UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2021

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, anon-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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

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

Number of shares of common stock, par value $0.0001 per share, of the registrant issued and outstanding as of May 4, 2021 was39,530,910 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2021 (Unaudited)	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 221,708	$ 243,152
Commissions receivable, net	8,205	10,391
Prepaid expenses	10,084	10,153
Marketable debt securities, available-for-sale (includes amortized cost of $134,460 and $158,148 at March 31, 2021 and December 31, 2020, respectively, and $0 allowance for credit losses)	134,494	158,258
Advances and loans, net	2,106	2,413
Other assets	5,642	4,711
Total current assets	382,239	429,078
Property and equipment, net	22,931	23,436
Operating lease right-of-use assets, net	81,105	84,024
Marketable debt securities, available-for-sale (includes amortized cost of $65,114 and $45,181 at March 31, 2021 and December 31, 2020, respectively, and $0 allowance for credit losses)	66,931	47,773
Assets held in rabbi trust	10,574	10,295
Deferred tax assets, net	20,629	21,374
Goodwill and other intangible assets, net	50,817	52,053
Advances and loans, net	111,781	106,913
Other assets	4,075	4,176
Total assets	$ 751,082	$ 779,122
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable and other liabilities	$ 18,919	$ 18,288
Deferred compensation and commissions	33,199	58,106
Income tax payable	8,512	3,726
Operating lease liabilities	19,209	19,190
Accrued bonuses and other employee related expenses	11,478	21,007
Total current liabilities	91,317	120,317
Deferred compensation and commissions	28,745	38,745
Operating lease liabilities	57,134	59,408
Other liabilities	12,217	13,816
Total liabilities	189,413	232,286
Commitments and contingencies	—	—
Stockholders’ equity:		
Preferred stock, $0.0001 par value:		
Authorized shares – 25,000,000; issued and outstanding shares – none at March 31, 2021 and December 31, 2020, respectively	—	—
Common stock, $0.0001 par value:		
Authorized shares – 150,000,000; issued and outstanding shares – 39,500,966 and 39,401,976 at March 31, 2021 and December 31, 2020, respectively	4	4
Additional paid-in capital	113,737	113,182
Retained earnings	446,088	431,076
Accumulated other comprehensive income	1,840	2,574
Total stockholders’ equity	561,669	546,836
Total liabilities and stockholders’ equity	$ 751,082	$ 779,122

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Revenues:		
Real estate brokerage commissions	$ 162,796	$ 171,829
Financing fees	17,843	15,351
Other revenues	3,338	3,537
Total revenues	183,977	190,717
Operating expenses:		
Cost of services	109,103	113,757
Selling, general and administrative	51,677	54,860
Depreciation and amortization	2,997	2,464
Total operating expenses	163,777	171,081
Operating income	20,200	19,636
Other income (expense), net	1,044	(366)
Interest expense	(146)	(283)
Income before provision for income taxes	21,098	18,987
Provision for income taxes	6,086	5,917
Net income	15,012	13,070
Other comprehensive (loss) income:		
Marketable debt securities, available-for-sale:		
Change in net unrealized – (losses) gains	(621)	(497)
Less: reclassification adjustment for net losses included in other income (expense), net	—	11
Net change, net of tax of $(215) and $(168) for the three months ended March 31, 2021 and 2020, respectively	(621)	(486)
Foreign currency translation (loss) gain, net of tax of $0 for each of the three months ended March 31, 2021 and 2020	(113)	891
Total other comprehensive (loss) income	(734)	405
Comprehensive income	$ 14,278	$ 13,475
Earnings per share:		
Basic	$ 0.38	$ 0.33
Diluted	$ 0.37	$ 0.33
Weighted average common shares outstanding:		
Basic	39,757	39,541
Diluted	40,124	39,646

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2021								
	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, 2020	—	$ —	39,401,976	$ 4	$113,182	$ —	$431,076	$ 2,574	$546,836
Net and comprehensive income (loss)	—	—	—	—	—	—	15,012	(734)	14,278
Stock-based award activity									
Stock-based compensation	—	—	—	—	2,288	—	—	—	2,288
Issuance of common stock for vesting of restricted stock units	—	—	149,117	—	—	—	—	—	—
Shares withheld related to net share settlement of stock-based awards	—	—	(50,127)	—	(1,733)	—	—	—	(1,733)
Balance as of March 31, 2021	—	$ —	39,500,966	$ 4	$113,737	$ —	$446,088	$ 1,840	$561,669

	Three Months Ended March 31, 2020								
	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, 2019	—	$ —	39,153,195	$ 4	$104,658	$ (4)	$388,271	$ 1,978	$494,907
Cumulative effect of a change in accounting principle, net of tax	—	—	—	—	—	—	(33)	—	(33)
Balance at January 1, 2020, as adjusted	—	—	39,153,195	4	104,658	(4)	388,238	1,978	494,874
Net and comprehensive income	—	—	—	—	—	—	13,070	405	13,475
Stock-based award activity									
Stock-based compensation	—	—	—	—	2,632	—	—	—	2,632
Issuance of common stock for vesting of restricted stock units	—	—	170,106	—	—	—	—	—	—
Shares withheld related to net share settlement of stock-based awards	—	—	(50,872)	—	(1,689)	—	—	—	(1,689)
Balance as of March 31, 2020	—	$ —	39,272,429	$ 4	$105,601	$ (4)	$401,308	$ 2,383	$509,292

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Cash flows from operating activities		
Net income	$ 15,012	$ 13,070
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,997	2,464
Amortization of right-of-use assets	6,009	5,500
Credit loss recovery	(146)	(120)
Stock-based compensation	2,288	2,632
Deferred taxes, net	909	1,345
Unrealized foreign exchange (gains) losses	(157)	1,024
Net realized gains on marketable debt securities, available-for-sale	(1)	(53)
Other non-cash items	(49)	485
Changes in operating assets and liabilities:		
Commissions receivable	1,776	1,350
Prepaid expenses	74	1,576
Advances and loans	(4,440)	(29,441)
Other assets	(1,187)	(100)
Accounts payable and other liabilities	2,071	(923)
Income tax payable	4,786	4,070
Accrued bonuses and other employee related expenses	(9,362)	(17,035)
Deferred compensation and commissions	(33,781)	(33,898)
Operating lease liabilities	(5,275)	(4,477)
Other liabilities	(1,626)	(262)
Net cash used in operating activities	(20,102)	(52,793)
Cash flows from investing activities		
Acquisition of businesses, net of cash received	229	(6,000)
Purchases of marketable debt securities, available-for-sale	(81,264)	(28,919)
Proceeds from sales and maturities of marketable debt securities, available-for-sale	85,065	50,623
Issuances of employee notes receivable	(40)	(211)
Payments received on employee notes receivable	250	1
Purchase of property and equipment	(1,099)	(2,397)
Net cash provided by investing activities	3,141	13,097
Cash flows from financing activities		
Taxes paid related to net share settlement of stock-based awards	(1,733)	(1,689)
Principal payments on stock appreciation rights liability	(1,481)	(1,251)
Principal payments on deferred consideration	(1,302)	—
Net cash used in financing activities	(4,516)	(2,940)
Effect of currency exchange rate changes on cash and cash equivalents	33	(274)
Net decrease in cash and cash equivalents	(21,444)	(42,910)
Cash and cash equivalents at beginning of period	243,152	232,670
Cash and cash equivalents at end of period	$221,708	$189,760
Supplemental disclosures of cash flow information		
Interest paid during the period	$ 697	$ 845
Income taxes paid, net	$ 339	$ 503

See accompanying notes to condensed consolidated financial statements.

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

1. Description of Business, Basis of Presentation and Recent Accounting Pronouncements

Description of Business

Marcus & Millichap, Inc., (the "Company", "Marcus & Millichap", or "MMI"), a Delaware corporation, is a brokerage firm specializing in commercial real estate investment sales, financing, research and advisory services. As of March 31, 2021, MMI operates 84 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 in November 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, including the Company's accounting policies for the year ended December 31, 2020 included in the Company's Annual Report on Form 10-K filed on March 1, 2021 with the SEC. The results of the three months ended March 31, 2021 are not necessarily indicative of the results to be expected for the year ending December 31, 2021, for other interim periods or for future years.

