

Marcus & Millichap, Inc.
Form 10-K
March 16, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

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, 91302

(Address of principal executive offices, including zip code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.0001 per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
 Yes No

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 check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the 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

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

Emerging growth company

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

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

The aggregate market value of the registrant's voting stock held by non-affiliates at June 30, 2017 was approximately \$458.8 million, based on the closing price per share of common stock on that date of \$26.36 as reported on the New York Stock Exchange. Shares of common stock known by the registrant to be beneficially owned by directors and executive officers of the registrant and 10% stockholders are not included in the computation. The registrant, however, has made no determination that such persons are affiliates within the meaning of Rule 12b-2 under the Securities Exchange Act of 1934.

As of March 5, 2018, there were 38,578,808 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be delivered to stockholders in connection with the annual meeting of stockholders to be held on May 4, 2018 are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the United States Securities and Exchange Commission (the SEC) within 120 days of the registrant's fiscal year ended December 31, 2017.

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MARKET, INDUSTRY AND OTHER DATA

Unless otherwise indicated, information contained in this Annual Report on Form 10-K concerning the commercial real estate industry and the markets in which we operate, including our general expectations and market position, market opportunity and market size, is based on (i) information gathered from various sources, (ii) certain assumptions that we have made, and (iii) on our knowledge of the commercial real estate market. While we believe our market position, market opportunity and market size information included in this Annual Report on Form 10-K are generally reliable, such information is inherently imprecise. Unless indicated otherwise, the industry data included herein is generally based on information available through the nine months ended September 30, 2017 since full year 2017 information may not yet have been published. We use market data from Costar Group, Inc. and Real Capital Analytics that consists of list side information of sales transactions, with a value of \$1 million or more, of multifamily, retail, office and industrial buildings.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements, including the Company's business outlook for 2018 and expectations for market share growth. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

market trends in the commercial real estate market or the general economy;

our ability to attract and retain qualified managers and investment sales and financing professionals;

the effects of increased competition on our business;

our ability to successfully enter new markets or increase our market share;

our ability to successfully expand our services and businesses and to manage any such expansions;

our ability to retain existing clients and develop new clients;

our ability to keep pace with changes in technology;

any business interruption or technology failure and any related impact on our reputation;

changes in interest rates, tax laws, including the recently enacted Tax Cuts and Jobs Act, employment laws or other government regulation affecting our business; and

other risk factors included under "Risk Factors" in this Annual Report on Form 10-K.

In addition, in this Annual Report, the words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "potential," "should" and similar expressions, as they relate to our company, our business and our management, are intended to identify forward-looking statements. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

Forward-looking statements speak only as of the date of this Annual Report on Form 10-K. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

PART I

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

Item 1. Business

Overview

Marcus & Millichap, Inc. (MMI) is a leading national brokerage firm specializing in commercial real estate investment sales, financing, research and advisory services. We have been the top broker in the United States based on the number of investment transactions for over 10 years. As of December 31, 2017, we had over 1,800 investment sales and financing professionals in 78 offices in the United States and Canada that provide investment brokerage and financing services to sellers and buyers of commercial real estate. In 2017, we closed 8,979 sales, financing and other transactions with total sales volume of approximately \$42.2 billion.

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

Properties with prices less than \$1 million;

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

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

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

We service clients in all of these market segments by underwriting, marketing, selling and financing commercial real estate properties in a manner that maximizes value for sellers and provides buyers with the largest and most diverse inventory of commercial properties. Our business model is based on several key attributes:

a 47-year history of providing investment brokerage and financing services through a proprietary marketing system, policies and culture of information sharing and in-depth investment brokerage training, all of which is executed under the supervision of a dedicated management team focused on client service and growing the firm;

market leading share and brand within the \$1-\$10 million private client market segment, which consistently represents more than 80% of total U.S. commercial property transactions greater than \$1 million in the marketplace;

Over 1,800 investment sales and financing professionals providing consistent services and exclusive client representation across multiple property types;

a broad geographic platform consisting of 78 offices in the United States and Canada powered by information sharing and proprietary real estate marketing technologies;

an ability to scale with our private clients as they grow and connect private capital with larger assets through our Institutional Property Advisors (IPA) group;

a financing team integrated with our brokerage sales force providing independent mortgage brokerage services;

an experienced management team overseeing our offices, with an average of approximately 10 years of real estate investment brokerage experience with our Company;

our managers not competing with or participating in investment sales professionals' commissions; because they are in a support and leadership role as company executives; and

industry-leading research and advisory services tailored to the needs of our clients and supporting our investment sales and financing professionals.

The investment brokerage and financing businesses serving private clients within the \$1-\$10 million private client market segment represent the largest part of our business, which differentiates us from our competitors. In 2017, approximately 68% of our brokerage commissions came from this market segment. Accordingly, our business model distinguishes us from our national competitors, who may focus primarily on the more volatile larger transaction market segment or on other business activities such as leasing or property management, and from our local and regional competitors, who lack a broad national platform.

Our business model and geographic footprint provide an unparalleled level of connectivity to the marketplace for our clients. Our investment sales and financing professionals are specialized by property type and by local market area, as we believe this focused expertise brings value to our clients. Our broad geographic coverage, encompassing 78 offices in the United States and Canada, combined with our local and national property expertise and significant relationships with both buyers and sellers, provides exposure and access to properties across the United States and Canada. This connectivity to a broad marketplace increases liquidity and opportunities for our clients as we maximize the value of their properties by accessing the largest pool of qualified buyers through our network of sales professionals and proprietary real estate inventory and marketing system. By closing more transactions annually than any other brokerage firm in the private client market segment, our investment sales professionals are able to provide clients with a broad and deep perspective in multiple property types in real estate markets locally, regionally and nationally.

Our experienced management team is responsible for developing and mentoring our investment sales and financing professionals creating a consistent culture of information sharing and environment of best practices to maximize value for our clients. Our managers are compensated as executives incentivized to grow their offices and do not participate in commissions generated by our investment sales and financing professionals. This structure eliminates any competition with our sales force and puts the emphasis on investment sales and financing professionals' support and client service. In addition, we support our clients and investment sales and financing teams with market and property focused research, publications and custom analysis.

We generate revenues by collecting fees upon the sale and financing of commercial properties. These fees consist of commissions collected upon the sale of a property and fees collected from the placement of loans. The fees are principally based upon the sales price of the property or amount financed. In 2017, approximately 90% of our revenues were generated from real estate brokerage commissions, 7% from financing fees and 3% from other revenues, including consulting and advisory services.

Corporate Information

We were formed as a sole proprietorship in 1971, incorporated in California on August 26, 1976 as G. M. Marcus & Company, and we were renamed as Marcus & Millichap, Inc. in August 1978, Marcus & Millichap Real Estate Investment Brokerage Company in September 1985, and Marcus & Millichap Real Estate Investment Services, Inc. (MMREIS) in February 2007. Prior to the completion of our initial public offering (IPO), MMREIS was majority-owned by Marcus & Millichap Company (MMC) and all of MMREIS' preferred and common stock outstanding was held by MMC and its affiliates or officers and employees of MMREIS. In June 2013, in preparation for the spin-off of its real estate investment services business (the Spin-Off), MMC formed a holding company called Marcus & Millichap, Inc. (MMI) in Delaware. Prior to the completion of our IPO, the shareholders of MMREIS contributed the shares of MMREIS to MMI in exchange for common stock of MMI, and MMREIS became a wholly owned subsidiary of MMI. On November 5, 2013, MMI completed its IPO.

Our principal executive offices are located at 23975 Park Sorrento, Suite 400 Calabasas, California 91302. Our telephone number at this location is (818) 212-2250. Our website address is www.MarcusMillichap.com. The information on our website is not part of, and is not incorporated into, this Annual Report on Form 10-K.

Competitive Strengths

We believe the following strengths provide us with a competitive advantage and opportunities for success:

National Platform Built on Investment Brokerage and Financing Services

We have built a leading national platform serving our clients' needs of investment brokerage and financing services. We continue to be focused on investment brokerage and financing services as opposed to other businesses such as leasing or property management. We equip our highly qualified investment sales and financing professionals in 78 offices across the United States and Canada with proprietary real estate marketing technologies and processes to market investment real estate for our clients. Our commitment to specialization is reflected in how we generally organize our investment sales and financing professionals by market area and property type, which enhances our investment sales and financing professionals' skills, relationships and market knowledge required for achieving the best results for our clients. As a result of these founding principles, we offer an efficient system of matching every property with the largest pool of qualified buyers and maximize value in the process.

Market Leader in the Private Client Market Segment

Since our founding in 1971, we have focused on being the leading service provider to the \$1-\$10 million private client market segment. This segment is the largest by ownership and transaction count and, consistently accounts for over 80% of total U.S. commercial property transactions. It is comprised of high-net-worth individuals, partnerships and small private fund managers with both passive, long-term investments, as well as those with opportunistic, short-term investment horizons. 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 in addition to macroeconomic and capital market trends and events. The vast size and personal transaction drivers of private clients make this market segment the most active in terms of sales velocity. Therefore, sales in the private client market segment over the long term tend to be less volatile than higher priced properties priced at \$10 million and above. In addition, this market segment is highly fragmented with the top ten brokerage firms accounting for approximately 25% of transactions in 2017. Marcus & Millichap is the leading broker in the \$1-\$10 million private client market segment with an 8.8% market share by transaction count. With our established market leadership and brand name, Marcus & Millichap has significant room for market share expansion by further consolidating its leadership position in this market segment.

In addition, the private client market segment is characterized by high barriers to entry. These barriers include the need for a large specialized sales force prospecting private clients, difficulties in identifying, establishing and maintaining relationships with such investors, capabilities of exposing properties to a large pool of potential buyers and the challenge of serving their needs locally, regionally and nationally. We believe this private client market segment is the least covered market segment by other national firms and is significantly underserved by local and regional firms that lack a multi-market platform.

Platform Built for Maximizing Investor Value

We have built our business to maximize value for real estate investors through an integrated set of services geared toward our clients' needs. We are committed to an investment brokerage specialization, provide one of the largest sales force in the industry, a culture and policy of information sharing on each property we represent and equip our investment sales professionals with proprietary real estate inventory and marketing technologies that enhance the marketability of the properties we represent. Our system generates real-time buyer-seller matching and maximizes value one property at a time. Our investment sales organization can therefore underwrite, position and market investment real estate to the largest pool of qualified buyers. We coordinate proactive marketing campaigns across investor relationships and resources of the entire firm, far beyond the capabilities of an individual listing agent. These efforts produce wide exposure to investors whom we identify as

high-probability bidders for each property. To grow with our clients, we established the IPA group to serve the needs of our private client investors that are now seeking higher valued properties as well as larger institutional investors. Our ability to bridge private capital with larger, institutional assets creates value for private and larger transaction clients while strengthening the retention of our investment sales and financing professionals.

We have one of the largest teams of financing professionals in the investment brokerage industry through Marcus & Millichap Capital Corporation (MMCC). MMCC provides financing expertise and access to debt and capital sources by identifying and securing competitive loan pricing and terms for our clients across a broad range of potential lenders and financing alternatives. We are a leading mortgage broker in the industry based on the number of financing transactions closed in 2016. Finally, our dedicated market research teams analyze the latest local and national economic and real estate trends and produce proprietary analyses for our clients enabling them to make informed investment and financing decisions. Our research team produces more than 1,100 reports, publications, presentations and briefs addressing real estate investment trends. Integrating all these services into one national platform increases opportunities to maximize value for our clients across multiple property types, market segments and geographies.

Management with Significant Investment Brokerage Experience

Our management team members, as executives of the firm, are dedicated to recruiting, training, developing and supporting our investment sales and financing professionals. The majority of our management team are former senior investment sales professionals of our Company who now focus on management, do not compete with our sales force and have an average of approximately 10 years of real estate investment brokerage experience with our Company. Our training, development and mentoring programs rely greatly on the regional managers' personal involvement. Their past experience as senior investment sales professionals plays a key role in developing new and experienced investment sales and financing professionals. They help our junior professionals establish technical and client service skills as well as setting up, developing and growing relationships with clients. We believe this management structure has helped differentiate the firm from our competitors and ultimately achieve better results for our clients.

Growth Strategy

We have a long track record of growing our business model driven by opening new offices, recruiting, training and developing new investment sales and financing professionals as well as deploying our client-focused business model to increase coverage of specialty property types and the middle and larger transaction market segments. Our long-term growth plan has focused on investing in our current business model through growing internally and by providing our unique business model to a wider client base. Since 2010, our revenue has increased threefold, and we have grown from slightly over 1,000 investment sales and financing professionals to over 1,800 investment sales and financing professionals in the United States and Canada. Our future growth will depend on continually expanding our national footprint and optimizing the size, product segmentation and specialization of our team of investment sales and financing professionals. The key strategies of our growth plan include:

Increase Market Share in the Private Client Market Segment

The \$1-\$10 million private client market segment is fragmented and underserved. The top 10 brokerage firms accounted for only approximately 25% of 2017 transactions in this market segment. Our industry leading market share in this segment increased to 8.8% in 2017 from approximately 7.5% in 2013. Our leading position in this market segment and inherent fragmentation continues to provide significant opportunity for us to expand and bring our client service offerings to a larger portion of this expansive market segment. We can continue to leverage our existing platform, relationships and brand recognition among private clients to grow through expanded marketing and coverage.

Focused Office Expansion

Since we currently have offices in most major-market and mid-market metropolitan cities, our growth is expected to come from focused office expansion, targeted hiring and increased coverage of specialty property types. We have targeted markets based on population, employment, level of commercial real estate sales, inventory and competitive landscape. Our optimal office plans are used to capitalize on these factors by tailoring sales force size, coverage and composition by office and business activity to direct efforts to offices with the most opportunity where we believe we can leverage our national footprint and proprietary real estate marketing technologies. These initiatives do not require a significant increase in the number of offices or a significant increase in the size of our offices, which allows us to leverage our current office locations without significant incremental investment.

