.

[Table of Contents](#)**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: August 9, 2019

By: /s/ Hessam Nadji

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

Date: August 9, 2019

By: /s/ Martin E. Louie

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

**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: August 9, 2019

/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: August 9, 2019

/s/ Martin E. Louie

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 June 30, 2019 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: August 9, 2019

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

Date: August 9, 2019

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