Considerations Related to the COVID-19 Pandemic

The Company could continue to experience operational and financial impacts due to the COVID-19 pandemic. Actual results may differ from the Company's current estimates as there is some uncertainty around the scope and duration of the COVID-19 pandemic, and, as a result, the extent of the impact of COVID-19 on the Company's operational and financial performance is uncertain and cannot be predicted. The Company expects the effects of the COVID-19 pandemic to continue to impact its financial position, results of operations, and cash flows for at least the first half of 2021.

See Note 2 – "Property and Equipment, Net", Note 5 – "Acquisitions, Goodwill and Other Intangible Assets" and Note 8 – "Fair Value Measurements" for further discussions on the potential impacts of COVID-19.

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.

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Concentrations of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash and cash equivalents, investments in marketable debt securities, available-for-sale, security deposits (included under other assets, non-current) and commissions receivable, net. 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 debt 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 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 three months ended March 31, 2021 and 2020, no transaction represented 10% or more of total revenues. Further, while one or more transactions may represent 10% or more of commissions receivable at any reporting date, amounts due are typically collected within 10 days of settlement and, therefore, do not expose the Company to significant credit risk.

During the three months ended March 31, 2021, the Company's Canadian operations represented less than 2% of total revenues. During the three months ended March 31, 2020, the Company's Canadian operations represented approximately 2% of total revenues.

During the three months ended March 31, 2021, no office represented 10% or more of total revenues. During the three months ended March 31, 2020, one office represented 10% or more of total revenues.

Recent Accounting Pronouncements

Pending Adoption

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"). ASU 2020-04 provides temporary optional exceptions to the guidance in U.S. GAAP on contract modifications to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate ("SOFR"). ASU 2020-04 is effective for all entities upon issuance and may be applied prospectively to contract modifications through December 31, 2022. The guidance applies to the Company's Credit Agreement (see Note 13 – "Commitments and Contingencies"), which references LIBOR, and will generally allow it to account for and present a modification as an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. As of March 31, 2021, the Company has not drawn funds from the credit facility. The Company continues to evaluate the impact of this new standard but does not expect ASU 2020-04 to have a material effect on its condensed consolidated financial statements.

2. Property and Equipment, Net

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

	March 31, 2021	December 31, 2020
Computer software and hardware equipment	$ 32,049	$ 30,955
Furniture, fixtures and equipment	23,504	23,418
Less: accumulated depreciation and amortization	(32,622)	(30,937)
	$ 22,931	$ 23,436

During the three months ended March 31, 2021 and 2020, the Company wrote-off approximately $41,000 and $191,000, respectively, of fully depreciated computer software and hardware equipment and furniture, fixtures and equipment.

As of March 31, 2021 and 2020, property and equipment additions incurred but not yet paid included in accounts payable and other liabilities were $275,000 and $259,000, respectively.

The Company evaluates its fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As of March 31, 2021, the Company considered the impact of the COVID-19 pandemic and evaluated its property and equipment for potential indicators of impairment. The Company concluded that as of March 31, 2021, there were no indicators of impairment of its property and equipment.

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

3. Operating Leases

The Company has operating leases for all of its facilities and autos. As of March 31, 2021 and December 31, 2020, operating lease right-of-use ("ROU") assets were $127.7 million and $126.9 million, respectively, and the related accumulated amortization was $46.6 million and $42.9 million, respectively.

The operating lease cost, included in selling, general and administrative expense in the condensed consolidated statement of net and comprehensive income, consisted of the following (in thousands):

	Three Months Ended March 31,	
	2021	2020
Operating lease cost:		
Lease cost (1)	$ 6,589	$ 6,263
Variable lease cost (2)	1,400	1,396
Sublease income	(33)	(77)
	$7,956	$7,582

(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 year consisted of the following (in thousands):

	March 31, 2021
Remainder of 2021	$ 17,205
2022	17,722
2023	14,331
2024	12,089
2025	9,877
Thereafter	10,835
Total future minimum lease payments	82,059
Less imputed interest	(5,716)
Present value of operating lease liabilities	$ 76,343

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

	Three Months Ended March 31,	
	2021	2020
Operating cash flow information:		
Cash paid for amounts included in the measurement of operating lease liabilities	$ 5,862	$ 5,223
Noncash activity:		
ROU assets obtained in exchange for operating lease liabilities	$ 3,004	$ 3,109
Tenant improvements owned by lessor related to ROU assets (1)	$ 55	$ 317

(1) Reclassification from other assets current.

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

	March 31, 2021	December 31, 2020
Weighted average remaining operating lease term	4.71 years	4.70 years
Weighted average discount rate	3.0%	3.1%

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

4. Investments in Marketable Debt Securities

Amortized cost, allowance for credit losses, gross unrealized gains/losses in accumulated other comprehensive income/loss and fair value of marketable debt securities, available-for-sale, by type of security consisted of the following (in thousands):

	March 31, 2021				
	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments:					
U.S. treasuries	$ 69,217	$ —	$ 23	$ —	$ 69,240
U.S. government sponsored entities	11,450	—	4	—	11,454
Corporate debt	53,793	—	7	—	53,800
	$134,460	$ —	$ 34	$ —	$134,494
Long-term investments:					
U.S. treasuries	$ 22,342	$ —	$ 179	$ —	$ 22,521
U.S. government sponsored entities	1,012	—	36	(3)	1,045
Corporate debt	35,424	—	1,505	(60)	36,869
Asset-backed securities (“ABS”) and other	6,336	—	166	(6)	6,496
	$ 65,114	$ —	$ 1,886	$ (69)	$ 66,931

	December 31, 2020				
	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments:					
U.S. treasuries	$ 75,887	$ —	$ 88	$ (5)	$ 75,970
U.S. government sponsored entities	32,439	—	8	—	32,447
Corporate debt	49,822	—	20	(1)	49,841
	$158,148	$ —	$ 116	$ (6)	$158,258
Long-term investments:					
U.S. treasuries	$ 3,375	$ —	$ 266	$ —	$ 3,641
U.S. government sponsored entities	1,114	—	38	—	1,152
Corporate debt	34,183	—	2,137	(33)	36,287
ABS and other	6,509	—	195	(11)	6,693
	$ 45,181	$ —	$ 2,636	$ (44)	$ 47,773

The Company’s investments in marketable debt securities,available-for-sale, that have been in a continuous unrealized loss position, for which an allowance for credit losses has not been recorded, by type of security consisted of the following (in thousands):

	March 31, 2021					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government sponsored entities	$ 139	$ (3)	$—	$ —	$ 139	$ (3)
Corporate debt	20,447	(52)	139	(8)	20,586	(60)
ABS and other	363	—	345	(6)	708	(6)
	$20,949	$ (55)	$484	$ (14)	$21,433	$ (69)

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

	December 31, 2020					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. treasuries	$41,702	$ (5)	$—	$ —	$41,702	$ (5)
Corporate debt	29,810	(34)	—	—	29,810	(34)
ABS and other	546	(6)	157	(5)	703	(11)
	$72,058	$ (45)	$157	$ (5)	$72,215	$ (50)

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

	Three Months Ended March 31,	
	2021	2020
Gross realized gains (1)	$ 1	$ 53
Gross realized losses (1)	$ —	$ —

(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.

The Company invests its excess cash in a diversified portfolio of fixed and variable rate debt securities to meet current and future cash flow needs. All investments are made in accordance with the Company's approved investment policy. As of March 31, 2021, the portfolio had an average credit rating of AA and weighted term to contractual maturity of 1.7 years, with 27 securities in the portfolio with an unrealized loss aggregating $69,000, or 0.3% of amortized cost, and a weighted average credit rating of A+.

As of March 31, 2021, the Company performed an impairment analysis and determined an allowance for credit losses was not required. The Company determined that it did not have an intent to sell and it was not more likely than not that the Company would be required to sell any security based on its current liquidity position, or to maintain compliance with its investment policy, specifically as it relates to minimum credit ratings. The Company evaluated the securities with an unrealized loss considering severity of loss, credit ratings, specific credit events during the period since acquisition, overall likelihood of default, market sector, potential impact from the current economic situation and a review of an issuer's and securities' liquidity and financial strength, as needed. The Company concluded that it would receive all scheduled interest and principle payments. The Company, therefore, determined qualitatively that the unrealized loss was related to changes in interest rates and other market factors and therefore no allowance for credit losses was required.