Expand and Develop Our Team of Investment Sales Professionals

A key to growing our business is hiring, training and developing investment sales professionals. We have increased our focus on hiring experienced investment sales professionals through our recruiting department, specialty directors and regional managers in support of our optimal office plans. Our new investment sales professionals are trained in all aspects of real estate fundamentals, client service and proprietary marketing technologies through formal training, apprenticeship programs and mentorship by our dedicated regional, district and division managers. As these investment sales professionals mature, we continue to provide them with identified best practices and training in specialty property types. We believe this model creates a high level of teamwork, as well as operational and client service consistency. During 2017, we reached an all-time high in the number of investment sales professionals, ending the year with over 1,800.

Grow in Specialty Property Types and Middle and Larger Transaction Market Segment Presence

Leveraging our current business model into specialty property types and to the middle and larger transaction market segments opens up significant opportunities for growth.

Specialty Property Types

We believe that specialty property types, including hospitality, self-storage, seniors housing, land and manufactured housing offer significant opportunities for our clients. By deploying our unique business model to increase coverage of these property types, we can create growth for us as well as enhance value for our clients through diversification. To create these opportunities, we are increasing our property type expertise by continuing to strategically add specialty directors who can bring added management capacity, business development and investment sales professional support. These executives will work with our sales management team to increase investment sales professional hiring, training, development and redeployment and to execute various branding and marketing campaigns to expand our presence in these targeted property types. The number and volume of transactions in the primary property types of multifamily, retail, office and industrial should continue to grow with upside opportunity, particularly in the office and industrial properties. At the same time, we intend to continue to grow our presence in specialty property types.

Middle and Larger Transaction Market Segments Presence

Our extensive relationships with private client investors who typically invest in the \$1-\$10 million private client market segment have enabled us to capture a greater portion of commercial real estate transactions in excess of \$10 million and bridge the private client market investor to the middle market and larger transaction market segments in recent years. As property values increase and investors grow and expand, they require larger properties and we are organized to provide our unique brokerage and financing services to them in those market segments. Our ability to connect historically private client capital with middle and larger transaction market

segment properties allows us to continue to serve our clients as they grow and plays a major role in differentiating our services. In 2011, we introduced a group dedicated to serving major investors branded as IPA, specifically to service larger multifamily investors. This strategy has met with great success and market acceptance and provides a vehicle for growth by delivering our unique service platform within the middle and larger transaction multifamily, retail and office property types. The growth of our investors and introduction of IPA has driven incremental growth for us.

Expand Marcus & Millichap Capital Corporation Financing Business

We are dedicated to growing our financing services through our MMCC platform. Our focus continues to be expanding financing services in markets currently served by our investment brokerage offices, increasing the capacity of financing professionals in offices we currently serve, integrating financing professionals in offices that do not have an MMCC presence and expanding our service platform by creating access to a broad array of capital resources. We have established alliances with national capital sources that provide highly competitive access to an assortment of financing products including products sponsored by Fannie Mae, Freddie Mac and HUD. These alliances serve to expand our partner's distribution networks while affording our financing professionals and clients with more favorable pricing and service. Our internally developed training programs are directed to enhancing our branding, skill development, increasing our internal capture rate and cross-selling with a focus on the MMCC value proposition for our brokerage and non-brokerage clients. We will continue to seek out and hire experienced financing professionals and capital markets teams to grow our MMCC business to support the growth in our service platform and establish relationships with various capital sources. As of December 31, 2017, we have 40 offices with financing professionals embedded within our brokerage teams. We continue to capitalize on the synergies our financing professionals provide to our client focused service platform with approximately 14.3% growth in financing fees to \$49.7 million in 2017 from \$43.4 million in 2016.

Our Company

We provide investment brokerage and financing services to investors of all sizes and types of commercial real estate properties. We are the leading national investment brokerage company in the \$1-\$10 million private client market segment. This is the largest and most active market segment and comprised approximately 85% of total U.S. commercial property transactions in 2017. We have over 1,800 investment sales and financing professionals in 78 offices in the United States and Canada. We have 58 offices concentrated in 47 major markets consisting of metropolitan areas with a population of at least one million and 20 offices in 20 mid-market locations consisting of metropolitan areas with a population of less than one million. We leverage our relationships with investors and use proprietary marketing tools to match properties with qualified buyers. Our financing professionals obtain competitive debt financing for buyers of our properties and owners who need to refinance or restructure their positions.

We have a 47-year history in the real estate marketplace. The real estate market is cyclical, and our results are impacted by many macroeconomic and microeconomic factors as discussed in *Item 1A Risk Factors* and *Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors Affecting Our Business*. We have demonstrated the ability, over the long-term, to manage through the cyclical market and continue to be a leader in the \$1-10 million private client market segment. The most recent downturn began in 2007 when the global credit markets began to show signs of distress resulting in a shortage of liquidity in some financing markets, including real estate. Beginning in late 2008, the credit crisis and recession greatly affected the commercial real estate industry, resulting in a dramatic decline in sales volume and number of transactions. Despite the severity of the market downturn, we maintained all of our offices and services, enabling us to quickly take advantage of the market recovery and resume our growth. As the real estate and financing markets recovered after 2009, our sales volume has steadily grown and now exceeds pre-downturn levels both as a result of the market transaction growth and executing our growth initiatives, which expanded our market

presence. The following graph shows the number of transactions and sales volume of investment sales, financing and other transactions from 2008 to 2017:

Geographic Locations

We have grown to have offices in 35 states across the United States and in three provinces in Canada, with over 1,800 investment sales and financing professionals in 58 offices in major metropolitan markets and 20 offices in mid-market locations. Below is a map reflecting the geographic location of our offices as of December 31, 2017.

Geographic Concentrations

We were founded in 1971 in the western United States and we continue to increase our presence in states in the Mid-Atlantic, Northeast, Midwest, Mountain and the South regions through execution of our growth strategies by targeting markets based on population, employment, level of commercial real estate sales, inventory and competitive landscape opportunities where we believe the markets will benefit from our business model. The following charts set forth the percentage of transactions by region for our investment sales transactions in 2017 and 2016.

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

Commercial Real Estate Market Segments

We divide the commercial real estate market into four major market segments, characterized by investment size. Our strength is in serving private clients in the \$1-\$10 million private client market segment, which contributed approximately 68% of our brokerage commissions in 2017. In addition, we achieved growth by leveraging the strength of our relationships in the private client market segment to increase our share of the middle and larger transaction market segments. Commission percentages are generally lower in the middle and larger transaction market segments since commission rates earned on commercial properties are typically inversely correlated with sales price. Because of the expansion into the middle and larger transaction market segments, we have seen our average commission rates fluctuate from period-to-period as a result of changes in the relative mix of transactions closed in the middle and larger transaction market segments as compared to the private client market segment.

The following table sets forth the number of transactions, sales volume and revenue by commercial real estate market segment for real estate brokerage in 2017 compared to 2016:

Real Estate Brokerage:	2017			2016			Change		
	Number	Volume	Revenues	Number	Volume	Revenues	Number	Volume	Revenues
	(in millions)	(in millions)	(in thousands)	(in millions)	(in millions)	(in thousands)	(in millions)	(in millions)	(in thousands)
<\$1 million	1,062	\$ 661	\$ 27,952	1,070	\$ 682	\$ 29,217	(8)	\$ (21)	\$ (1,265)
Private client market (\$1-\$10 million)	4,891	15,029	444,081	4,779	15,274	447,366	112	(245)	(3,285)
Middle market (³ \$10-\$20 million)	361	4,906	91,035	374	5,099	88,568	(13)	(193)	2,467
Larger transaction market (³ \$20 million)	248	9,879	86,325	253	10,907	97,069	(5)	(1,028)	(10,744)
	6,562	\$ 30,475	\$ 649,393	6,476	\$ 31,962	\$ 662,220	86	\$ (1,487)	\$ (12,827)

Property Type

We have a long history and significant expertise in our primary property types of multifamily, retail, office and industrial. We have expanded our expertise in the specialty property types by hiring and assigning specialty directors to coordinate our national presence in these property types and expand our market share.

The following table sets forth the number and sales volume (dollars in billions) of investment sales, financing and other transactions in 2017 compared to 2016 by property type:

	2017		2016		Change	
	Number	Volume	Number	Volume	Number	Volume
<i>Primary Property Types:</i>						
Multifamily	3,322	\$ 21.5	3,308	\$ 20.2	14	\$ 1.3
Retail	3,553	11.5	3,671	12.0	(118)	(0.5)
Office	662	2.7	585	2.8	77	(0.1)
Industrial	353	1.3	255	1.0	98	0.3
Total Primary Property Types	7,890	\$ 37.0	7,819	\$ 36.0	71	\$ 1.0
<i>Specialty Property Types:</i>						
Hospitality	237	1.3	242	1.3	(5)	
Self-Storage	195	1.1	190	1.3	5	(0.2)
Land	273	0.7	267	0.8	6	(0.1)
Manufactured Housing	95	0.6	113	0.4	(18)	0.2
Seniors Housing	53	0.5	85	1.5	(32)	(1.0)
Mixed - Use / Other	236	1.0	279	1.0	(43)	
Total Specialty Property Types	1,089	\$ 5.2	1,176	\$ 6.3	(87)	\$ (1.1)
	8,979	\$ 42.2	8,995	\$ 42.3	(16)	\$ (0.1)

Our Services

We serve clients with one property, multiple properties and large investment portfolios. The largest group of investors we serve typically transacts in the \$1-\$10 million private client market segment. Properties in this market segment are characterized by higher asset turnover rates due to the type of investor as compared to other market segments. Investors in the private client market segment typically transact due to personal circumstances and business reasons, such as death, divorce, changes in partnership structures and other personal or financial circumstances. Therefore, private client investors are influenced less by the macroeconomic trends than other large scale investors, making the private client market segment less volatile over the long-term than other market segments. We offer three primary services to our clients, commercial real estate investment brokerage and financing and ancillary services including other research, advisory and consulting services.

Commercial Real Estate Investment Brokerage

Our primary business and source of revenue is the representation of commercial property owners as their exclusive investment broker in the sale of their properties. Commissions from real estate investment brokerage sales accounted for approximately 90% of our revenues in 2017. Sales are generated by maintaining relationships with property owners, providing market information and trends to them during their investment or hold period and being selected as their representative when they decide to sell, buy additional property or exchange their property for another property. We collect commissions upon the sale of each property based on a percentage of sales price. These commission percentages are typically inversely correlated with sales price and thus are generally higher for smaller transactions. Our investment sales professionals also represent buyers in fulfilling their investment real estate acquisition needs; however, the vast majority of our investment sales business is generated from our exclusive representation of sellers.

We underwrite, value, position and market properties to reach the largest and most qualified pool of buyers. We offer our clients the industry's largest team of investment sales professionals, who operate with a culture and policy of information sharing powered by our proprietary system, MNet, which enables real-time buyer-seller matching. We use a proactive marketing campaign that leverages the investor relationships of our entire sales

force, direct marketing and a suite of proprietary web-based tools that connects each asset with the right buyer pool. We strive to maximize value for the seller by generating high demand for each property. Our approach also provides a diverse, consistently underwritten inventory of investment real estate for buyers. When a client engages one of our investment sales professionals, they are engaging an entire system, structure and organization committed to maximizing value for them.

In 2017, we closed 6,562 real estate brokerage transactions in a broad range of commercial property types, with a total sales volume of approximately \$30.5 billion. In the last 10 years, we have closed more transactions than any other firm. We have significantly diversified our business beyond our historical focus on multifamily properties.

The majority of our business activity is in the \$1-\$10 million private client market segment and is aligned with the largest real estate market segment. During 2017, we closed 4,891 real estate brokerage transactions in this market segment, which comprised approximately 89% of our total real estate brokerage transactions greater than \$1 million and 71% of our brokerage commissions for transactions greater than \$1 million. Of the commercial real estate industry as a whole, the \$1-\$10 million private client market segment represented over 80% of total U.S. commercial property transactions greater than \$1 million in 2017.

We are building on our track record of growth in multifamily, retail, office and industrial properties by expanding our coverage of additional property types. These include hospitality, self-storage, seniors housing, land and manufactured housing properties, where we are already a leading broker but have significant room for additional growth due to market size, fragmentation and specific geographic market opportunities. We are also expanding our specialty group management and support infrastructure, specialized branding and business development customized for each property type and intensifying our recruiting efforts, for management and investment sales and financing professionals. These efforts should expand our presence and result in increased business in these property types.

Financing

MMCC is a broker of debt financing for commercial properties principally in the under \$10 million market segments. We generate revenue in the form of financing fees collected from the placement of loans with banks, insurance companies, government agencies, commercial mortgage backed securities (CMBS), and conduits. In addition to placing financing for acquisitions, we also place loans for refinancing for individual assets and portfolios. MMCC's financing fees vary by loan amount and type. In 2017, MMCC completed more than 1,700 financing transactions with a sales volume of approximately \$5.6 billion and accounted for approximately 7% of our revenues. MMCC's size, market reach and sales volume enable us to establish long-term relationships and special programs with various capital sources. This, in turn, improves MMCC's value proposition to borrowers seeking competitive financing rates and terms. MMCC is not limited to promoting in-house or exclusive capital sources and seeks the most competitive financing solution for each client's specific needs and circumstances. During 2017, approximately 48% of MMCC's revenues came from placing acquisition financing, 44% from refinancing activities and 8% from other financing activities.

MMCC is fully integrated with our investment sales force in our brokerage offices. MMCC financing professionals are supervised by our regional managers, who promote cross-selling, information sharing, business referrals and high quality client service within the offices. The MMCC national network of financing professionals is supported by a dedicated, nationally focused management team coordinating access to a broad range of national and regional capital sources including bank lenders, conduit lenders, CMBS lenders, structured debt facilitators (mezzanine and preferred equity), Freddie Mac and Fannie Mae programs, HUD and other GSE lending programs. With these resources coupled with the latest property and capital markets information, we are able to access and deliver the best loan structures, financing rates and terms to meet our clients' financial objectives.