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

	March 31, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$134,460	$ 134,494	$158,148	$ 158,258
Due after one year through five years	50,401	51,534	30,604	32,041
Due after five years through ten years	10,323	10,891	10,022	11,044
Due after ten years	4,390	4,506	4,555	4,688
	$199,574	$ 201,425	$203,329	$ 206,031
Weighted average contractual maturity		1.7 years		1.6 years

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

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5. Acquisitions, Goodwill and Other Intangible Assets

During the three months ended March 31, 2021, the Company recognized measurement period adjustments, including additional cash acquired to the provisional amounts that were recognized at the acquisition date for businesses acquired during 2020 to reflect new information obtained about facts and circumstances that existed as of the acquisition dates that, if known, would have affected the measurement of the amounts recognized as of the acquisition date. The impact to amortization expense not previously recognized related to these adjustments was not material.

The goodwill recorded as part of the acquisitions primarily arose from the acquired assembled workforce and brokerage and financing sales platforms. The Company expects all of the goodwill to be tax deductible, with the tax-deductible amount of goodwill related to the contingent and deferred consideration to be determined once the cash payments are made to settle any contingent and deferred consideration. The goodwill resulting from acquisitions is allocated to the Company's one reporting unit.

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

	March 31, 2021			December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Goodwill and intangible assets:						
Goodwill	$34,046	$ —	$34,046	$33,375	$ —	$33,375
Intangible assets [(1)]	23,975	(7,204)	16,771	24,745	(6,067)	18,678
	$58,021	$ (7,204)	$50,817	$58,120	$ (6,067)	$52,053

(1) Total weighted average amortization period was 5.53 years and 5.57 years as of March 31, 2021 and December 31, 2020, respectively.

The changes in the carrying amount of goodwill consisted of the following (in thousands):

	Three Months Ended March 31,	
	2021	2020
Beginning balance	$33,375	$15,072
Additions from acquisitions [(1)]	671	3,990
Impairment losses	—	—
Ending balance	$34,046	$19,062

(1) The 2021 addition represents a measurement period adjustment.

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

	March 31, 2021
Remainder of 2021	$ 2,737
2022	3,474
2023	3,419
2024	2,891
2025	2,659
Thereafter	1,591
	$ 16,771

The Company evaluates goodwill for impairment annually in the fourth quarter. In addition to the annual impairment evaluation, the Company evaluates at least quarterly whether events or circumstances have occurred in the period subsequent to the annual impairment testing, which indicate that it is more likely than not an impairment loss has occurred. The Company evaluates its intangible assets that have finite useful lives whenever an event or change in circumstances indicates that the carrying value of the asset may not be recoverable.

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As of March 31, 2021, the Company considered the impact ofCOVID-19 pandemic and evaluated its goodwill and intangible assets for impairment testing. The Company considered qualitative and quantitative factors, including the impact from the COVID-19 induced economic slowdown and current projected recovery timeframes. The Company estimated the recoverability of the intangible assets by comparing the carrying amount of each asset to the future undiscounted cash flows that the Company expects the asset to generate. The sum of the undiscounted expected future cash flows was greater than the carrying amount of the intangible assets. The Company concluded that as of March 31, 2021, there was no impairment of its goodwill and intangible assets.

6. Selected Balance Sheet Data

Advances and Loans, Net and Commissions Receivable, Net

Allowance for credit losses for advances and loans and commissions receivable consisted of the following (in thousands):

	Advances and Loans	Commissions Receivable	Total
Beginning balance as of January 1, 2021	$ 563	$ 94	$ 657
Credit loss recovery	(67)	(79)	(146)
Write-offs	(2)	—	(2)
Ending balance as of March 31, 2021	$ 494	$ 15	$ 509

	Advances and Loans	Commissions Receivable	Total
Beginning balance as of January 1, 2020	$ 512	$ 32 [(1)]	$ 544
Credit loss recovery	(120)	—	(120)
Write-offs	(2)	—	(2)
Ending balance as of March 31, 2020	$ 390	$ 32	$ 422

(1) Includes cumulative-effect adjustment related to the adoption of ASU No. 2016-13,*Financial Instruments – Credit Losses.*

Other Assets

Other assets consisted of the following (in thousands):

	Current		Non-Current	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Mortgage servicing rights (“MSRs”), net of amortization	$ —	$ —	$ 2,062	$ 1,897
Security deposits	—	—	1,463	1,461
Employee notes receivable [(1)]	165	185	13	246
Customer trust accounts and other	5,477	4,526	537	572
	$ 5,642	$ 4,711	$ 4,075	$ 4,176

(1) Reduction of accrued bonuses and other employee related expenses in settlement of employee notes receivable were $10 and $0 for the three months ended March 31, 2021 and 2020, respectively. See Note 7 – “Related-Party Transactions” for additional information.

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MSRs

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Beginning balance	$1,897	$ 2,002
Additions	303	77
Amortization	(138)	(129)
Ending balance	$2,062	$ 1,950

The portfolio of loans serviced by the Company aggregated $1.6 billion for each of the periods ended March 31, 2021 and December 31, 2020, respectively. See Note 8 – "Fair Value Measurements" for additional information on MSRs.

In connection with MSR activities, the Company holds funds in escrow for the benefit of the lenders. These funds, which totaled $2.0 million and $3.2 million as of March 31, 2021 and December 31, 2020, 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.

Deferred Compensation and Commissions

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

	Current		Non-Current	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Stock appreciation rights ("SARs") liability (1)	$ 2,225	$ 2,162	$ 14,568	$ 16,671
Commissions payable to investment sales and financing professionals	29,054	54,082	7,389	15,306
Deferred compensation liability (1)	1,485	1,519	6,788	6,768
Other	435	343	—	—
	$ 33,199	$ 58,106	$ 28,745	$ 38,745

(1) The SARs and deferred compensation liability become subject to payout as a result of a participant no longer being considered 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.

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, 2021 and 2020 were 2.930% and 3.920%, respectively. MMI recorded interest expense related to this liability of $122,000 and $178,000 for the three months ended March 31, 2021 and 2020, respectively.

Estimated payouts within the next twelve months for participants that have separated from service have been classified as current. During the three months ended March 31, 2021 and 2020, the Company made total payments of $2.2 million and $2.1 million, consisting of principal and accumulated interest, respectively.

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.

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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 the 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 three months ended March 31, 2021 and 2020, the Company made total payments to participants of $371,000 and $358,000, respectively.

The assets held in the rabbi trust are carried at the cash surrender value of the variable life insurance policies, which represents its fair value. 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 March 31,	
	2021	2020
Increase (decrease) in the carrying value of the assets held in the rabbi trust (1)	$ 333	$ (1,388)
Increase (decrease) in the net carrying value of the deferred compensation obligation (2)	$ 260	$ (1,273)

(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.

Other Liabilities

Other liabilities consisted of the following (in thousands):

	Non-Current	
	March 31, 2021	December 31, 2020
Deferred consideration (1) (2)	$ 7,171	$ 8,582
Contingent consideration (1)	4,033	4,219
Other	1,013	1,015
	$ 12,217	$ 13,816

(1) The current portions of deferred consideration in the amounts of $6,571 and $6,666 as of March 31, 2021 and December 31, 2020, respectively, are included in accounts payable and other liabilities in the condensed consolidated balance sheets. The current portions of contingent consideration in the amounts of $1,268 and $1,353 as of March 31, 2021 and December 31, 2020, respectively, are included in accounts payable and other liabilities in the condensed consolidated balance sheets.
(2) Includes a measurement period adjustment made during the three months ended March 31, 2021, which represents a noncash investing activity. See Note 5 – "Acquisitions, Goodwill and Other Intangible Assets" for additional information.

7. 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 these services separately. Under the TSA, the Company incurred net costs during the three months ended March 31, 2021 and 2020 of $19,000 and $26,000, respectively. These amounts are included in selling, general and administrative expense in the accompanying condensed consolidated statements of net and comprehensive income.

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Brokerage and Financing Services with the Subsidiaries of MMC

MMC has wholly or majority owned subsidiaries that buy and sell commercial real estate properties. The Company performs certain brokerage and financing services related to transactions of the subsidiaries of MMC. For the three months ended March 31, 2021 and 2020, the Company earned real estate brokerage commissions and financing fees of $457,000 and $766,000, respectively, from transactions with subsidiaries of MMC related to these services. The Company incurred cost of services of $274,000 and $453,000, respectively, related to these revenues.

Operating Lease with MMC

The Company has an operating lease with MMC for a single-story office building located in Palo Alto, California, which expires on May 31, 2022. The related operating lease cost was $333,000 for each of the three months ended March 31, 2021 and 2020, 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 3 – "Operating Leases" for additional information.