Ancillary Services: Research, Advisory and Consulting

Our research, advisory and consulting services are designed to assist clients in forming their investment strategy and making transaction decisions. Our advisory and consulting services are coordinated with both our investment sales and financing professionals and are designed to provide market and property focused market research, publications and customized analysis that increase customer loyalty and long-term relationships.

We also provide a wide range of advisory and consulting services to developers, lenders, owners, real estate investment trusts, high net worth individuals, pension fund advisors and other institutions. Our advisory services include opinions of value, operating and financial performance benchmarking analysis, specific asset buy-sell strategies, market and submarket analysis and ranking, portfolio strategies by property type, market strategy, development and redevelopment feasibility studies and other services.

Seasonality

There is seasonality in our real estate brokerage commissions and financing fees, which has generally caused our revenues, 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. For a more detailed description of our seasonality, refer to *Item 1A Risk Factors External Business Risks Seasonal fluctuations and other market data in the investment real estate industry could adversely affect our business and make comparisons of our quarterly results difficult* and *Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Seasonality* of this Annual Report on Form 10-K.

Competition

We compete in real estate brokerage and financing within the commercial real estate industry on a national, regional and local basis. Competition is based on a number of critical factors, including the quality and expertise of our investment sales and financing professionals, our execution skills, sales support, brand recognition and our business reputation. We primarily compete with other brokerage and financing firms that seek investment brokerage and financing business from real estate owners and investors. To a lesser extent, we compete with in-house real estate departments, owners who may transact without using a brokerage firm, direct lenders, consulting firms and investment managers, some of which may have greater financial resources than we do. Our relative competitive position also varies across geographies, property types and services. In investment sales, our competitors on a national level include CBRE Group, Inc., Cushman & Wakefield, Colliers International, HFF, Inc. and Jones Lang LaSalle. Our major financing competitors include HFF, Inc., CBRE Group, Inc., Jones Lang LaSalle, Walker & Dunlop, Grandbridge Real Estate Capital and NorthMarq Capital, LLC. The investment sales firms mainly focus on larger sales and institutional investors and are not heavily concentrated in our largest market segment, which is the \$1-\$10 million private client market segment. However, there is crossover and competition between us and these firms. As a result of the fragmentation in the market, there are also numerous local and regional competitors in our markets, as well as competitors specializing in certain property types. Despite recent consolidation, the commercial real estate services industry remains highly fragmented and competitive.

Competition to attract and retain qualified professionals is also intense in each of our geographic regions and across all property types. We offer what we believe to be competitive compensation and support programs to our professionals. Our ability to continue to compete effectively will depend on retaining, motivating and appropriately compensating our professionals.

Technology

We have a long-standing tradition of technological orientation, innovation and advancement. Our efforts include the development of proprietary applications designed to make the process of matching buyer and sellers faster and more efficient as well as state-of-the-art communication technology, infrastructure, internet presence and electronic marketing.

We have a proprietary internal marketing system, MNet, which allows our sales force to share listing information with investors across the country. MNet is an integrated tool that contains our entire national property inventory, which allows our sales force to search for properties based on investors' acquisition criteria. This system is an essential part of connecting buyers and sellers through our national platform. Our policies require information sharing among our sales force, and the MNet system automates the process of matching each property we represent to the largest pool of qualified buyers tracked by our national sales force. A part of MNet, called Buyer Needs, enables our sales force to register the investment needs of various buyers, which are then matched to our available inventory on a real-time basis.

In 2016, we began the deployment of an improved proprietary system for automating the production of property marketing materials and launching marketing campaigns, which we call MNet-Offering, replacing our previous system called iImpact. MNet-Offering allows our investment sales professionals to create a listing proposal or marketing package, which automatically imports property information, data on comparable properties and other information, and then dynamically populates our e-marketing, print, and Internet media. This system allows our sales force to rapidly create professionally branded and designed materials for marketing properties on behalf of our clients in an efficient and timely manner. This new web-based application improves sales force efficiency by tightly integrating MNet data for transaction history, sales and rent comparables, and market insights that differentiate our sales force in the marketplace. The proposals and marketing packages produced by MNet-Offering also deliver updated content and expanded demographic and financial analysis to better market those properties for our clients. We completed the rollout of MNet-Offering for all property types in the first half of 2017 and have begun planning to sunset the legacy iImpact application.

Our website is designed not only to bring in new clients for our investment sales and financing professionals, but also to make our inventory of properties available for maximum exposure for our sellers, and to provide buyers an opportunity to engage with our investment sales and financing professionals. We actively qualify leads generated from the contact forms, and pass those leads to our agents via our customer relationship management platform. Our websites average approximately 64,000 visitors per month and over 850,000 page views per month (all based on data from Google Analytics) and also serves as a portal for delivery of online marketing materials and for deal collaboration.

Marketing and Branding

Our 47 years of investment brokerage specialization and concentration in the \$1-\$10 million private client market segment have established our brand as the leading broker of investment real estate as well as a trusted source of financing solutions and market research. In recent years we have also garnered recognition among larger private investors and institutions due to our integrated platform and capability of linking private and institutional capital. We continue to strengthen and broaden the Company's name recognition and credibility by executing a variety of marketing and branding strategies. Locally, our offices and investment sales and financing professionals engage in numerous events, direct mail campaigns, investor symposiums and participate in real estate conferences and organizations for various market segments and property types. Our regional managers and investment sales and financing professionals develop long-term client relationships and promote the Company's brand through these activities.

Our research division produces more than 1,100 publications and client presentations per year and has become a leading source of information for the industry as well as the general business media. We provide research on 10 commercial property types covering: multifamily, retail, office, industrial, single-tenant net lease, seniors housing, self-storage, hospitality, medical office and manufactured housing, as well as capital markets/financing. This research includes analysis and forecasting of the economy, capital markets, real estate fundamentals, investment, pricing and yield trends, and is designed to assist investors in their strategy formation and decisions relating to specific assets and help our investment sales professionals develop and maintain relationships with clients.

Our transactional and market research expertise result in significant print, radio, television and online media coverage including most major real estate publications such as Real Estate Forum, Multi-Housing News, Commercial Property Executive and National Real Estate Investor as well as local market and major national news outlets such as CNBC, Fox Business, The Wall Street Journal, Los Angeles Times, Chicago Tribune, Bloomberg Businessweek, Forbes and Investors Business Daily. Our CEO is frequently interviewed on national business channels, such as CNBC, Bloomberg and Fox Business, to address the commercial real estate market. We frequently have featured speaking roles in key regional and national industry events, and we are regularly quoted in regional and national publications and media, and deliver content directly to the real estate investment community through print, electronic publications and video. Nationally, our specialty groups and capital markets executives actively participate in various trade organizations, many of which focus on specific property types and provide an effective vehicle for client relationship development and branding.

We believe all these activities create significant exposure and name recognition for our firm, which fosters and builds strong, long-term client relationships.

Intellectual Property

We hold various trademarks and trade names, which include the Marcus & Millichap name. Although we believe our intellectual property plays a role in maintaining our competitive position in a number of the markets that we serve, we do not believe we would be materially, adversely affected by the expiration or termination of our trademarks or trade names or the loss of any of our other intellectual property rights other than the Marcus & Millichap name. With respect to the Marcus & Millichap name, we maintain trademark registrations for these service marks.

In addition to trade names, we have developed proprietary technologies for the provision of real estate investment services, such as MNet, MNet-Offering and iImpact. We also offer proprietary research to clients through our research division. While we seek to secure our rights under applicable intellectual property protection laws in these and any other proprietary assets that we use in our business, we do not believe any of these other items of intellectual property are material to our business in the aggregate.

Government Regulation

We are subject to various real estate regulations, as such we maintain real estate and other broker licenses in 45 states in the United States and three provinces in Canada. We are a licensed broker in each state in which we have an office, as well as those states where we frequently do business. We are also subject to numerous other federal, state and local laws and regulations that contain general standards for, and prohibitions on, the conduct of real estate brokers and sales associates, including agency duties, collection of commissions, telemarketing, advertising and consumer disclosures.

Employees and Investment Sales and Financing Professionals

As of December 31, 2017, we had 1,819 investment sales and financing professionals of which 1,733 are exclusive independent contractors and the remainder are our employees.

We had 774 employees as of December 31, 2017, consisting of 86 employees as financing professionals, 21 employees in communications and marketing, 18 employees in research and 649 employees in management, support and general and administrative functions. We believe our employee relations are good.

Most of the Company's investment sales professionals are classified as independent contractors under state and IRS guidelines. As such, the Company generally does not pay for the professionals' expenses or benefits or withhold payroll taxes; rather they are paid from the commissions earned by the Company upon the closing of a transaction,

and these individuals do not earn a salary from which taxes are withheld. Almost all of the

investment sales professionals hold applicable real estate sales licenses and execute a Salespersons Agreement setting out the relationship between the professional and the Company. Each professional is obligated to provide brokerage services exclusively to the Company, and is provided access to the Company's information technology, research and other support and business forms. Each professional generally reports on their activities to either the local regional manager, or in some cases, to product specialty managers.

Our investment sales and financing professionals are located in offices throughout the United States and Canada, each led by a regional manager with previous investment brokerage experience and an active real estate or brokerage license. We have regional managers and investment sales managers, who are responsible for hiring, developing and deploying investment sales professionals, managing regional and mid-market offices and supervising MMCC originators and support staff in their area of responsibility. We also have six division managers who oversee multiple offices; division managers hire, develop, and support our office management and provide additional leadership and support for our local sales management team. Finally, our management structure includes national specialty directors who lead each property type. Our national specialty directors develop our national and local brand in each property type, develop major accounts and coordinate multi-market assignments on behalf of large clients.

Traditionally, our growth has been driven by recruiting, training and developing new investment sales and financing professionals. Our new investment sales and financing professionals are trained in our technical and client service standards through a comprehensive program starting with pre-training, formal training and apprenticeship programs. While continuing to improve the recruiting, training and developing of new investment sales and financing professionals remains a major priority, we have also expanded our strategy to include more experienced investment sales and financing professionals who fit our culture and values. Over the past several years, experienced investment sales and financing professionals, including some top performers previously with national competitors, have joined the firm and have become productive members of our team. As investment sales and financing professionals mature, we continue with specialized training and best practices sessions by tenure, which are conducted by senior management, regional managers, leading investment sales professionals and our national specialty directors. The goal of this rigorous approach to training is to continually improve our team's skill set and client services. Our sales force conducts business the same way across the country to deliver a high level of consistency, professionalism and reliability to our clients who often buy and sell investments in variety of property types and locations.

Our investment sales and financing professionals receive a percentage of the commission received by the Company. As investment sales and financing professionals become more senior, they receive a larger percentage of the commission based on tenure and production. Depending on the aggregate gross commissions, a portion of the investment sales and financing professional's commission may be deferred for three years.

Emerging Growth Company Status

We are currently an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act), and we will continue to be an emerging growth company until December 31, 2018. Currently, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We have irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act, and therefore, we are subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Available Information

Our website address is *www.MarcusMillichap.com*. Information on our website does not constitute part of this report and inclusions of our internet address in this Annual Report on Form 10-K are inactive textual references only. We are required to file current, annual and quarterly reports, proxy statements and other information required by the Exchange Act, with the SEC. We make available free of charge through a link provided on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Forms 3, 4 and 5 filed by or on behalf of directors, executive officers and certain large stockholders, and any amendments to those documents filed or furnished pursuant to the Exchange Act. Such reports are available as soon as reasonably practicable after they are filed with the SEC.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding the Company that we file electronically with the SEC at *www.sec.gov*.

We also make available on our website and will provide print copies to stockholders upon request, (i) our corporate governance guidelines, (ii) our code of ethics, and (iii) charters of the audit, compensation, corporate governance and nominating committees of our board of directors.

From time to time, we may announce key information in compliance with Regulation FD by disclosing that information on our website.

Item 1A. Risk Factors

Investing in our securities involves a high degree of risk. You should consider carefully the following risk factors and the other information in this Annual Report on Form 10-K, including our consolidated financial statements and related notes, before making any investment decisions regarding our securities. If any of the following risks actually occur, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our securities could decline and you may lose part or all of your investment.

Overview

We are impacted by and manage many risk factors detailed below affecting our business including External Business Risks, Human Resource and Personnel Risks, Internal Business Risks, and Risks related to the Ownership of Our Common Stock. Many of these factors described below in External Business Risk, are outside of our control. In addition, we are a personnel and relationship intensive business rather than a capital intensive business. While all the risk factors discussed below have the potential to negatively impact our business, the most significant risks facing the Company are the general economic conditions and commercial real estate market conditions risk and our ability to attract and retain qualified and experienced managers and investment sales and financing professionals.

External Business Risks

General economic conditions and commercial real estate market conditions have had and may in the future have a negative impact on our business.

We may be negatively impacted by periods of economic downturns, recessions and disruptions in the capital markets; credit and liquidity issues in the capital markets, including international, national, regional and local markets; tax and regulatory changes and corresponding declines in the demand for commercial real estate investment and related services. Historically, commercial real estate markets and, in particular, the U.S. commercial real estate market, have tended to be cyclical and related to the flow of capital to the sector, the condition of the economy as a whole and to the perceptions and confidence of the market participants as to the relevant economic outlook. Cycles in the real estate markets may lead to similar cycles in our earnings and significant volatility in our stock price. Further real estate markets may lag behind the broader economy such that even when underlying economic fundamentals improve in a given market, additional time may be required for these improvements to translate into strength in the real estate markets. The lag may be exacerbated when banks delay their resolution of commercial real estate assets whose values are less than their associated loans.

Negative economic conditions, changes in interest rates, credit and the availability of capital, both debt and/or equity, disruptions in capital markets, uncertainty of the tax and regulatory environment and/or declines in the demand for commercial real estate investment and related services in international and domestic markets or in significant markets in which we do business, have had and could have in the future a material adverse effect on our business, results of operations and/or financial condition. In particular, the commercial real estate market is directly impacted by (i) the lack of debt and/or equity financing for commercial real estate transactions, (ii) increased interest rates and changes in monetary policies by the U.S Federal Reserve, (iii) changes in the perception that commercial real estate is an accepted asset class for portfolio diversification, (iv) changes in tax policy affecting the attractiveness of real estate as an investment choice, (v) changes in regulatory policy impacting real estate development opportunities and capital markets and (vi) slowdowns in economic activity that could cause residential and commercial tenant demand to decline, which would adversely affect the operation and income of commercial real estate properties. Severe restrictions in debt and/or equity liquidity as well as the lack of the availability of credit in the markets we serviced in 2010, 2009 and 2008 significantly reduced the volume and pace of commercial real estate transactions compared with past periods. These restrictions also had a general negative effect upon commercial real estate prices themselves.

These and other types of events could lead to a decline in transaction activity as well as a decrease in property values which, in turn, would likely lead to a reduction in brokerage commissions and financing fees relating to such transactions. These effects would likely cause us to realize lower revenues from our transaction service fees, including investment sales commissions, which fees usually are tied to the transaction value and are payable upon the successful completion of a particular transaction. Such declines in transaction activity and value would likely also significantly reduce our financing activities and revenues. For example, the disruptions and dislocations in the global credit markets during 2008 and 2009 created significant restrictions in the availability of credit, especially on transitional assets and in the secondary and tertiary markets. In turn, the volume and pace of commercial real estate transactions were significantly reduced, as were property values, which generally peaked in 2007 and fell through 2010.

Fiscal uncertainty, significant changes and volatility in the financial markets and business environment and similar significant changes in the global, political, security and competitive landscape, make it increasingly difficult for us to predict our revenue and earnings into the future. As a result, any revenue or earnings guidance or outlook which we may give may be affected by such events or may otherwise turn out to be inaccurate.

We have numerous significant competitors and potential future competitors, some of which may have greater resources than we do, and we may not be able to continue to compete effectively.

We compete in investment sales and financing within the commercial real estate industry. Our investment sales focus is on the private client market segment, which is highly fragmented. The fragmentation of our market makes it challenging to effectively gain market share. While we have a competitive advantage over other national firms in the private client market segment, we also face competition from local and regional service providers who have existing relationships with potential clients. Furthermore, transactions in the private client market segment are smaller than many other commercial real estate transactions. Although the brokerage commissions in this segment are generally a higher percentage of the sales price, the smaller size of the transactions requires us to close many more transactions to sustain revenues. If the commission structure or the velocity of transactions were to change, we could be disproportionately affected by changes compared to other companies that focus on larger transactions, institutional clients and other segments of the commercial real estate market.

There is no assurance that we will be able to continue to compete effectively, maintain our current fee arrangements with our private clients, maintain current margin levels or counteract increased competition. The services we provide to our clients are highly competitive on a national, regional and local level. Depending on the geography, property type or service, we face competition from, including, but not limited to, commercial real estate service providers, in-house real estate departments, private owners and developers, commercial mortgage servicers, institutional lenders, research and consulting firms, and investment managers, some of whom are clients and many of whom may have greater financial resources than we do. In addition, future changes in laws and regulations could lead to the entry of other competitors. Many of our competitors are local, regional or national firms. Although most are substantially smaller than we are, some of these competitors are larger on a local, regional or national basis, and we believe more national firms are exploring entry into or expansion in the \$1-\$10 million private client market segment. We may face increased competition from even stronger competitors in the future due to a trend toward acquisitions and consolidation. We are also subject to competition from other large national and multi-national firms as well as regional and local firms that have similar service competencies to ours. Our existing and future competitors may choose to undercut our fees, increase the levels of compensation they are willing to pay to their employees and investment sales and financing professionals, and either recruit our employees and investment sales and financing professionals or cause us to increase our level of compensation necessary to retain employees or investment sales and financing professionals, or recruit new employees or investment sales and financing professionals. These occurrences could cause our revenue to decrease, and/or expenses to increase which could have an adverse effect on our business, financial condition and results of operations.

Our brokerage operations are subject to geographic and commercial real estate market risks, which could adversely affect our revenues and profitability.

Our real estate brokerage offices are located in and around large metropolitan areas as well as mid-market regions throughout the United States and Canada. Local and regional economic conditions in these locations could differ materially from prevailing conditions in other parts of the country. We realize more of our revenues in California. In 2017, we earned approximately 33% in California. In particular, as a result of this concentration, we are subject to risks related to the California economy and real estate markets more than in other geographic markets. In addition to economic conditions, this geographic concentration means that California-specific legislation, taxes and regional disasters, such as earthquakes, could disproportionately affect us. A downturn in investment real estate demand or economic conditions in these regions could result in a further decline in our total gross commission income and profitability and have a material adverse effect on us.

Seasonal fluctuations and other market data in the investment real estate industry could adversely affect our business and make comparisons of our quarterly results difficult.

Our revenue and profits have historically tended to be significantly higher in the second half of each year than in the first half of the year. This is a result of a general focus in the real estate industry on completing or documenting transactions by calendar year end and because certain expenses are relatively constant throughout the year. This historical trend can be disrupted both positively and negatively by major economic, regulatory or political events impacting investor sentiment for a particular property type or location, current and future projections of interest rates and tax rates, attractiveness of other asset classes, market liquidity and the extent of limitations or availability of capital allocations for larger institutional buyers, to name a few. As a result, our historical pattern of seasonality may or may not continue to the same degree experienced in the prior years and may make it difficult to determine during the course of the year whether planned results will be achieved, and thus to adjust to changes in expectations.

A change in the tax laws relating to like-kind exchanges could adversely affect our business and the value of our stock.

Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"), provides for tax-free exchanges of real property for other real property. Legislation has been proposed on several occasions that would repeal or restrict the application of Section 1031. If tax-free exchanges under Section 1031 were to be limited or unavailable, our clients or prospective clients may decide not to purchase or sell property that they would have otherwise purchased or sold due to the tax consequences of the transaction, thus reducing the commissions we would have otherwise received. Any repeal or significant change in the tax rules pertaining to like-kind exchanges could have a substantial adverse impact on our business and the value of our stock.

A change in the tax laws could adversely affect our business and value of our stock.

The Code and state and local tax codes contain numerous provisions, regulations and interpretations. We operate in numerous states and cities in the United States and in Canada and are exposed to the risk of complying with those tax codes. Changes in tax laws in the various jurisdictions in which we operate may impact taxes we are required to pay and our ability to transact business in the jurisdictions. Further, such changes may make operating in these jurisdictions unprofitable and may unfavorably impact our results of operations and ability to execute our growth plans.

In addition, changes in tax laws can impact investors' perceived value of real estate, timing of transactions and perception of real estate as favorable investment. As a result, such changes may increase or decrease investors' desire to engage in real estate transactions, which could have an unfavorable impact on our financial condition and results of operations.

The Internet could devalue our information services and lead to reduced client relationships, which could reduce the demand for our services.

The dynamic nature of the Internet, which has substantially increased the availability and transparency of information relating to commercial real estate listings and transactions, could change the way commercial real estate transactions are done. This has occurred to some extent in the residential real estate market as online brokerage and/or auction companies have eroded part of the market for traditional residential real estate brokerage firms. The proliferation of large amounts of data on the Internet could also devalue the information that we gather and disseminate as part of our business model and may harm certain aspects of our investment brokerage business in the event that principals of transactions prefer to transact directly with each other. The rapid dissemination and increasing transparency of information, particularly for public companies, increases the risks to our business that could result from negative media or announcements about ethics lapses, improper behavior or other operational problems, which could lead clients to terminate or reduce their relationships with us.

Our businesses, financial condition, results of operations and prospects could be adversely affected by new laws or regulations or by changes in existing laws or regulations or the application thereof. If we fail to comply with laws and regulations applicable to us, including in our role as a real estate broker or mortgage broker, we may incur significant financial penalties.

We are subject to numerous federal, state, local and foreign regulations specific to the services we perform in our business, as well as laws of broader applicability, such as securities, financial services and employment laws. In general, the brokerage of real estate transactions requires us to maintain applicable licenses where we perform these services. If we fail to maintain our licenses or conduct these activities without a license, or violate any of the regulations covering our licenses, we may be required to pay fines (including treble damages in certain states) or return commissions received or have our licenses suspended or revoked. We could also be subject to disciplinary or other actions in the future due to claimed noncompliance with these regulations, which could have a material adverse effect on our operations and profitability.

Our business is also governed by various laws and regulations, limiting the manner in which prospective clients may be contacted, including federal and state Do Not Call and Do Not Fax regulations. We may be subject to legal claims and governmental action if we are perceived to be acting in violation of these laws and regulations. We may also be subject to claims to the extent individual employees or investment sales and financing professionals breach or fail to adhere to company policies and practices designed to maintain compliance with these laws and regulations. The penalties for violating these laws and regulations, can be material, and could result in changes in which we are able to contact prospective clients.

As the size and scope of commercial real estate transactions have increased significantly during the past several years, both the difficulty of ensuring compliance with numerous licensing regimes and the possible loss resulting from non-compliance have increased. New or revised legislation or regulations applicable to our business, both within and outside of the United States, as well as changes in administrations or enforcement priorities may have an adverse effect on our business. Such new or revised legislation or regulations applicable to our business may impact transaction volumes and values, increase the costs of compliance or prevent us from providing certain types of services in certain jurisdictions or in connection with certain transactions or clients. For example, legislation which limits or prohibits dual agency, which is under consideration in California, could have an adverse impact on our revenues. We are unable to predict how any of these new laws, rules, regulations and proposals will be implemented or in what form, or whether any additional or similar changes to laws or regulations, including the interpretation or implementation thereof, will occur in the future. Risks of legislative changes, including as a result of interpretive guidance or other directives from the current administration, and new laws, regulations and interpretations may also come into effect. The impact of any new or revised legislation or regulations under the current administration is unknown. Any such action could affect us in substantial and unpredictable ways and could have an adverse effect on

our business, financial condition and results of operations.

Human Resource and Personnel Risks

If we are unable to attract and retain qualified and experienced managers, investment sales and financing professionals, our growth may be limited and our business and operating results could suffer.

Our most important asset is people, and our continued success is highly dependent upon the efforts of our managers and investment sales and financing professionals. If these managers or investment sales and financing professionals depart, we will lose the substantial time and resources we have invested in training and developing those individuals and our business, financial condition and results of operations may suffer. Additionally, such departures may have a disproportionate adverse effect on our operations if our most experienced investment sales and financing professionals do not remain with us or if departures occur in geographic areas where substantial amounts of our real estate brokerage commissions and financing fee revenues are generated.

Our competitors may attempt to recruit our investment sales and financing professionals or change commission structures in the market place. For a variety of reasons, the exclusive independent contractor arrangements we have entered into or may enter into with investment sales professionals may not prevent these investment sales professionals from departing and competing against us due to our commission compensation being relatively less attractive to our investment sales and financing professionals. We currently do not have employment agreements with most key employees, and there is no assurance that we will be able to retain their services.

An increasing component of our growth has also occurred through the recruiting, training and retention of key experienced investment sales and financing professionals. Any future growth through attracting these types of professionals will be partially dependent upon the continued availability of qualified candidates fitting the culture of our firm at reasonable terms and conditions. However, individuals whom we would like to recruit or retain may not agree to terms and conditions acceptable to us. In addition, the recruiting of new personnel involves risks that the persons acquired will not perform in accordance with expectations and that business judgments concerning the value, strengths and weaknesses of persons recruited will prove incorrect.

If we lose the services of our executive officers or certain other members of our senior management team, we may not be able to execute our business strategy.

Our success depends in a large part upon the continued service of our senior management team, who are important to our vision, strategic direction and culture. Our current long-term business strategy was developed in large part by our senior-level officers and depends in part on their skills and knowledge to implement, and also includes a focus on new growth and investment initiatives that may require additional management expertise to successfully execute our strategy. We may not be able to offset the impact on our business of the loss of the services of our senior management or other key officers or employees or be able to recruit additional or replacement talent, which could negatively impact our business, financial condition and results of operations.

Our business could be hurt if we are unable to retain our business philosophy and culture of information-sharing and efforts to retain our philosophy and culture could adversely affect our ability to maintain and grow our business.

Our policy of information-sharing, matching properties with large pools of investors and the emphasis that we place on our clients, our people and our culture defines our business philosophy and differentiates our services. Various factors could adversely affect this culture. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain this culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

The concentration of sales among our top investment sales and financing professionals could lead to losses if we are unable to retain them.

Our most successful investment sales and financing professionals are responsible for a significant percentage of our revenues. They also serve as mentors and role models, and provide invaluable training for younger professionals, which is an integral part of our culture. This concentration among our top investment sales and financing professionals of real estate brokerage commissions and financing fees revenues can lead to greater and more concentrated risk of loss if we are unable to retain them, and could have a material adverse impact on our business and financial condition. Furthermore, many of our investment sales and financing professionals work in teams. If a team leader or manager leaves our Company, his or her team members may leave with the team leader.

Most of our sales professionals are independent contractors, not employees, and if laws, regulations or rulings mandate that they be employees, our business would be adversely impacted.

Most of our investment sales professionals are retained as independent contractors, and we are subject to the Internal Revenue Service regulations and applicable state law guidelines regarding independent contractor classification. These regulations and guidelines are subject to judicial and agency interpretation, and it could be determined that the independent contractor classification is inapplicable to some or all of our investment sales professionals. Further, if legal standards for classification of these investment sales professionals as independent contractors change or appear to be changing, it may be necessary to modify our compensation structure for these investment sales professionals in some or all of our markets, including paying additional compensation or reimbursing expenses. If we are forced to classify these investment sales professionals as employees, we would also become subject to laws regarding employee classification and compensation, and to claims regarding overtime, minimum wage, and meal and rest periods. We could also incur substantial costs, penalties and damages due to future challenges by current or former investment sales professionals to our classification or compensation practices. Any of these outcomes could result in substantial costs to us, could significantly impair our financial condition and our ability to conduct our business as we choose, and could damage our reputation and impair our ability to attract clients and investment sales and financing professionals.

Fraud, or theft, which is difficult to detect and deter, could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm.