Accounts Payable and Other Liabilities with MMC

As of March 31, 2021 and December 31, 2020, accounts payable and other liabilities with MMC totaling $93,000 and $89,000, respectively, remain unpaid and are included in accounts payable and other liabilities in the accompanying condensed consolidated balance sheets.

Other

The Company makes advances to non-executive employees from time-to-time. At March 31, 2021 and December 31, 2020, the aggregate principal amount for employee notes receivable was $178,000 and $431,000, respectively, which is included in other assets (current and non-current) in the accompanying condensed consolidated balance sheets. See Note 6 – "Selected Balance Sheet Data" for additional information.

As of March 31, 2021, George M. Marcus, the Company's founder and Chairman, beneficially owned approximately 39% of the Company's issued and outstanding common stock, including shares owned by Phoenix Investments Holdings, LLC and the Marcus Family Foundation II.

8. Fair Value Measurements

U.S. GAAP defines the fair value of a financial instrument as the amount that would be received from the sale of an asset in an orderly transaction between market participants at the measurement date. The Company is responsible for the determination of fair value and the supporting methodologies and assumptions. The Company uses various pricing sources and third parties to provide and 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:* Unobservable 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. Management estimates include certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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 debt securities, available-for-sale, assets held in the rabbi trust, deferred compensation liability and contingent and deferred consideration at fair value on a recurring basis.

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Fair values for investments included in cash and cash equivalents and marketable debt securities,available-for-sale were determined for each individual security in the investment portfolio and all these securities are Level 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 acontract-by-contract basis, calculated using unobservable inputs based on a probability of achieving EBITDA and other performance requirements, and is a Level 3 measurement. Deferred consideration in connection with acquisitions is carried at fair value and calculated using a discounted cash flow estimate with the only remaining condition on such payments being the passage of time, and is a Level 2 measurement.

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

	March 31, 2021				December 31, 2020			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets:								
Assets held in rabbi trust	$ 10,574	$ —	$10,574	$ —	$ 10,295	$ —	$ 10,295	$ —
Cash equivalents [1]:								
Commercial paper and other	$ 3,899	$ —	$ 3,899	$ —	$ 9,399	$ —	$ 9,399	$ —
Money market funds	168,010	168,010	—	—	158,271	158,271	—	—
	$171,909	$168,010	$ 3,899	$ —	$167,670	$158,271	$ 9,399	$ —
Marketable debt securities, available-for-sale:								
Short-term investments:								
U.S. treasuries	$ 69,240	$ 69,240	$ —	$ —	$ 75,970	$ 75,970	$ —	$ —
U.S. government sponsored entities	11,454	—	11,454	—	32,447	—	32,447	—
Corporate debt	53,800	—	53,800	—	49,841	—	49,841	—
	$134,494	$ 69,240	$65,254	$ —	$158,258	$ 75,970	$ 82,288	$ —
Long-term investments:								
U.S. treasuries	$ 22,521	$ 22,521	$ —	$ —	$ 3,641	$ 3,641	$ —	$ —
U.S. government sponsored entities	1,045	—	1,045	—	1,152	—	1,152	—
Corporate debt	36,869	—	36,869	—	36,287	—	36,287	—
ABS and other	6,496	—	6,496	—	6,693	—	6,693	—
	$ 66,931	$ 22,521	$44,410	$ —	$ 47,773	$ 3,641	$ 44,132	$ —
Liabilities:								
Contingent consideration	$ 5,301	$ —	$ —	$5,301	$ 5,572	$ —	$ —	$ 5,572
Deferred consideration	$ 13,742	$ —	$13,742	$ —	$ 15,248	$ —	$ 15,248	$ —
Deferred compensation liability	$ 8,273	$ 8,273	$ —	$ —	$ 8,287	$ 8,287	$ —	$ —

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

There were no transfers in or out of Level 3 during the three months ended March 31, 2021 and 2020.

During the three months ended March 31, 2021, the Company considered the economic impact of theCOVID-19 pandemic on the probability of achieving EBITDA and other performance targets, and current and future interest rates in its determination of fair value for the contingent consideration. The Company is uncertain as to the extent of the volatility in the unobservable inputs in the foreseeable future. Deferred consideration in connection with acquisitions is carried at fair value and calculated using a discounted cash flow estimate with the only remaining condition on such payments being the passage of time.

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As of March 31, 2021 and December 31, 2020, contingent and deferred consideration has a maximum undiscounted payment to be settled in cash or stock of $32.0 million and $33.2 million, respectively. Assuming the achievement of the applicable performance criteria and/or service and time requirements, the Company anticipates these payments will be made over the next one to seven-year period. Changes in fair value are included in selling, general and administrative expense in the condensed consolidated statements of net and comprehensive income.

A reconciliation of contingent consideration measured at fair value on a recurring basis consisted of the following (in thousands):

	Three Months Ended March 31,	
	2021	2020
Beginning balance	$ 5,572	$ 3,387
Contingent consideration in connection with acquisitions [1]	(100)	—
Change in fair value of contingent consideration	(171)	(225)
Payments of contingent consideration	—	—
Ending balance	$ 5,301	$ 3,162

(1) Contingent consideration in connection with acquisitions represents a noncash investing activity. Relates to a measurement period adjustment. See Note 5 – "Acquisitions, Goodwill and Other Intangible Assets" for additional information.

Quantitative information about the valuation technique and significant unobservable inputs used in the valuation of the Company's Level 3 financial liabilities measured at fair value on a recurring basis consisted of the following (dollars in thousands):

	Fair Value at March 31, 2021	Valuation Technique	Unobservable inputs	Range (Weighted Average) [1]
Contingent consideration	$ 5,301	Discounted cash flow	Expected life of cash flows	2.2-6.6 years (4.0 years)
			Discount rate	2.3%-4.3% (3.2%)
			Probability of achievement	35.3%-100.0% (82.3%)

	Fair Value at December 31, 2020	Valuation Technique	Unobservable inputs	Range (Weighted Average) [1]
Contingent consideration	$ 5,572	Discounted cash flow	Expected life of cash flows	2.4-6.8 years (4.4 years)
			Discount rate	2.6%-4.3% (3.4%)
			Probability of achievement	50.0%-100.0% (86.1%)

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

Nonrecurring Fair Value Measurements

In accordance with U.S. GAAP, from time to time, the Company measures certain assets at fair value on a nonrecurring basis. The Company reviews the carrying value of MSRs, intangibles, goodwill and other assets for indications of impairment at least annually. 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, which are appropriate under the circumstances and utilize Level 2 and Level 3 measurements as required.

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MSRs are recorded at fair value upon acquisition of a servicing contract. The Company has elected the amortization method for the subsequent measurement of MSRs. MSRs are carried at the lower of amortized cost or fair value. MSRs are a Level 3 measurement. The Company's MSRs do not trade in an active, open market with readily observable prices. The estimated fair value of the Company's MSRs were developed using a discounted cash flow model that calculates 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 to reflect observable market conditions and assumptions that a market participant would consider in valuing an MSR asset. Management made revisions to the assumptions used in the determination of fair value for MSRs after considering the economic impact of the COVID-19 pandemic on default, severity, prepayment and discount rates related to the specific types and underlying collateral of the various serviced loans, interest rates, refinance rates, and current government and private sector responses to the pandemic. MSRs are carried at the lower of amortized cost or fair value. The fair value of the MSRs approximated the carrying value at March 31, 2021 and December 31, 2020 after consideration of the revisions to the various assumptions. See Note 6 – "Selected Balance Sheet Data – Other Assets – MSRs" for additional information.

As market conditions change, the Company will re-evaluate assumptions used in the determination of fair value for MSRs and is uncertain to the extent of the volatility in the unobservable inputs in the foreseeable future.

Quantitative information about the valuation technique and significant unobservable inputs used in the valuation of the Company's Level 3 financial assets measured at fair value on a nonrecurring basis consisted of the following (dollars in thousands):

	Fair Value at March 31, 2021	Valuation Technique	Unobservable inputs	Range (Weighted Average) [(1)]
MSRs	$ 2,415	Discounted cash flow	Constant prepayment rates	0.0%-20.0% (10.0%)
			Constant default rate	0.3%-4.3% (1.2%)
			Loss severity	26.2%-31.4% (28.0%)
			Discount rate	10.0%-10.0% (10.0%)

	Fair Value at December 31, 2020	Valuation Technique	Unobservable inputs	Range (Weighted Average) [(1)]
MSRs	$ 2,135	Discounted cash flow	Constant prepayment rates	0.0%-20.0% (10.0%)
			Constant default rate	0.3%-4.1% (1.1%)
			Loss severity	26.2%-31.4% (28.0%)
			Discount rate	10.0%-10.0% (10.0%)

(1) Weighted average is based on the 10% constant prepayment rate scenario which the Company uses as the reported fair value.