If our employees or investment sales and financing professionals engage in misconduct, our business could be adversely affected. It is not always possible to deter misconduct, and the precautions we take to deter and prevent this activity may not be effective in all cases. If our employees or investment sales and financing professionals were to engage in unethical business practices, improperly use, disseminate, fail to disseminate or disclose information provided by our clients, we could be subject to regulatory sanctions, suffer serious harm to our reputation, financial position and current client relationships and significantly impair our ability to attract future clients. These events could adversely affect our business, financial condition and results of operation. To the extent any fraud or theft of funds or misconduct result in losses that exceeds our insurance coverage, our business could be materially adversely affected.

Internal Business Risks

We may fail to successfully differentiate our brand from those of our competitors, which could adversely affect our revenues.

The value of our brand and reputation is one of our most important assets. An inherent risk in maintaining our brand is we may fail to successfully differentiate the scope and quality of our service and product offerings from those of our competitors, or we may fail to sufficiently innovate or develop improved products or services that will be attractive to our clients. Additionally, given the rigors of the competitive marketplace in which we operate, there is the risk we

may not be able to continue to find ways to operate more productively and more

cost-effectively, including by achieving economies of scale, or we will be limited in our ability to further reduce the costs required to operate on a nationally coordinated platform.

Our attempts to expand our services and businesses may not be successful and we may expend significant resources without corresponding returns.

We intend to expand our specialty groups, particularly multi-tenant retail, office, industrial and hospitality, as well as various niche segments, including multifamily tax credit, affordable housing, student housing, manufactured housing, seniors housing and self-storage. We also plan to grow our financing services provided through our subsidiary, Marcus & Millichap Capital Corporation. We expect to incur expenses relating to recruitment, training, and expanding our markets and services. The planned expansion of services and platforms requires significant resources, and there can be no assurance we will compete effectively, attract or train a sufficient number of professionals to support the expansion, or operate these businesses profitably. We may incur significant expenses for these plans without corresponding returns, which would harm our business, financial condition and results of operations.

If we experience significant growth in the future, such growth may be difficult to sustain and may place significant demands on our administrative, operational and financial resources.

If we experience significant growth in the future, such growth could place additional demands on our resources and increase our expenses, as we will have to commit additional management, operational and financial resources to maintain appropriate operational and financial systems to adequately support expansion. There can be no assurance we will be able to manage our expanding operations effectively or we will be able to maintain or accelerate our growth, and any failure to do so could adversely affect our ability to generate revenue and control our expenses, which could adversely affect our business, financial condition and results of operations. Moreover, we may have to delay, alter or eliminate the implementation of certain aspects of our growth strategy due to events beyond our control, including, but not limited to, changes in general economic conditions and commercial real estate market conditions. Such delays or changes to our growth strategy may adversely affect our business.

A majority of our revenue is derived from transaction fees, which are not long-term contracted sources of revenue and are subject to external economic conditions, and declines in those engagements could have a material adverse effect on our financial condition and results of operations.

We historically have earned principally all of our revenue from real estate brokerage transactions and financing fees. We expect that we will continue to rely heavily on revenue from these sources for substantially all of our revenue for the foreseeable future. A decline in number of transactions completed or in the value of the commercial real estate we sell could significantly decrease our revenues which would adversely affect our business, financial condition and results of operations.

If we are unable to retain existing clients and develop new clients, our financial condition may be adversely affected.

We are substantially dependent on long-term client relationships and on revenue received for services provided for them. Our listing agreements generally expire within six months and depend on the cooperation of the client during the pendency of the agreement, as is typical in the industry. In this competitive market, if we are unable to maintain these relationships or are otherwise unable to retain existing clients and develop new clients, our business, results of operations and/or financial condition may be materially adversely affected. Historically, a global economic downturn and weaknesses in the markets in which our clients and potential clients compete have led to a lower volume of transactions and fewer real estate clients generally, which makes it more difficult to maintain existing and establish new client relationships. These effects could increase again in the wake of the continuing political and economic uncertainties in the United States and in other countries.

If we do not respond to technological innovations or changes or upgrade our technology systems, our growth prospects and results of operations could be adversely affected.

To remain competitive, we must continue to enhance and improve the functionality, features and security of our technology infrastructure. Infrastructure upgrades may require significant capital investment outside of the normal course of business. In the future, we will likely need to improve and upgrade our technology, database systems and network infrastructure in order to allow our business to grow in both size and scope. Without such improvements, our operations might suffer from unanticipated system disruptions, slow performance or unreliable service levels, any of which could negatively affect our ability to provide rapid customer service. We may face significant delays in introducing new services, investment sales professional tools and enhancements. Moreover, if we do not keep pace with the rapid innovations and changes taking place in information technology in our industry, we could be at a competitive disadvantage. If competitors introduce new products and services using new technologies, our proprietary technology and systems may become less competitive, and our business may be harmed. In addition, the expansion and improvement of our systems and infrastructure may require us to commit substantial financial, operational and technical resources, with no assurance that our business will improve.

Interruption, unauthorized breaches, or failure of our information technology, communications systems or data services could hurt our ability to effectively provide our services, which could damage our reputation and harm our operating results.

Our business requires the continued operation of information technology and communication systems and network infrastructure. Our ability to conduct our national business may be adversely impacted by disruptions or breaches to these systems or infrastructure. Our information technology and communications systems are vulnerable to damage or disruption from fire, power loss, telecommunications failure, system malfunctions, computer viruses, third-party misconduct or penetration and criminal acts, natural disasters such as hurricanes, earthquakes and floods, acts of war or terrorism, or other events which are beyond our control. In addition, the operation and maintenance of these systems and networks is, in some cases, dependent on third-party technologies, systems and service providers for which there is no certainty of uninterrupted availability. Any of these events could cause system interruption, delays, and loss of critical data or intellectual property (such as our client lists and information, business methods and research) and may also disrupt our ability to provide services to or interact with our clients, and we may not be able to successfully implement contingency plans that depend on communication or travel. We have disaster recovery plans and backup systems to reduce the potentially adverse effect of such events, but our disaster recovery planning may not be sufficient and cannot account for all eventualities. A catastrophic event that results in the destruction or disruption of any of our data centers or our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be adversely affected. Our business relies significantly on the use of commercial real estate data. We produce much of this data internally, but a significant portion is purchased from third-party providers for which there is no certainty of uninterrupted availability. A disruption of our ability to provide data to our professionals and/or clients could damage our reputation, and our operating results could be adversely affected.

Failure to maintain the security of our information and technology networks, including personally identifiable and client information could adversely affect us.

Security breaches and other disruptions could compromise our information and expose us to liability, which could cause our business and reputation to suffer. In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and intellectual property and that of our clients and personally identifiable information of our employees and contractors, in our data centers and on our networks. The secure processing, maintenance and transmission of this information is critical to our operations. Despite our security measures, our information technology and infrastructure may be vulnerable to various cyber-attacks, such as hacking, spoofing and phishing attacks, or our systems may be breached due to employee error,

malfeasance or other disruptions. A significant actual or potential theft, loss, fraudulent use or misuse of client, employee or other personally identifiable data, whether by third parties or as a result of employee malfeasance or otherwise, non-compliance with our contractual or other legal obligations regarding such data or a violation of our privacy and security policies with respect to such data could result in significant costs, fines, litigation or regulatory actions against us. Such an event could additionally disrupt our operations and the services we provide to clients, damage our reputation, and cause a loss of confidence in our services, which could adversely affect our business, revenues and competitive position. Additionally, we increasingly rely on third-party data storage providers, including cloud storage solution providers, resulting in less direct control over our data. Such third parties may also be vulnerable to security breaches and compromised security systems, which could adversely affect our reputation.

In addition, we rely on the collection and use of personally identifiable information from clients to conduct our business. We disclose our information collection and dissemination practices in a published privacy statement on our websites, which we may modify from time to time. We may be subject to legal claims, government action, including under the Racketeer Influenced and Corrupt Organizations Act (RICO), and damage to our reputation if we act or are perceived to be acting inconsistently with the terms of our privacy statement, client expectations or the law. In the event we or the vendors with which we contract to provide services on behalf of our clients were to suffer a breach of personally identifiable information, our customers could terminate their business with us. Further, we may be subject to claims to the extent individual employees or investment sales and financing professionals breach or fail to adhere to company policies and practices and such actions jeopardize any personally identifiable information. In addition, concern among potential buyers or sellers about our privacy practices could keep them from using our services or require us to incur significant expense to alter our business practices or educate them about how we use personally identifiable information.

Failure to appropriately deal with actual or perceived conflicts of interest could adversely affect our businesses.

Outside of our employees and investment sales and financing professionals, our reputation is one of our most important assets. As we have expanded the scope of our services, we increasingly have to address potential, actual or perceived conflicts of interest relating to the services we provide to our existing and potential clients. For example, conflicts may arise between our position as an advisor to both the buyer and seller in commercial real estate sales transactions or in instances when a potential buyer requests that we represent them in securing the necessary capital to acquire an asset we are selling for another client or when a capital source takes an adverse action against an owner client that we are advising in another matter. From time to time, we also advise or represent entities and parties affiliated with us in commercial real estate transactions which also involve clients unaffiliated with us. In this context, we may be subject to complaints or claims of a conflict of interest. While we believe we have attempted to adopt various policies, controls and procedures to address or limit actual or perceived conflicts, these policies and procedures may not be adequate or carry attendant costs and may not be adhered to by our employees. Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged and cause us to lose existing clients or fail to gain new clients if we fail, or appear to fail, to deal appropriately with conflicts of interest, which could have an adverse effect on our business, financial condition and results of operations.

If we acquire companies or recruit significant groups of personnel in the future, we may experience high transaction and integration costs, the integration process may be disruptive to our business and the acquired businesses and/or personnel may not perform as expected.

Our growth strategy may include the future acquisition of companies and/or recruitment of people and may involve significant transaction-related expenses. Transaction-related expenditures include severance costs, lease termination costs, transaction costs, deferred financing costs, possible regulatory costs and merger-related costs, among others. We may also experience difficulties in integrating operations and accounting systems acquired from other companies. These challenges include the diversion of management's attention from the regular

operations of our business and the potential loss of our key clients, our key associates or those of the acquired operations, each of which could harm our financial condition and results of operation. We believe some acquisitions could initially have an adverse impact on revenues, expenses, operating income and net income. Acquisitions also frequently involve significant costs related to integrating people, information technology, accounting, reporting and management services and rationalizing personnel levels. If we are unable to fully integrate the accounting, reporting and other systems of the businesses we acquire, we may not be able to effectively manage them and our financial results may be materially affected. Moreover, the integration process itself may be disruptive to our business as it requires coordination of culture, people and geographically diverse organizations and implementation of new accounting and information technology systems.

In addition, acquisitions of businesses involve risks that the businesses acquired will not perform in accordance with expectations, that the expected synergies associated with acquisitions will not be achieved and that business judgments concerning the value, strengths and weaknesses of the people and the businesses acquired will prove incorrect, which could have an adverse effect on our business, financial condition and results of operations.

We may face significant liabilities and/or damage to our professional reputation as a result of litigation allegations and negative publicity.

As a licensed real estate broker, we and our licensed professionals and brokers are subject to regulatory due diligence, disclosure and standard-of-care obligations. The actual or perceived failure to fulfill these obligations could subject us or our professionals and brokers to litigation from parties who attempted to or in fact financed, purchased or sold properties that we or they brokered, managed or had some other involvement. We could become subject to claims by those who either wished to participate or did participate in real estate transactions alleging that we did not fulfill our regulatory, contractual or other legal obligations. We also face potential conflicts of interest claims when we represent both the buyer and the seller in a transaction.

We depend on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, allegations by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us or our investment activities, whether or not valid, may harm our reputation and damage our business prospects. In addition, if any lawsuits were brought against us and resulted in a finding of substantial legal liability, it could materially, adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could materially impact our business.

Some of these litigation risks may be mitigated by the commercial insurance we maintain in amounts we believe are appropriate. However, in the event of a substantial loss, our commercial insurance coverage and/or self-insurance reserve levels might not be sufficient to pay the full damages, or the scope of available coverage may not cover certain types of claims. Further, the value of otherwise valid claims we hold under insurance policies could become uncollectible in the event of the covering insurance company's insolvency, although we seek to limit this risk by placing our commercial insurance only with highly-rated companies. Any of these events could negatively impact our business, financial condition or results of operations.

We are an emerging growth company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.

We are an emerging growth company, as defined in the JOBS Act, until December 31, 2018. As an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, including, but not limited to; (i) not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404

of the Sarbanes-Oxley Act, which may increase the risk that

weaknesses or deficiencies in the internal control over financial reporting go undetected; (ii) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, which may make it more difficult for investors and securities analysts to evaluate our company; and (iii) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.

We have irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act, and therefore, we are subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

We are obligated to develop and maintain proper and effective internal control over financial reporting. These internal controls may or may not be subject to auditor attestation, which may adversely affect investor confidence in our Company and, as a result, the value of our common stock.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting.

We are required to disclose changes made in our internal control and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the date we are no longer an emerging growth company, as defined in the JOBS Act, which will likely be on December 31, 2018. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future. In addition, to comply with the requirements of being a public company, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring additional accounting or internal audit staff.

Our investments in marketable securities are subject to certain risks which could affect our overall financial condition, results of operations or cash flows.

We invest a portion of our available cash and cash equivalent balances in money market funds, some of which have floating net asset values or by purchasing marketable securities with maturities in excess of three months in a managed portfolio in a variety of fixed or variable rate debt securities, including U.S. government and federal agency securities and corporate debt securities. The primary objective of our investment activity is to maintain the safety of principal, provide for future liquidity requirements while maximizing yields without significantly increasing risk. Should any of our investments or marketable securities lose value or have their liquidity impaired, it could affect the Company's overall financial condition. Additionally, should we choose or are required to sell these securities in the future, our consolidated operating results or cash flows may be affected.

We may be deemed to be an investment company due to our investments in marketable securities, available-for-sale and, if such a determination were made, we would become subject to significant regulation that would adversely affect our business.

We may be deemed to be an investment company under the Investment Company Act of 1940 if, among other things, we own investment securities with a value exceeding 40% of the value of our total assets, unless

we qualify under a particular exemption or safe harbor. We invest part of our available cash and cash equivalents in variety of short-term, investment grade securities, some of which may qualify as investment securities under the Investment Company Act. Investment companies are subject to registration under the Investment Company Act and compliance with a variety of restrictions and requirements. If we were to be deemed an investment company we would become subject to these restrictions and requirements, and the consequences of having been an investment company without registering under the Investment Company Act could have a material adverse effect on our business, financial condition and results of operations, as well as restrict our ability to sell and issue securities, borrow funds, engage in various transactions or other activities and make certain investment decisions. In addition, we may incur significant costs or limitation on business opportunities to avoid investment company status if an exemption from the Investment Company Act were to be considered unavailable to us at a time when the value of our investment securities exceeds 40% of the value of our total assets. We believe that we satisfy the conditions to be exempt from the Investment Company Act because, among other things, we are engaged directly and primarily in a business other than that of investing, reinvesting, owning, holding or trading in securities. However, absent an exemptive order from the SEC, our status of being exempt cannot be assured.

Risks related to the Ownership of Our Common Stock

Our Co-Chairman and founder controls a significant interest in our stock, and the concentrated ownership of our common stock may prevent other stockholders from influencing significant decisions.

George M. Marcus, our Co-Chairman and founder beneficially owns approximately 49% of our outstanding common stock as of December 31, 2017. Because Mr. Marcus controls the voting power of our outstanding common stock, he is able to determine the outcome of corporate actions requiring stockholder approval, including the election and removal of directors, so long as he controls a significant portion of our common stock.

The price of our common stock may fluctuate significantly and you could lose all or part of your investment.

Volatility in the market price of our common stock may prevent shareholders from being able to sell shares of our common stock at or above the price shareholders paid for them. The market price for our common stock could fluctuate significantly for various reasons, including quarterly and annual variations in our results and those of our competitors; changes to the competitive landscape; estimates and projections by the investment community; the arrival or departure of key personnel, especially the retirement or departure of key senior investment sales and financing professionals and management; the introduction of new services by us or our competitors; acquisitions, strategic alliances or joint ventures involving us or our competitors; and general global and domestic economic, credit and liquidity issues, market or political conditions. For example, in 2016 and 2017, the price of our shares has ranged from a high of \$32.72 per share to a low of \$18.77 per share.

As a result of these factors, investors in our common stock may not be able to resell their shares at or above the price paid to acquire the stock or may not be able to resell them at all. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance. In addition, price volatility may be greater if the public float and trading volume of our common stock is low.

If our Co-Chairman sells a controlling interest in our Company to a third party in a private transaction, you may not realize any change-of-control premium on shares of our common stock and we may become subject to the control of a presently unknown third party.

Our Co-Chairman and controlling stockholder has the ability, should he choose to do so, to sell some or all of the shares of our common stock that he controls in a private transaction, which, if sufficient in size, could result in a change of control of our Company. The ability of our Co-Chairman and controlling stockholder to privately sell the shares of our common stock that he controls, with no requirement for a concurrent offer to be made to acquire all of

our common stock that will be publicly traded hereafter, could prevent shareholders from realizing any change-of-control premium on shares of our common stock that may otherwise accrue to entities

controlled by our Co-Chairman on a private sale of our common stock. If entities controlled by our Co-Chairman privately sell a significant equity interest in our Company, we may become subject to the control of a presently unknown third party. Such third party may have conflicts of interest with those of other stockholders. Furthermore, if our Co-Chairman sells a controlling interest in our Company to a third party, our commercial agreements and relationships could be impacted, all of which may adversely affect our ability to run our business as described herein and may have a material adverse effect on our operating results and financial condition.

Our Co-Chairman may have actual or potential conflicts of interest because of his position with MMC.

George M. Marcus serves as a Co-Chairman of our board of directors and is Chairman of the board of directors of MMC. In addition, Mr. Marcus beneficially owns most of the outstanding stock of MMC. His position at MMC and the ownership of any MMC equity or equity awards creates, or may create the appearance of conflicts of interest if and when he is faced with decisions that could have different implications for MMC and for us.

If securities analysts do not publish research or reports about our business or if they downgrade our Company or our sector, or we do not meet expectations of the analysts the price of our common stock could decline.

The trading market for our common stock depends in part on the research and reports that industry or financial analysts publish about us or our business. These research reports about our business may contain information about the Company, including but not limited to estimates of our future results of operations and stock price. We do not control these analysts, nor can we assure that any analysts will continue to follow us, issue research reports or publish information that accurately predicts our actual results or stock price. Furthermore, if we do not meet the expectations of industry or financial analysts or one or more of the analysts who do cover us downgrades our Company or our industry, or the stock of any of our competitors, the price of our common stock could decline. If one or more of these analysts ceases coverage of our Company, we could lose visibility in the market, which in turn could cause the price of our common stock to decline.

Significant fluctuations in our revenues and net income may make it difficult for us to achieve steady earnings growth on a quarterly or an annual basis, which may make the comparison between periods difficult and may cause the price of our common stock to decline.

We have experienced and may continue to experience fluctuations in revenues and net income as a result of many factors, including, but not limited to, economic conditions, capital market disruptions, the timing of transactions, revenue mix and the timing of additional selling, general and administrative expenses to support growth initiatives. We provide many of our services pursuant to contracts that typically expire within six months and that are dependent on the client's cooperation. Consequently, many of our clients can terminate or significantly reduce their relationships with us on very short notice for any reason.

We plan our capital and operating expenditures based on our expectations of future revenues and, if revenues are below expectations in any given quarter or year, we may be unable to adjust capital or operating expenditures in a timely manner to compensate for any unexpected revenue shortfall, which could have an immediate material adverse effect on our business, financial condition and results of operation.

Future sales or the perception of future sales of a substantial amount of our common stock may depress the price of shares of our common stock.

Future sales, the lifting of common stock resale restrictions that will expire in November of next year, issuances of shares under our 2013 Omnibus Equity Incentive Plan and 2013 Employee Stock Purchase Plan or the availability of a substantial amount of our common stock in the public market could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through the future sales of equity securities. As of

December 31, 2017, there were approximately 19.6 million shares of our common stock outstanding, which could be registered and sold in a private or public sale. Substantially all of these shares are beneficially owned by entities controlled by George M. Marcus our Co-Chairman.

We may issue shares of our common stock or other securities from time to time as consideration for future acquisitions and investments. If any such acquisition or investment is significant, the number of shares of our common stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be substantial. We may also grant registration rights covering those shares of our common stock or other securities in connection with any such acquisitions and investments.

We cannot predict the size of future issuances or sales of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares of our common stock issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our principal executive offices are located at 23975 Park Sorrento, Suite 400, Calabasas, California 91302 where our telephone number is (818) 212-2250. We lease approximately 24,028 (net of sublease) square feet, under a lease that expires in December 2021 for our executive offices in Calabasas, California. We also lease all of our 78 brokerage offices (typically less than 12,000 square feet) and other support facilities in United States and Canada aggregating approximately 591,000 square feet, primarily for our investment sales and financing professionals and support personnel. We believe that our current facilities are adequate to meet our needs through the end of 2018; however, as we continue to expand in various midmarket locations and grow our market share in existing metropolitan areas, we may need to lease additional space.

Item 3. Legal Proceedings

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

For information on our legal proceedings, see Note 14 Commitments and Contingencies of our accompanying Notes to Consolidated Financial Statements included in Part II, Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock has traded on the New York Stock Exchange (NYSE) under the symbol MMI since October 31, 2013. Prior to that time, there was no public market for our stock. The following table sets forth for the indicated period the high and low intra-day sales prices per share for our common stock on the NYSE.

	High	Low
2016:		
First quarter	\$ 28.34	\$ 18.77
Second quarter	\$ 27.73	\$ 23.60
Third quarter	\$ 28.99	\$ 24.35
Fourth quarter	\$ 30.31	\$ 22.93
2017:		
First quarter	\$ 28.51	\$ 23.22
Second quarter	\$ 26.94	\$ 23.40
Third quarter	\$ 27.87	\$ 24.34
Fourth quarter	\$ 32.72	\$ 26.43

As of March 5, 2018, there were 23 stockholders of record, and the closing price of our common stock was \$31.55 per share as reported on the NYSE.

Dividends

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

Stock Performance Graph

The performance graph shall not be deemed filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of Marcus & Millichap, Inc. under the Securities Act of 1933, as amended (the Securities Act), or the Exchange Act.

The following graph shows a comparison from October 31, 2013 through December 31, 2017 of the cumulative total return for our common stock, the Standard & Poor's 500 Stock Index (S&P 500 Index) and an industry peer group for this period. The industry peer group is comprised of the following publicly-traded real estate services companies: CBRE Group, Inc., Jones Lang LaSalle Incorporated and HFF, Inc. (collectively Peer Group). These three companies represent our primary competitors that are publicly traded with certain business lines reasonably comparable to ours. The graph assumes that \$100 was invested at the market close on October 31, 2013 in the common stock of Marcus & Millichap Inc., the S&P 500 Index and the Peer Group, and assumes reinvestments of dividends. The stock price performance of the following graph is not necessarily indicative of future stock price performance.

	Base Period 10/31/2013	March 31,	June 30,	September 30,	December 31,
2013:					
Marcus & Millichap, Inc.	100.00				111.03
S&P 500	100.00				105.66
Peer Group	100.00				111.20
2014:					
Marcus & Millichap, Inc.		132.94	190.09	225.48	247.76
S&P 500		107.57	113.20	114.47	120.12
Peer Group		122.30	138.15	129.73	151.81
2015:					
Marcus & Millichap, Inc.		279.28	343.82	342.70	217.14
S&P 500		121.26	121.60	113.77	121.78
Peer Group		171.58	168.67	143.74	155.41
2016:					
Marcus & Millichap, Inc.		189.20	189.34	194.86	199.11
S&P 500		123.42	126.45	131.32	136.35
Peer Group		124.97	112.34	121.68	127.26
2017:					
Marcus & Millichap, Inc.		183.16	196.42	201.12	243.00
S&P 500		144.62	149.08	155.76	166.11
Peer Group		139.29	150.57	155.38	181.54

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities

None.

Item 6. Selected Financial Data

The following selected consolidated financial and other data should be read in conjunction with Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and the related notes included in Part II, Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

The following table presents the consolidated statement of income data for the years ended December 31, 2017, 2016 and 2015, and the consolidated balance sheet data at December 31, 2017 and 2016. Such financial data are derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The table also presents the consolidated statement of income data for the years ended December 31, 2014 and 2013 and the consolidated balance sheet data at December 31, 2015, 2014 and 2013, which are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of our results in any future period.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands except per share, investment sales and financing professional and sales volume amounts)				
Statement of Income Data:					
Total revenues	\$ 719,700	\$ 717,450	\$ 689,055	\$ 572,188	\$ 435,895
Cost of services	446,557	444,768	423,389	350,102	264,637
Stock-based and other compensation in connection with IPO ⁽¹⁾					31,268
Operating income	96,132	106,501	114,651	84,606	21,286
Provision for income taxes ⁽²⁾	47,702	42,445	47,018	33,452	13,735
Net income	\$ 51,524	\$ 64,657	\$ 66,350	\$ 49,531	\$ 8,206
Less: Net (loss) income attributable to Marcus & Millichap Real Estate Investment Services, Inc. prior to initial public offering on October 31, 2013					(1,045)
Net income attributable to Marcus & Millichap, Inc. subsequent to initial public offering	\$ 51,524	\$ 64,657	\$ 66,350	\$ 49,531	\$ 9,251
Earnings per share:					
Basic	\$ 1.32	\$ 1.66	\$ 1.71	\$ 1.27	\$ 0.24
Diluted	\$ 1.32	\$ 1.66	\$ 1.69	\$ 1.27	\$ 0.24
Weighted average common shares outstanding:					
Basic	38,988	38,899	38,848	38,851	38,787
Diluted	39,100	39,035	39,162	38,978	38,815
Balance Sheet Data:					
Cash and cash equivalents	\$ 220,786	\$ 187,371	\$ 96,185	\$ 149,159	\$ 100,952
Marketable securities, available-for-sale ⁽³⁾	\$ 125,659	\$ 104,929	\$ 134,255	\$ 14,752	\$
Total assets	\$ 459,664	\$ 394,016	\$ 321,225	\$ 233,604	\$ 167,309
Long-term liabilities	\$ 61,517	\$ 56,986	\$ 57,224	\$ 49,591	\$ 48,052

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Total liabilities	\$ 144,776	\$ 135,162	\$ 132,235	\$ 116,795	\$ 104,812
Total stockholders' equity	\$ 314,888	\$ 258,854	\$ 188,990	\$ 116,809	\$ 62,497

Other Data:

Adjusted EBITDA ⁽⁴⁾	\$ 111,716	\$ 118,296	\$ 124,140	\$ 92,824	\$ 61,286
Investment sales and financing professionals	1,819	1,737	1,607	1,494	1,313
Sales volume (dollars in millions)	\$ 42,191	\$ 42,312	\$ 37,847	\$ 33,139	\$ 23,975

- (1) Consists of non-cash stock based compensation and other compensation charges incurred in connection with our IPO.
- (2) Prior to the IPO in October 2013, we were subject to a tax-sharing agreement whereby we provided for income taxes using an effective tax rate of 43.5%. As part of the IPO, the tax-sharing agreement with MMC was terminated. Provision for income taxes for 2017, includes a one-time charge in the amount of \$11.6 million in connection with the remeasurement of deferred tax assets, net due to enactment of the Tax Cuts and Jobs Act, which reduced the U.S. federal statutory corporate tax rate from 35% to 21%. In addition, we adopted ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* in 2017 that required any windfall tax benefits, net of shortfalls to be recorded as a discrete item in our provision for income taxes. The Company recognized \$2.9 million in windfall tax benefits, net during 2017 as a reduction in the Company's provision for income taxes.
- (3) Includes both short-term and long-term marketable securities, available-for-sale.
- (4) Adjusted EBITDA is not a measurement of our financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other measures derived in accordance with U.S. GAAP. For a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measure.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and the accompanying notes thereto included elsewhere herein. The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those factors set forth under Item 1A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting Our Business of this Annual Report on Form 10-K.