9. Stockholders' Equity

Common Stock

As of March 31, 2021 and December 31, 2020, there were 39,500,966 and 39,401,976 shares of common stock, $0.0001 par value, issued and outstanding, which include unvested restricted stock awards ("RSAs") issued to non-employee directors, respectively. See Note 12 – "Earnings per Share" for additional information.

Preferred Stock

The Company has 25,000,000 authorized shares of preferred stock with a par value $0.0001 per share. At March 31, 2021 and December 31, 2020, there were no preferred shares issued or outstanding.

Accumulated Other Comprehensive Income/Loss

Amounts reclassified from accumulated other comprehensive income/loss include marketable debt securities, available for sale are included as a component of other income (expense), net or selling, general and administrative expense, as applicable, in the condensed consolidated statements of net and comprehensive income. The reclassifications were determined on a specific identification basis.

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

10. Stock-Based Compensation Plans

2013 Omnibus Equity Incentive Plan

The 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 March 31, 2021, there were 4,757,955 shares available for future grants under the 2013 Plan.

Awards Granted and Settled

Under the 2013 Plan, the Company has issued RSAs to non-employee directors and restricted stock units ("RSUs") to employees and independent contractors. RSAs vest over a one-year period from the date of grant, subject to service requirements. RSUs generally 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. As of March 31, 2021, there were no issued or outstanding options, SARs, performance units or performance share awards under the 2013 Plan.

During the three months ended March 31, 2021, 149,117 shares of RSUs vested and 50,127 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. During the three months ended March 31, 2021, there were no deferred stock units ("DSUs") that settled.

Outstanding Awards

Activity under the 2013 Plan consisted of the following (dollars in thousands, except weighted average 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, 2020 [1]	16,728	637,650	264,001	918,379	33.73
Granted	—	217,893	9,834	227,727	39.10
Vested	—	(132,176)	(16,941)	(149,117)	33.01
Transferred	—	(3,220)	3,220	—	31.05
Forfeited/canceled	—	(16,476)	(3,585)	(20,061)	33.05
Nonvested shares at March 31, 2021 [1]	16,728	703,671	256,529	976,928	34.56
Unrecognized stock-based compensation expense as of March 31, 2021 [2]	$ 42	$ 24,124	$ 7,212	$ 31,378	
Weighted average remaining vesting period (years) as of March 31, 2021	0.10	3.91	3.09	3.72	

(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 3.72 years.

Employee Stock Purchase Plan

In 2013, the Company adopted the 2013 Employee Stock Purchase Plan ("ESPP"). The ESPP is intended to qualify 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.

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The ESPP initially had 366,667 shares of common stock reserved, and 176,877 shares of common stock remain available for issuance as of March 31, 2021. 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 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 March 31, 2021, total unrecognized compensation cost related to the ESPP was $24,000 and is expected to be recognized over a weighted average period of 0.12 years.

SARs and DSUs

Prior to the IPO, certain employees were granted SARs. As of March 31, 2013, the outstanding SARs were frozen at the liability amount, and will be paid out to each participant in installments upon retirement or departure under the terms of the revised SARs agreements. To replace beneficial ownership in the SARs, the difference between the book value liability and the fair value of the awards was granted to plan participants in the form of DSUs, which were fully vested upon receipt and will be settled in actual stock at a rate of 20% per year if the participant remains employed by the Company during that period (otherwise all unsettled shares of stock upon termination from service will be settled five years from the termination date, unless otherwise agreed to by the Company). In the event of death or termination of service after reaching the age of 67, 100% of the DSUs will be settled. As of March 31, 2021, the remaining future share settlements of fully vested DSUs by year consisted of the following:

	March 31, 2021
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 and consisted of the following (in thousands):

	Three Months Ended March 31,	
	2021	2020
ESPP	$ 50	$ 47
RSAs – non-employee directors	111	160
RSUs – employees	1,454	1,656
RSUs – independent contractors	673	769
	$ 2,288	$ 2,632

11. Income Taxes

The Company’s effective tax rate for the three months ended March 31, 2021 and 2020 was 28.8% and 31.2%, 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 any 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 March 31,			
	2021		2020	
	Amount	Rate	Amount	Rate
Income tax expense at the federal statutory rate	$4,431	21.0%	$ 3,987	21.0%
State income tax expense, net of federal benefit	1,048	5.0%	1,018	5.4%
Windfall tax benefits, net related to stock-based compensation	(27)	(0.1)%	(17)	(0.1)%
Change in valuation allowance	180	0.9%	367	1.9%
Permanent and other items (1)	454	2.0%	562	3.0%
	$6,086	28.8%	$ 5,917	31.2%

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

12. Earnings per Share

Basic and diluted earnings per share for the three months ended March 31, 2021 and 2020, respectively consisted of the following (in thousands, except per share data):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Numerator (Basic and Diluted):		
Net income	$15,012	$13,070
Decrease in value for stock settled consideration	12	—
Adjusted net income	$15,024	$13,070
Denominator:		
Basic		
Weighted average common shares issued and outstanding	39,432	39,217
Deduct: Unvested RSAs (1)	(17)	(18)
Add: Fully vested DSUs (2)	342	342
Weighted average common shares outstanding	39,757	39,541
Basic earnings per common share	$ 0.38	$ 0.33
Diluted		
Weighted average common shares outstanding from above	39,757	39,541
Add: Dilutive effect of RSUs, RSAs & ESPP	208	105
Add: Contingently issuable shares (3)	159	—
Weighted average common shares outstanding	40,124	39,646
Diluted earnings per common share	$ 0.37	$ 0.33
Antidilutive shares excluded from diluted earnings per common share(4)	230	521

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

(3) Relates to contingently issuable stock settled consideration.

(4) Primarily pertaining to RSU grants to the Company's employees and independent contractors.

13. Commitments and Contingencies

Credit Agreement

On June 18, 2014, the Company entered into a Credit Agreement with Wells Fargo Bank, National Association (the "Bank"), as amended and restated on May 28, 2019, and further, amended on November 27, 2019 and on February 9, 2021 (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") and 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. Upon the expiration of the use of the LIBOR as a benchmark, the benchmark will be replaced with the SOFR plus a spread adjustment.

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Borrowings under the Credit Agreement are available for general corporate purposes and working capital.The Credit Facility includes a $10.0 million sublimit for the issuance of standby letters of credit of which $533,000 was utilized at March 31, 2021. 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 between 0.875% to 1.125% above LIBOR. In connection with the amendments of the Credit Agreement, 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 $24,000 and $22,000 during the three months ended March 31, 2021 and 2020, respectively. As of March 31, 2021, there were no amounts outstanding under the Credit Agreement.

The Credit Facility contains customary covenants, including financial and other covenant reporting requirements and events of default. Financial covenants require the Company, on a combined basis with its guarantors, to maintain (i) an EBITDAR Coverage Ratio (as defined in the Credit Agreement) of not less than 1.25:1.0 as of each quarter end, determined on a rolling four-quarter basis, and (ii) total funded debt to EBITDA not greater than 1.5:1.0 as of each quarter end, determined on a rolling four-quarter basis, and also limits investments in foreign entities and 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 March 31, 2021, 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 investment sales and financing professionals, the Company may agree to advance amounts to certain investment sales and financing professionals upon reaching certain time and performance goals. Such commitments as of March 31, 2021 aggregated $22.3 million.

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

Unless the context requires otherwise, the words "Marcus & Millichap," "MMI," "we," the "Company," "us" and "our" refer to Marcus & Millichap, 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, including but not limited to the continuing impact of the COVID-19 pandemic. The results of operations for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2021, 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, 2020 filed with the SEC on March 1, 2021, 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 for more than 15 years. As of March 31, 2021, we had 2,038 investment sales and financing professionals that are primarily exclusive independent contractors operating in 84 offices, who provide real estate brokerage and financing services to sellers and buyers of commercial real estate assets. We also offer market research, consulting and advisory services to our clients. During the three months ended March 31, 2021, we closed 2,332 investment sales, financing and other transactions with total sales volume of approximately $12.0 billion. During the year ended December 31, 2020, we closed 8,954 investment sales, financing and other transactions with total sales volume of approximately $43.4 billion.

We generate revenues by collecting real estate brokerage commissions upon the sale, and fees upon the financing, of commercial properties, and by providing equity advisory services, loan sales and 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. During each of the three months ended March 31, 2021 and the year ended December 31, 2020, approximately 88% of our revenues were generated from real estate brokerage commissions, 10% from financing fees and 2% from other real estate related 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 to up to but less than $10 million;
- *Middle market:* properties priced from $10 million to up to but less than $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 65% and 67% of our real estate brokerage commissions during the three months ended March 31, 2021 and 2020, respectively. The following table sets forth the number of transactions, sales volume and revenues by commercial real estate market segment for real estate brokerage:

	Three Months Ended March 31,								
	2021			2020			Change		
	Number	Volume	Revenues	Number	Volume	Revenues	Number	Volume	Revenues
Real Estate Brokerage		(in millions)	(in thousands)		(in millions)	(in thousands)		(in millions)	(in thousands)
<$1 million	227	$ 149	$ 6,138	216	$ 136	$ 5,742	11	$ 13	$ 396
Private client market ($1 - <$10 million)	1,200	3,668	105,423	1,242	4,001	114,264	(42)	(333)	(8,841)
Middle market ($10 - <$20 million)	78	1,067	20,601	91	1,222	22,668	(13)	(155)	(2,067)
Larger transaction market (≥$20 million)	83	3,980	30,634	66	3,083	29,155	17	897	1,479
	1,588	$ 8,864	$ 162,796	1,615	$ 8,442	$ 171,829	(27)	$ 422	$ (9,033)

COVID-19

We are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business and in the regions we operate. We continue to follow the local guidelines in cities where our offices are located, and all of our offices have re-opened, and those that have not been able to re-open due to state and local restrictions are available to our employees and sales and financing professionals on an as-needed basis.

Our business was impacted by the COVID-19 pandemic during most of 2020, with the total number of transactions and total revenues declining 7.9% and 11.1% in the year ended December 31, 2020, respectively, compared to the same period in 2019. During the three months ended March 31, 2021, total revenues declined 3.5% compared to the same period in 2020. While our total revenues were below prior years' levels, returning to prior years' levels remains a major priority for us. We are extending the uses of technology and resource sharing measures adopted over the past year as ways to achieve more efficiency on a long-term basis.

Although the negative impact to our business has moderated, we anticipate that total revenues may be impacted for at least the first half of 2021 and until more stable business conditions begin to resume in 2021. We continue to monitor the expected trends and related demand for our services and will continue to adjust our operations accordingly. Our priority is to support our team's efforts to increase client contact, provide expanded content and advisory services to investors and clients, and preserve our financial position through expense reductions. Given our significant liquidity, we expect our company to be well positioned to benefit from and contribute to the real estate transaction recovery when it emerges, including making accretive and synergistic acquisitions, which will help expand service offerings and market coverage.

Due to a high degree of uncertainty and fluidity of this situation, we are unable to predict the full extent of the continuing impact of the COVID-19 pandemic on our financial condition, results of operations and cash flows. These uncertainties include the scope, severity and duration of the pandemic; variants in the virus and the effects thereof; expectation gaps among buyers and sellers on pricing and property operation, vulnerability to further economic weakness and/or slow recovery; a more difficult market environment for new investment sales and financing professionals who are experiencing extended ramp-up time to reach production goals; the actions taken by state and local governments to contain the pandemic or mitigate its impact, including vaccination programs; the direct and indirect economic effects of the pandemic and containment measures and actions taken; and the impact of these and other factors on our employees, independent contractors, clients and potential clients.

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 investor 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.

The 2021 economic outlook was bolstered in the first quarter by the release of a third major stimulus package, the rapid deployment of COVID-19 vaccines and a reduction of safety restrictions by many states. In the first quarter, core retail sales climbed 14%, signaling a robust consumption recovery. Barring a major setback such as significant problems with the vaccines or a wave of new vaccine-resistant COVID-19 variants, many economists are predicting 2021 should deliver the strongest economic growth in a generation. We believe the prospect of a strong recovery could continue to help restrain the distressed asset market because many investors believe their asset performance could quickly recover, enabling them to cover missed payments. There are, however, still many hurdles to overcome. Total employment remains well-below pre-pandemic levels, numerous service-sector businesses have shuttered and there is considerable uncertainty regarding a return to working in the office for many companies. We believe that while the broader recovery gains traction, these headwinds may weigh on select commercial real estate sectors and the urban core of major cities in particular. Investors appear to have begun to respond favorably to the anticipated economic revival. Although activity remains well below pre-pandemic levels of a year ago, transaction momentum has increased dramatically from the trough in the second quarter of 2020. The multifamily, industrial, self-storage and net-leased retail sectors have sustained the most positive momentum, while hospitality, senior housing, office and some types of retail remain clouded by uncertainty.

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 many 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.

The pandemic has affected the space supply and demand balance of each commercial real estate sub-sector in very different ways. A handful of property types including self-storage, industrial and biotech garnered increased demand through the pandemic. Apartment and manufactured housing demand have largely remained stable on a macro level as have most types of net-leased assets. There is a broad-based perception that properties like hotels, student housing, senior housing and some types of multitenant retail could mount a relatively quick recovery once the pandemic passes, and there is still substantial uncertainty surrounding the office space demand outlook. In addition, space demand has varied dramatically between urban and suburban locations, as well as by metro with each state and city enforcing very different health and safety protocols over the last year. In terms of new supply, apartment and industrial development has continued virtually unchecked while space additions of most other property types declined. This reflects the challenges the construction industry has faced during the pandemic as well as the 13.5% rise in construction costs over the last year through March 2021. Barring an unanticipated setback, we believe that as greater clarity surrounding the health, economic and commercial real estate fundamentals outlook emerges, investor activity should recover over time.

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 generally influence the demand of investors for commercial real estate investments.

Capital liquidity remains strong with debt financing available for most property types in most markets. Hotels and some retail properties still face difficulty in obtaining financing through traditional channels, but some private lenders have stepped into that space to provide liquidity. In such cases, the investor’s qualifications may be even more important than the asset they are financing. Although banks and government agencies continue to be the most active lenders, each providing more than one-third of the total lending, other sources including commercial mortgage-backed securities have reentered the market to offer additional financing options. In general, both lending and interest rates appear to be moving back toward a pre-pandemic balance. Investors have been keenly aware of the sharp rise in interest rates during the first quarter, largely driven by speculation of a strong economic recovery and a flow of capital out of the safety of the bond market, but treasury rates appear to have stabilized and they remain below pre-pandemic levels. Federal Reserve statements have remained accommodative and although inflation risk has emerged as a leading investor concern, inflation remains in the Fed’s target range. Based on the foregoing, we believe market liquidity should remain strong, barring a significant pandemic-related or financial market setback.

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.

Investor activity remains well-below year ago levels, but recovery momentum is mounting as uncertainty surrounding the economic and commercial real estate outlook begins to abate. Much of the hesitancy has been on the sellers' side as they wait for the strengthening economy to bolster occupancy levels and boost property values. This is leading to a widening of the pricing expectation gap as buyers attempt to acquire properties with a "COVID discount" and sellers eye the particularly strong growth projections. The most stable assets in stronger markets are achieving pricing above pre-pandemic levels, while assets with considerable uncertainty such as office properties that lack long-term, high-credit tenants continue to navigate the price discovery process. However, we believe low interest rates and generally broad capital availability have been positive forces supporting activity. We believe the many investors still on the sidelines have ample capital on-hand to spur transaction activity once uncertainties abate, particularly after vaccinations reach a critical mass. Looking forward, tax policy is beginning to emerge as a primary concern for investors. Prospective increases in personal, corporate, capital gains and estate taxes have the potential to dampen consumption and business investment while simultaneously rendering existing investment and estate plans obsolete. Tax policy changes could spark a short-term wave of transactions or they could slow transaction activity depending on exactly how the changes are framed and the time frame in which they are enacted. In addition, questions remain about the future of 1031 tax deferred exchanges, but this tax code section has survived many attempts at elimination largely because studies have demonstrated that cancelling this tax code section would likely cause considerable economic and tax revenue losses. Nonetheless, we believe the emerging medical solutions to the health crisis and the eventual release of pent-up demand among consumers and real estate investors should ultimately outweigh tax policy and the remaining headwinds impairing investor decisions.