Overview

Our Business

We are a leading national brokerage firm specializing in commercial real estate investment sales, financing, research and advisory services. We have been the top commercial real estate investment broker in the United States based on the number of investment transactions over the last 10 years. As of December 31, 2017, we had over 1,800 investment sales and financing professionals operating in 78 offices who provide real estate brokerage and financing services to sellers and buyers of commercial real estate. We also offer market research, consulting and advisory services to our clients. During the year ended December 31, 2017, we closed 8,979 sales, financing and other transactions with total volume of approximately \$42.2 billion, compared to 8,995 sales, financing and other transactions with total sales volume of approximately \$42.3 billion in 2016.

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

Factors Affecting Our Business

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

The Economy

Our business is dependent on economic conditions within the markets in which we operate. Changes in the economy on a global, national, regional or local basis can have a positive or a negative impact on our business. Economic indicators and projections related to job growth, unemployment, interest rates, retail spending and confidence trends can have a positive or a negative impact on our business. Overall market conditions can have an effect on investor sentiment and, ultimately, the demand for our services from investors in real estate. Significant disasters such as the hurricanes that struck Texas and Florida in 2017 can also affect local economies and investor behavior. The post-disaster assessment and recovery process can delay in-process transactions or change investor decisions to hold, buy or sell commercial real estate. Our national footprint allows us to support our clients in balancing the

opportunities and risks of changing regional economic conditions. We believe the U.S. economy remains poised for growth this year, as the tax rate reductions under the new tax law act as a

stimulus for personal and corporate spending. Job creation last year was marginally slower than in 2016 and hiring should remain stable in 2018. Notably, despite the potential for accelerated economic growth and the elevated number of job openings, we believe the tight unemployment rate will restrain hiring. Further, we believe the demand for additional qualified personnel will continue to place upward pressure on wages, and increase risks of rising inflation. It is widely anticipated that the new leadership of the Federal Reserve will continue to cautiously exert upward pressure on interest rates to contain inflationary risk. We believe sentiment about economic expansion in 2018 remains conservatively optimistic, though some uncertainty surrounding fiscal policy, deregulation, inflation risk and other initiatives by the Trump administration could weigh on activity.

Commercial Real Estate Supply and Demand

Our business is dependent on the willingness of investors to invest in or sell commercial real estate, which is affected by factors beyond our control. These factors include the supply of commercial real estate coupled with user demand for these properties and the performance of real estate assets when compared with other investment alternatives, such as stocks and bonds. Despite the generally moderate pace of economic growth over the past eight years, we believe commercial real estate offers a compelling option for investors, as real estate fundamentals generally remain balanced. The slow-but-steady economic gains have generated demand while keeping construction levels limited for most property types on a national scale, although construction has begun to elevate for some property types in certain metropolitan areas. We believe the maturing cycle, combined with volatility in financial markets, inflation trends and rising interest rates have caused investors and lenders to assume more cautious underwriting assumptions resulting in a slowdown in sales. Furthermore, many investors are still delaying transactions as they await additional clarity on how the new tax law, regulatory easing and economic initiatives will affect investments. We believe a boost to investor sentiment will likely emerge as clarity on government policies and growth initiatives comes forth. Although the new tax law appears promising, many investors are still waiting for additional guidance from the IRS and the U.S. Treasury on how the new rules will be applied. We believe that these factors should continue to support long-term commercial real estate investor demand and, therefore, demand for our brokerage and financing services.

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 increase or decrease, could adversely or positively affect the operations and income potential of commercial real estate properties. These changes also influence the demand of investors for commercial real estate investments. We believe indications from the U.S. Federal Reserve of future interest rate increases, a reduction of the Federal Reserve balance sheet, uncertainty as to the impact of new fiscal policies, stock market volatility and rising longer term interest rates remain a short-term headwind for real estate transactions. In addition, a change of the Chairperson of the Federal Reserve could alter Federal Reserve policies and have a meaningful impact on interest rates and investor activity. We have continued to see disciplined underwriting from lenders as well as ample liquidity in the market.

Investor Sentiment and Investment Activity

We rely on investors to buy and sell properties in order to generate commissions. Investors' desires to engage in real estate transactions are dependent on many factors that are beyond our control. The economy, supply and demand for properly positioned properties, available credit and market events impact investor sentiment and, therefore, transaction velocity. In addition, our private clients are often motivated to buy, sell and/or refinance properties due to personal circumstances such as death, divorce, partnership breakups and estate planning. We believe that we are in a maturing real estate cycle. During the last two years, the sales transaction market has continued to step-down from peak levels set in 2015. The combination of interest rate volatility

together with, regulatory easing and infrastructure initiatives have caused a portion of the active investors to assume a more wait-and-see attitude toward investment decisions. Although a new tax law is effective, considerable uncertainty surrounding the rules and implementation of the new tax laws remains. As the IRS and Treasury Department provide additional clarity, and investors digest the information and its application to their assets, we believe investors will begin to revive their activity levels. We believe that the healthy property fundamentals and lack of over-leveraging during the past several years support an active, but more tempered, market environment.

Seasonality

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

Operating Segments

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

Key Financial Measures and Indicators

Revenues

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

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

mix of the number and volume of transactions closed in the middle and larger transaction market segments as compared to the \$1-\$10 million private client market segment. These factors may result in period-to-period variations in our revenues that differ from historical patterns.

A small percentage of our transactions include retainer fees and/or breakage fees. Retainer fees are credited against a success-based fee upon the closing of a transaction or a breakage fee. Transactions that are terminated before completion will sometimes generate breakage fees, which are usually calculated as a set amount or a percentage of the fee we would have received had the transaction closed.

Real estate brokerage commissions

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

Financing fees

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

Other revenues

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

Operating Expenses

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

Cost of services

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

Selling, general 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 and other administrative expenses. Also included in selling, general and administrative expenses is stock-based compensation to non-employee directors, employees and independent contractors (i.e. investment sales and financing professionals) under our 2013 Omnibus Equity Incentive Plan, as amended (2013 Plan) and the 2013 Employee Stock Purchase Plan (2013 ESPP Plan).

Depreciation and amortization expense

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

Other Income (Expense), Net

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

Interest Expense

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

Provision for Income Taxes

We are subject to U.S. and Canadian federal taxes and individual state and local taxes based on the income generated in the jurisdictions in which we operate. Our effective tax rate fluctuates as a result of the change in the mix of our activities in the jurisdictions we operate due to differing tax rates in those jurisdictions and other permanent items. Prior to December 31, 2016, windfall benefits, net from shares issued in connection with our 2013 Plan and 2013 ESPP Plan were recorded to additional paid in capital. Effective January 1, 2017, as a result of the adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09), any windfall tax benefits, net are recorded in our provision for income taxes.

We record deferred tax assets, net based on the tax rate expected to be in effect at the time those items are expected to be recognized for tax purposes. On December 22, 2017, the Tax Cuts and Jobs Act (the Act) legislation was enacted, which reduced the U.S. federal statutory tax rate from 35% to 21% beginning in 2018. As a result of the change in the future federal statutory tax rate, our recorded deferred tax assets, net were required to be revalued to reflect the new tax rate now expected to be in effect in 2018 and beyond. This one-time charge of \$11.6 million was recorded as of the enactment date in our provision for income taxes in the fourth quarter of 2017.

Results of Operations

Following is a discussion of our results of operations for the years ended December 31, 2017, 2016 and 2015. The tables included in the period comparisons below provide summaries of our results of operations. The period-to-period comparisons of financial results are not necessarily indicative of future results.

Key Operating Metrics

We regularly review a number of key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. During the years ended December 31, 2017, 2016 and 2015, we closed more than 8,900, 8,900 and 8,700 sales, financing and other transactions with total volume of approximately \$42.2 billion, \$42.3 billion and \$37.8 billion, respectively. Such key metrics for real estate brokerage and financing activities are as follows:

	Years Ended December 31,		
Real Estate Brokerage:	2017	2016	2015
Average Number of Investment Sales Professionals	1,649	1,527	1,428
Average Number of Transactions per Investment Sales Professional	3.98	4.24	4.43
Average Commission per Transaction	\$ 98,963	\$ 102,258	\$ 99,901
Average Commission Rate	2.13%	2.07%	2.22%
Average Transaction Size (in thousands)	\$ 4,644	\$ 4,935	\$ 4,492
Total Number of Transactions	6,562	6,476	6,332
Total Sales Volume (in millions)	\$ 30,475	\$ 31,962	\$ 28,444

	Years Ended December 31,		
Financing ⁽¹⁾:	2017	2016	2015
Average Number of Financing Professionals	95	98	85
Average Number of Transactions per Financing Professional	17.97	16.83	18.84
Average Fee per Transaction	\$ 28,960	\$ 26,314	\$ 26,582
Average Fee Rate	0.88%	0.85%	0.87%
Average Transaction Size (in thousands)	\$ 3,299	\$ 3,093	\$ 3,053
Total Number of Transactions	1,707	1,651	1,601
Total Sales Volume (in millions)	\$ 5,632	\$ 5,107	\$ 4,888

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

Comparison of Years Ended December 31, 2017 and 2016

Below are key operating results for the year ended December 31, 2017 compared to the results for the year ended December 31, 2016 (dollars in thousands):

	Year Ended December 31, 2017	Percentage of Revenue	Year Ended December 31, 2016	Percentage of Revenue	Change Dollar	Percentage
Revenues:						
Real estate brokerage commissions	\$ 649,393	90.2%	\$ 662,220	92.3%	\$ (12,827)	(1.9)%
Financing fees	49,653	6.9	43,444	6.1	6,209	14.3
Other revenues	20,654	2.9	11,786	1.6	8,868	75.2
Total revenues	719,700	100.0	717,450	100.0	2,250	0.3
Operating expenses:						
Cost of services	446,557	62.0	444,768	62.0	1,789	0.4
Selling, general, and administrative expense	171,648	23.8	161,794	22.6	9,854	6.1
Depreciation and amortization expense	5,363	0.8	4,387	0.6	976	22.2
Total operating expenses	623,568	86.6	610,949	85.2	12,619	2.1
Operating income	96,132	13.4	106,501	14.8	(10,369)	(9.7)
Other income (expense), net	4,590	0.6	2,134	0.3	2,456	<i>nm</i>
Interest expense	(1,496)	(0.2)	(1,533)	(0.2)	37	(2.4)
Income before provision for income taxes	99,226	13.8	107,102	14.9	(7,876)	(7.4)
Provision for income taxes	47,702	6.6	42,445	5.9	5,257	12.4
Net income	\$ 51,524	7.2%	\$ 64,657	9.0%	\$ (13,133)	(20.3)%
Adjusted EBITDA ⁽¹⁾	\$ 111,716	15.5%	\$ 118,296	16.5%	\$ (6,580)	(5.6)%

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

Revenues

Our total revenues were \$719.7 million in 2017 compared to \$717.5 million in 2016, an increase of \$2.3 million or 0.3%. Total revenues increased primarily as a result of increases in other revenues and financing fees, partially offset

by a decrease in real estate brokerage commissions.

Real estate brokerage commissions. Revenues from real estate brokerage commissions decreased to \$649.4 million in 2017 from \$662.2 million in 2016, a decrease of \$12.8 million or 1.9%. The decrease was driven by the decrease in sales volume (4.7%). This decrease was partially offset by an increase in average commission rates (6 basis points) primarily due to improved rates in the middle market transaction segment.

Financing fees. Revenues from financing fees increased to \$49.7 million in 2017 from \$43.4 million in 2016, an increase of \$6.2 million or 14.3%. The increase was driven by growth in sales volume (10.3%) primarily due to an increase in financing purchase transactions and an increase in average fee rates (3 basis points).

Other revenues. Other revenues increased to \$20.7 million in 2017 from \$11.8 million in 2016, an increase of \$8.9 million or 75.2%. The increase was primarily driven by two large consulting and advisory services fees earned during 2017 with no such comparable fees during 2016.

Total operating expenses

Our total operating expenses were \$623.6 million in 2017 compared to \$610.9 million in 2016, an increase of \$12.6 million, or 2.1%. The increase was primarily due to increases in selling, general and administrative costs, cost of services, which is predominantly variable commissions paid to our investment sales professionals and compensation-related costs related to our financing activities and, to a lesser extent, depreciation and amortization expense, as described below.

Cost of services. Cost of services in 2017 increased \$1.8 million, or 0.4%, to \$446.6 million from \$444.8 million in 2016. The increase was primarily due to increased commission expenses driven by increased revenues noted above. Cost of services as a percent of total revenues remained consistent at 62.0% in 2017 and 2016.

Selling, general and administrative expense. Selling, general and administrative expense in 2017 increased \$9.9 million, or 6.1%, to \$171.6 million from \$161.8 million in 2016. Increases in our selling, general and administrative expense have been driven by our growth plans and investments in technology, sales and marketing tools and marketing and expansion of our services supporting our investment sales and financing professionals. These initiatives have primarily driven (i) a \$6.5 million increase in sales operations support and promotional marketing expenses to support sales activity and (ii) a \$2.2 million increase in facilities expenses due to expansion of existing offices. In addition, selling, general and administrative expense increased due to (i) a \$2.1 million increase in stock-based compensation due to fluctuations in our stock price and incremental stock-based awards since the fourth quarter of 2016 and (ii) a \$0.2 million increase in legal costs and accruals. These increases were partially offset by (i) a \$0.5 million decrease in compensation related costs, including salaries and related benefits and management performance compensation primarily due to management and compensation realignments and (ii) a \$0.6 million decrease in other expense categories, net.

Depreciation and amortization expense. Depreciation and amortization expense increased to \$5.4 million in 2017 from \$4.4 million in 2016, an increase of \$1.0 million, or 22.2%. The increase is primarily driven by our expansion and growth and investment in technology to redesign sales and marketing tools.