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 events, political events, natural disasters or pandemics such as the COVID-19 pandemic, which may impact, among other things, 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 and finance, 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 investment sales 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 we would have received had the transaction closed.

Real Estate Brokerage Commissions

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

Financing Fees

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

To a lesser extent, we also earn mortgage servicing revenue, mortgage servicing fees, equity advisory services, loan sales 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, advisory and other real estate 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 financial 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 one or three years, at our election, and paid at the beginning of the second and 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 and deferred 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 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 seven 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 debt securities, available-for-sale, foreign currency gains and losses and other non-operating income and expenses.

Interest Expense

Interest expense primarily consists of interest expense associated with the stock appreciation rights ("SARs") liability, notes payable to former stockholders (through the second quarter of 2020 when fully repaid) 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 the impact of permanent items, including compensation charges, qualified transportation fringe benefits, uncertain tax positions, meals and entertainment and tax-exempt deferred compensation plan assets. Our provision for income taxes includes the windfall tax benefits and shortfall expenses, 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 months ended March 31, 2021 and 2020. 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. We also believe these metrics are relevant to investors' and others' assessment of our financial condition and results of operations. During the three months ended March 31, 2021 and 2020, we closed more than 2,300 and 2,200 investment sales, financing and other transactions, respectively, with total sales volume of approximately $12.0 billion and $11.8 billion, respectively. Such key metrics for real estate brokerage and financing activities (excluding other transactions) are as follows:

	Three Months Ended March 31,	
Real Estate Brokerage	2021	2020
Average Number of Investment Sales Professionals	1,959	1,889
Average Number of Transactions per Investment Sales Professional	0.81	0.85
Average Commission per Transaction	$102,517	$106,396
Average Commission Rate	1.84%	2.04%
Average Transaction Size (in thousands)	$ 5,582	$ 5,227
Total Number of Transactions	1,588	1,615
Total Sales Volume (in millions)	$ 8,864	$ 8,442

	Three Months Ended March 31,	
Financing (1)	2021	2020
Average Number of Financing Professionals	86	89
Average Number of Transactions per Financing Professional	5.74	5.37
Average Fee per Transaction	$ 30,464	$ 30,900
Average Fee Rate	0.93%	0.84%
Average Transaction Size (in thousands)	$ 3,263	$ 3,670
Total Number of Transactions	494	478
Total Financing Volume (in millions)	$ 1,612	$ 1,754

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

Comparison of Three months ended March 31, 2021 and 2020

Below are key operating results for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 (dollars in thousands):

	Three Months Ended March 31, 2021	Percentage of Revenue	Three Months Ended March 31, 2020	Percentage of Revenue	Change Dollar	Change Percentage
Revenues:						
Real estate brokerage commissions	$ 162,796	88.5%	$ 171,829	90.1%	$(9,033)	(5.3)%
Financing fees	17,843	9.7	15,351	8.0	2,492	16.2%
Other revenues	3,338	1.8	3,537	1.9	(199)	(5.6)%
Total revenues	183,977	100.0	190,717	100.0	(6,740)	(3.5)%
Operating expenses:						
Cost of services	109,103	59.3	113,757	59.6	(4,654)	(4.1)%
Selling, general and administrative	51,677	28.1	54,860	28.8	(3,183)	(5.8)%
Depreciation and amortization	2,997	1.6	2,464	1.3	533	21.6%
Total operating expenses	163,777	89.0	171,081	89.7	(7,304)	(4.3)%
Operating income	20,200	11.0	19,636	10.3	564	2.9%
Other income (expense), net	1,044	0.6	(366)	(0.2)	1,410	(385.2)%
Interest expense	(146)	(0.1)	(283)	(0.1)	137	(48.4)%
Income before provision for income taxes	21,098	11.5	18,987	10.0	2,111	11.1%
Provision for income taxes	6,086	3.3	5,917	3.1	169	2.9%
Net income	$ 15,012	8.2%	$ 13,070	6.9%	$ 1,942	14.9%
Adjusted EBITDA [(1)]	$ 25,695	14.0%	$ 22,378	11.7%	$ 3,317	14.8%

(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 $184.0 million for the three months ended March 31, 2021 compared to $190.7 million for the same period in 2020, a decrease of $6.7 million, or 3.5%. Total revenues decreased primarily as a result of a decrease in real estate brokerage commissions, partially offset by an increase in financing fees, as described below. Other revenues remained relatively comparable.

Real estate brokerage commissions. Revenues from real estate brokerage commissions decreased to $162.8 million for the three months ended March 31, 2021 from $171.8 million for the same period in 2020, a decrease of $9.0 million, or 5.3%. The decrease was primarily driven by a 20 basis points decrease in average commission rates, partially offset by a 5.0% increase in sales volume. Sales volume was primarily impacted by a 6.8% increase in the average transaction size due to a larger proportion of transactions closed by our larger transaction market segment, partially offset by a 1.7% decrease in the number of transactions.

Financing fees. Revenues from financing fees increased to $17.8 million for the three months ended March 31, 2021 from $15.4 million for the same period in 2020, an increase of $2.5 million, or 16.2%. The increase was primarily driven by our recent acquisitions and other ancillary financing fees.

Other revenues. Other revenues of $3.3 million for the three months ended March 31, 2021 were relatively comparable to the $3.5 million for the same period in 2020.

Total Operating Expenses

Our total operating expenses were $163.8 million for the three months ended March 31, 2021 compared to $171.1 million for the same period in 2020, a decrease of $7.3 million, or 4.3%. The decrease was primarily due to decreases in cost of services, which are variable commissions paid to our investment sales professionals and compensation-related costs in connection with our financing activities, and selling, general and administrative costs, partially offset by an increase in and depreciation and amortization expense, as described below.

Cost of services. Cost of services decreased to $109.1 million for the three months ended March 31, 2021 from $113.8 million for the same period in 2020, a decrease of $4.7 million, or 4.1%. 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 decreased to 59.3% compared to 59.6% for the same period in 2020 primarily due to a higher proportion of transactions that were closed by our more senior investment sales and financing professionals at the start of the pandemic during the three months ended March 31, 2020. Traditionally, cost of services as a percent of total revenues is lower during the three-month periods ended March 31 as certain investment professionals may earn a higher commission rate later in the year after meeting annual revenue thresholds.

Selling, general and administrative expense. Selling, general and administrative expense for the three months ended March 31, 2021 decreased $3.2 million, or 5.8%, to $51.7 million from $54.9 million for the same period in 2020. The decrease was primarily due to decreases in (i) sales operations support and promotional marketing expenses primarily due to the Company's annual sales recognition event being cancelled due to ongoing concerns about the pandemic; (ii) legal costs; and (iii) net other expense categories, including stock-based compensation expense. These decreases were partially offset by increases in (i) operating costs related to acquired businesses in the last 12 months; (ii) compensation related costs, including variable employee incentive compensation as a result of our performance and deferred compensation obligations; and (iii) facilities expenses due to the expansion of existing offices and our acquisition activities.

Depreciation and amortization expense. Depreciation and amortization expense increased to $3.0 million for the three months ended March 31, 2021 from $2.5 million for the same period in 2020, an increase of $0.5 million, or 21.6%. The increase was primarily driven by our expansion and growth due to acquisitions.

Other Income (Expense), Net

Other income (expense), net increased to $1.0 million for the three months ended March 31, 2021 from $(0.4) million for the same period in 2020. The increase was primarily driven by (i) a $1.7 million favorable change in the value of our deferred compensation plan assets that are held in a rabbi trust; and (ii) a $1.2 million foreign currency gain related to our Canadian operations. These increases were partially offset by (i) a $1.4 million reduction in interest income on our investments in marketable debt securities, available-for-sale due to an overall decrease in interest rates; and (ii) a net $0.1 million reduction in other categories.

Interest Expense

Interest expense decreased to $0.1 million for the three months ended March 31, 2021 from $0.3 million for the same period in 2020. The decrease for the three months ended March 31, 2021 was primarily due to a decrease in interest expense on SARs liability and no interest expense related to notes payable to former stockholders, which were fully repaid during the second quarter of 2020.

Provision for Income Taxes

The provision for income taxes was $6.1 million for the three months ended March 31, 2021 compared to $5.9 million in the same period in 2020, an increase of $0.2 million, or 2.9%. The effective income tax rate for the three months ended March 31, 2021 was 28.8% compared to 31.2% for the same period in 2020. The effective income tax rate decreased primarily due to the effect of permanent items driven by the increase in value of our deferred compensation plan assets, a lower valuation allowance required for the deferred tax assets of the Company's Canadian operations and a shift in the blended state tax rate to lower taxing jurisdictions, partially offset by an increase in amounts that were not deductible under Internal Revenue Code Section 162(m) limitations.

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, stock-based compensation and other non-cash items, or Adjusted EBITDA. We define Adjusted EBITDA as net income before (i) interest income and other, including net realized gains (losses) on marketable debt 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, and (vi) non-cash MSR 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 to be 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 March 31,	
	2021	2020
Net income	$ 15,012	$ 13,070
Adjustments:		
Interest income and other [1]	(531)	(2,003)
Interest expense	146	283
Provision for income taxes	6,086	5,917
Depreciation and amortization	2,997	2,464
Stock-based compensation	2,288	2,632
Non-cash MSR activity [2]	(303)	15
Adjusted EBITDA [3]	$ 25,695	$ 22,378

(1) Other includes net realized gains (losses) on marketable debt securities, available-for-sale.
(2) Non-cash MSR activity includes the assumption of servicing obligations.
(3) The increase in Adjusted EBITDA for the three months ended March 31, 2021 compared to the same period in 2020 is primarily due to a lower proportion of operating expenses compared to total revenues.

Liquidity and Capital Resources

Our primary sources of liquidity are cash and cash equivalents, cash flows from operations, marketable debt 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 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 gating fees. To date, the Company has not experienced any restrictions or gating fees on its ability to redeem funds from money market funds. 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 debt securities, available-for-sale or availability under our credit agreement.

Cash Flows

Our total cash and cash equivalents balance decreased by $21.4 million to $221.7 million at March 31, 2021, compared to $243.2 million at December 31, 2020. The following table sets forth our summary cash flows for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
Net cash used in operating activities	$ (20,102)	$ (52,793)
Net cash provided by investing activities	3,141	13,097
Net cash used in financing activities	(4,516)	(2,940)
Effect of currency exchange rate changes on cash and cash equivalents	33	(274)
Net decrease in cash and cash equivalents	(21,444)	(42,910)
Cash and cash equivalents at beginning of period	243,152	232,670
Cash and cash equivalents at end of period	$ 221,708	$ 189,760

Operating Activities

Cash flows used in operating activities were $20.1 million for the three months ended March 31, 2021 compared to $52.8 million for the same period in 2020. Net cash used in operating activities is driven by our net income adjusted for non-cash items and changes in operating assets and liabilities. The $32.7 million decreased usage in operating cash flows for the three months ended March 31, 2021 compared to the same period in 2020 was primarily due to a lower proportion of operating expenses compared to total revenues, differences in timing of certain payments and receipts, a decrease in advances related to the acquisitions of teams and long-term retention of our investment sales and financing professionals and a reduction in bonus accruals. We traditionally experience net cash used in operating activities during the three-month periods ended March 31, since bonuses and certain deferred commissions related to the prior year(s) are typically paid during the first quarter of the new year.

Investing Activities

Cash flows provided by investing activities were $3.1 million for the three months ended March 31, 2021 compared to cash flows provided by investing activities of $13.1 million for the same period in 2020. The $10.0 million decrease in cash flows provided by investing activities for the three months ended March 31, 2021 compared to the same period in 2020 was primarily due to a $17.9 million reduction in net proceeds from sales and maturities of marketable debt securities, partially offset by a $6.2 million reduction in cash used in acquisitions of businesses, net of cash received during the three months ended March 31, 2021 compared to the same period in 2020.

Financing Activities

Cash flows used in financing activities were $4.5 million for the three months ended March 31, 2021 compared to $2.9 million for the same period in 2020. The change in cash flows used in financing activities for the three months ended March 31, 2021 compared to the same period in 2020 was primarily impacted by principal payments on deferred consideration for acquisitions with no such comparable outflow for the same period in 2020.

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 debt securities, available-for-sale and borrowings available under the Credit Agreement (defined below) will be sufficient to satisfy our operating requirements for at least the next 12 months. If we need to raise additional capital through public or private debt or equity financings, strategic relationships or other arrangements, this capital might not be available to us in a timely manner, on acceptable terms, or at all. Our failure to raise sufficient capital when needed could prevent us from funding acquisitions or otherwise financing our growth or operations. In addition, our SARs agreements have provisions, which could accelerate repayment of outstanding principal and accrued interest and impact our liquidity. As of March 31, 2021, cash and cash equivalents and marketable debt securities, available-for-sale, aggregated $423.1 million, and we had $59.5 million of borrowing capacity under our credit agreement.

Credit Agreement

We have a Credit Agreement with Wells Fargo Bank, National Association for a $60.0 million principal amount senior secured revolving credit facility that is guaranteed by all of our domestic subsidiaries and matures on June 1, 2022 (the "Credit Agreement"). See Note 13 – "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 Form10-K for the year ended December 31, 2020 through the date the condensed consolidated financial statements were issued.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Inflation

Our revenues and other variable costs related to revenue are primarily affected by real estate market supply and demand, which may be affected by uncertain or changing economic and market conditions, including inflation/deflation arising in connection with and in response to the COVID-19 pandemic. The actual economic impact from inflation/deflation to our business remains unknown at this time.

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 significant changes in our critical accounting policies, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, see Note 1 – "Description of Business, Basis of Presentation and Recent Accounting Pronouncements" of our Notes to Condensed Consolidated Financial Statements. 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 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. Treasuries, U.S. government sponsored entities, corporate debt, asset-backed securities and other. As of March 31, 2021, the fair value of investments in marketable debt securities, available-for-sale was $201.4 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 March 31, 2021. 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 various market risks. 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. Contraction in market liquidity may adversely affect the value of portions of our portfolio and affect our ability to sell securities in the time frames required and at acceptable prices. Uncertainty in future market conditions may raise market participant's expectations of returns, thus impacting the value of securities in our portfolio as well. The following table sets forth the impact on the fair value of our investments as of March 31, 2021 from changes in interest rates based on the weighted average duration of the debt securities in our portfolio (in thousands):

Change in Interest Rates	Approximate Change in Fair Value of Investments Increase (Decrease)
2% Decrease	$ 2,318
1% Decrease	$ 1,495
1% Increase	$ (2,197)
2% Increase	$ (4,394)

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f), including maintenance of (i) records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets, and (ii) policies and procedures that provide reasonable assurance that (a) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, (b) our receipts and expenditures are being made only in accordance with authorizations of management and our board of directors and (c) we will prevent or timely detect unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Our management, with the supervision and participation of our chief executive officer ("CEO") and chief financial officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15d- 15(e) under the Exchange Act, as of the end of the period covered by this Form 10-Q, based on the criteria established under the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on such evaluation, our management has concluded that as of March 31, 2021, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any significant impact to our internal controls over financial reporting despite the fact that most of our employees and independent contractors are working remotely due to the COVID-19 pandemic. The design of our processes and controls allow for remote execution with accessibility to secure data. We are continually monitoring and assessing the COVID-19 situation to minimize the impact, if any, on the design and operating effectiveness on our internal controls.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in claims and legal actions arising in the ordinary course of our business, some of which involve claims for damages that are substantial in amount. Most of these litigation matters are covered by our insurance policies, 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 an 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 onForm 10-K for the year ended December 31, 2020.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
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*	The following financial statements from the Company's Quarterly Report on Form10-Q for the quarter ended March 31, 2021, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Net and Comprehensive Income, (iii) Condensed Consolidated Statements of Stockholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.
** Furnished, not filed.
\+ Indicates management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Marcus & Millichap, Inc.

Date: May 7, 2021

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

Date: May 7, 2021

By: /s/ Steven F. DeGennaro
Steven F. DeGennaro
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

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: May 7, 2021

/s/ Hessam Nadji

Hessam Nadji

President and Chief Executive Officer

Exhibit 31.2

**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, Steven F. DeGennaro, 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: May 7, 2021

/s/ Steven F. DeGennaro

Steven F. DeGennaro
Chief Financial Officer

Exhibit 32.1

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 Form10-Q for the period ended March 31, 2021 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 Steven F. DeGennaro, 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:	May 7, 2021	/s/ Hessam Nadji Hessam Nadji President and Chief Executive Officer (Principal Executive Officer)
Date:	May 7, 2021	/s/ Steven F. DeGennaro Steven F. DeGennaro Chief Financial Officer (Principal Financial Officer)