Other income (expense), net

Other income (expense), net increased to \$4.6 million in 2017 from \$2.1 million in 2016, an increase of \$2.5 million, or 115.1%. The increase was primarily driven by increases in interest income on our investments in marketable securities, available-for-sale and the value of our deferred compensation plan assets held in the rabbi trust. These increases were enhanced by realized losses on our investments in marketable securities, available-for-sale, primarily due to a security sold during the first quarter of 2016, which no longer met our investment policy criteria with no such comparable realized losses during 2017.

Interest expense

There were no significant changes in interest expenses in 2017 as compared to 2016.

Provision for income taxes

The provision for income taxes was \$47.7 million for 2017 compared to \$42.4 million in 2016, an increase of \$5.3 million, or 12.4%. The effective tax rate for 2017 was 48.1%, compared with 39.6% in 2016. The

increase in the effective tax rate was primarily due to a \$11.6 million one-time charge related to the revaluation of the our deferred taxes, net in 2017 from changes in the U.S. federal statutory tax rate as result of the enactment of the Act. The provision was partially reduced by \$2.9 million of windfall tax benefits, net in connection with our 2013 Plan recorded in our provision for income taxes as a result of the adoption of ASU 2016-09 in January 2017. ASU 2016-09 requires the difference in book and tax deductions associated with the settlement of shares under our 2013 Plan and certain disqualifying dispositions of shares issued under our 2013 ESPP Plan to be recorded in the provision for income taxes. Prior to 2016, any windfall tax benefits were recorded directly to additional paid-in capital.

Comparison of Years Ended December 31, 2016 and 2015

Below are key operating results for the year ended December 31, 2016 compared to the results for the year ended December 31, 2015 (dollars in thousands):

	Year Ended December 31, 2016	Percentage of Revenue	Year Ended December 31, 2015	Percentage of Revenue	Change	
					Dollar	Percentage
Revenues:						
Real estate brokerage commissions	\$ 662,220	92.3%	\$ 632,574	91.8%	\$ 29,646	4.7%
Financing fees	43,444	6.1	42,558	6.2	886	2.1
Other revenues	11,786	1.6	13,923	2.0	(2,137)	(15.3)
Total revenues	717,450	100.0	689,055	100.0	28,395	4.1
Operating expenses:						
Cost of services	444,768	62.0	423,389	61.4	21,379	5.0
Selling, general, and administrative expense	161,794	22.6	147,710	21.4	14,084	9.5
Depreciation and amortization expense	4,387	0.6	3,305	0.6	1,082	32.7
Total operating expenses	610,949	85.2	574,404	83.4	36,545	6.4
Operating income	106,501	14.8	114,651	16.6	(8,150)	(7.1)
Other income (expense), net	2,134	0.3	443		1,691	<i>nm</i>
Interest expense	(1,533)	(0.2)	(1,726)	(0.2)	193	(11.2)
Income before provision for income taxes	107,102	14.9	113,368	16.4	(6,266)	(5.5)
Provision for income taxes	42,445	5.9	47,018	6.8	(4,573)	(9.7)
Net income	\$ 64,657	9.0%	\$ 66,350	9.6%	\$ (1,693)	(2.6)%
Adjusted EBITDA ⁽¹⁾	\$ 118,296	16.5%	\$ 124,140	18.0%	\$ (5,844)	(4.7)%

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

Revenues

Our total revenues were \$717.5 million in 2016 compared to \$689.1 million in 2015, an increase of \$28.4 million or 4.1%. Total revenues increased primarily as a result of increases in real estate brokerage commissions, which

contributed to substantially all of the total increase. A slight increase in financing fees, partially offset by a decrease in other revenues contributed the remaining change in total revenues.

Real estate brokerage commissions. Revenues from real estate brokerage commissions increased to \$662.2 million in 2016 from \$632.6 million in 2015, an increase of \$29.6 million or 4.7%. The increase was driven by a combination of the growth in the number of investment sales transactions (2.3%) and average transaction size (9.9%), partially offset by a decrease in average commission rates (15 basis points) due to a larger proportion of our transactions that closed in the $\geq$ \$20 million larger transaction market segment, which generate lower commission rates.

Financing fees. Revenues from financing fees increased to \$43.4 million in 2016 from \$42.6 million in 2015, an increase of \$0.9 million or 2.1%. The increase was driven by an increase in the number of loan

transactions (3.1%) due to an increase in the average number of financing professionals (15.3%), partially offset by a decrease in average fee rates (2 basis points) due in part to fees from certain larger loan transactions during 2016 as compared to 2015. Larger loan transactions generally earn a lower fee percentage.

Other revenues. Other revenues decreased to \$11.8 million in 2016 from \$13.9 million in 2015, a decrease of \$2.1 million or 15.3%. The decrease was primarily driven by a decrease in consulting and advisory services during 2016 as compared to 2015.

Operating expenses

Our total operating expenses were \$610.9 million in 2016 compared to \$574.4 million in 2015, an increase of \$36.5 million, or 6.4%. Expenses increased primarily due to an increase in cost of services, which is predominantly variable commissions paid to our investment sales professionals and compensation-related costs related to our financing activities. Selling, general and administrative costs and to a lesser extent depreciation and amortization increased as well, as described below.

Cost of services. Cost of services in 2016 increased \$21.4 million, or 5.0%, to \$444.8 million from \$423.4 million in 2015. The increase was primarily due to increased commission expenses driven by increased revenues. Cost of services as a percent of total revenues increased to 62.0% for 2016 compared to 61.4% in 2015 primarily due to an increase in proportion of transactions closed by our more senior investment sales professionals who are compensated generally at higher commission rates, partially offset by a reduction in referral fees.

Selling, general and administrative expense. Selling, general and administrative expense in 2016 increased \$14.1 million, or 9.5%, to \$161.8 million from \$147.7 million in 2015. Increases in our selling, general and administrative expense have been driven by our growth and investments in technology, sales and marketing tools and marketing and expansion of our services supporting our investment sales and financing professionals. These initiatives have primarily driven (i) a \$6.7 million increase in sales and promotional marketing expenses to support increased sales activity and our annual sales recognition event; (ii) a \$6.1 million increase in facilities expenses due to expansion of existing offices; (iii) a \$5.7 million increase in salaries and related benefits as a result of increases in headcount in corporate and sales office support in connection with our growth and expansion of services supporting our investment sales and financing professionals; (iv) a \$2.7 million increase in other expense categories, net, primarily driven by our expansion and growth. In addition, selling, general and administrative expense increased \$2.5 million due to legal costs and accruals, partly driven by settlement of outstanding litigation and recoveries from a settlement with an insurance carrier during the twelve months ended December 31, 2015, which reduced legal costs in that period. These increases were offset by a \$9.6 million decrease in management performance-related compensation driven by reduced bonus accruals due to management exceeding performance criteria during 2015.

Depreciation and amortization expense. Depreciation and amortization expense increased to \$4.4 million in 2016 from \$3.3 million in 2015, an increase of \$1.1 million, or 32.7%. The increase is primarily driven by our expansion and growth and investment in technology to redesign sales and marketing tools.

Other income (expense), net

Other income (expense), net increased to \$2.1 million in 2016 from \$0.4 million in 2015. The increase was primarily driven by an increase in the value of our foreign currency gains related to our Canadian operations, interest income on our investments in marketable securities, available-for-sale and deferred compensation plan assets held in the rabbi trust. The increase was partially offset by realized losses on our investments in marketable securities, available-for-sale, due to a security sold during 2016, which no longer met our investment policy criteria with no such similar realized losses in 2015.

Interest expense

There were no significant changes in interest expenses in 2016 as compared to 2015.

Provision for income taxes

The provision for income taxes was \$42.4 million for 2016 as compared to \$47.0 million in 2015, a decrease of \$4.6 million or 9.7%. The effective tax rate for 2016 was 39.6%, compared with 41.5% in 2015. The decrease in the effective tax rate was primarily due to the change in the Company's effective state tax rate on deferred taxes in 2015, which was minimal in 2016, lower net operating losses for our Canadian operations in 2016, which are subject to a full valuation allowance and other permanent items, primarily gains on company owned variable life insurance policies.

The provisions for income taxes excludes the difference in book and tax deductions associated with the settlement of shares under the Company's 2013 Plan and disqualifying dispositions of shares issued from our 2013 ESPP Plan. Such tax benefits, which aggregated \$2.7 million in 2016 and \$6.2 million in 2015, respectively, were recorded directly to additional paid-in capital.

Non-GAAP Financial Measure

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

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

	Years Ended December 31,				
	2017	2016	2015	2014	2013
Net income	\$ 51,524	\$ 64,657	\$ 66,350	\$ 49,531	\$ 8,206
Adjustments:					
Interest income and other ⁽¹⁾	(3,514)	(1,761)	(1,373)	(50)	356
Interest expense	1,496	1,533	1,726	1,651	105
Provision for income taxes ⁽²⁾	47,702	42,445	47,018	33,452	13,735

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Depreciation and amortization	5,363	4,387	3,305	3,206	3,043
Stock-based compensation ⁽³⁾	9,145	7,035	7,114	5,034	35,841
Adjusted EBITDA ⁽⁴⁾	\$ 111,716	\$ 118,296	\$ 124,140	\$ 92,824	\$ 61,286

- (1) Other for the years ended December 31, 2017, 2016 and 2015 includes net realized gains (losses) on marketable securities available-for-sale. The year ended December 31, 2013 includes employer taxes related to deferred stock units (DSUs) and restricted stock in connection with the IPO.
- (2) The year ended December 31, 2017, includes a one-time charge in the amount of \$11.6 million in connection with the remeasurement of deferred tax assets, net due to enactment of the Act, which reduced the U.S. federal statutory corporate tax rate from 35% to 21%. In addition, we adopted a new accounting pronouncement in 2017 that required any windfall tax benefits, net of shortfalls to be recorded as a discrete item in our provision for income taxes. These windfalls/shortfalls arise from the difference in the grant date price and the vesting date price of employee and non-employee directors vesting of equity awards granted under the Company's 2013 Plan. The Company recognized \$2.9 million in windfall tax benefits, net during the year ended December 31, 2017 as a reduction in the Company's provision for income taxes.
- (3) The year ended December 31, 2013 includes non-cash stock-based compensation charges of \$30.9 million in connection with the IPO.
- (4) The decrease in Adjusted EBITDA in 2017 compared to 2016 is primarily due to a higher proportion of operating expenses compared to revenues, partially offset by higher total revenues.

Liquidity and Capital Resources

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

Cash held in our Canadian operations aggregated \$421,000 and \$404,000 at December 31, 2017 and 2016, respectively.

Cash Flows

Our total cash and cash equivalents balance increased by \$33.4 million to \$220.8 million at December 31, 2017, compared to \$187.4 million at December 31, 2016. The following table sets forth our summary cash flows for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Net cash provided by operating activities	\$ 66,537	\$ 74,486	\$ 72,120
Net cash (used in) provided by investing activities	(27,338)	19,819	(126,929)
Net cash (used in) provided by financing activities	(5,784)	(3,119)	1,835
Net increase (decrease) in cash and cash equivalents	33,415	91,186	(52,974)
Cash and cash equivalents at beginning of period	187,371	96,185	149,159

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Cash and cash equivalents at end of period	\$ 220,786	\$ 187,371	\$ 96,185
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Operating Activities

2017 Compared to 2016. Cash flows provided by operating activities were \$66.5 million in 2017 compared to \$74.5 million in 2016. Net cash provided by operating activities is driven by our net income adjusted for

non-cash items and changes in operating assets and liabilities. The \$7.9 million decrease in cash flows provided by operating activities in 2017 compared to the same period in 2016 was primarily due to differences in timing of payments and receipts, an increase in advances to our investment sales and financing professionals, a reduction in the deferral of certain discretionary and other commissions and a higher proportion of operating expenses compared to revenues. Additionally, we made distributions of \$1.4 million of the SARs liability during 2017 with no such comparable payments during the same period in 2016. These decreases were offset by a change in bonus accruals.

2016 Compared to 2015. Cash flows provided by operating activities were \$74.5 million in 2016 compared to \$72.1 million in 2015. Net cash provided by operating activities is driven by our net income adjusted for non-cash items and changes in operating assets and liabilities. The \$2.4 million increase in cash flows provided by operating activities in 2016 compared to the same period in 2015 was primarily due to the net effect of the growth of our business, differences in timing of payments and receipts, a reduction in the deferral of certain discretionary commissions, lower bonuses and a reduction of advances to our investment sales and financing professionals.

Investing Activities

2017 Compared to 2016. Cash flows used in investing activities were \$27.3 million in 2017 compared to cash flows provided by investing activities of \$19.8 million in 2016. The change in cash flows used in investing activities in 2017 compared to the same period in 2016 was primarily due to \$20.3 million in net purchases of marketable securities, available-for-sale for the year ended December 31, 2017 compared to \$29.7 million in net proceeds from the sale of marketable securities, available-for-sale for the same period in 2016.

2016 Compared to 2015. Cash flows provided by investing activities were \$19.8 million in 2016 compared to cash flows used in investing activities of \$126.9 million in 2015. The change in cash flows provided by investing activities in 2016 compared to the same period in 2015 was primarily due to \$29.7 million in net proceeds from the sale of marketable securities, available-for-sale for the year ended December 31, 2016 compared to \$119.9 million in net purchases for the same period in 2015.

Financing Activities

2017 Compared to 2016. Cash flows used in financing activities were \$5.8 million in 2017 compared to \$3.1 million in 2016. The change in cash flows used in financing activities in 2017 compared to the same period in 2016 was primarily impacted by net changes in stock-based award activity and taxes paid related to net share settlement of stock-based awards. The net change in stock-based award activity in 2016 included excess tax benefits from stock-based award activity with no such comparable amounts in 2017 due to the adoption of new accounting rules. See Note 10 Stock-Based Compensation Plans our Notes to Consolidated Financial Statements for additional information.