Marcus & Millichap, Inc.
Form 10-Q
May 11, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from __________ to __________

Commission File Number: 001-36155

MARCUS & MILLICHAP, INC.

(Exact name of registrant as specified in its Charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**35-2478370** **(I.R.S. Employer** **Identification No.)**
23975 Park Sorrento, Suite 400 **Calabasas, California** **(Address of Principal Executive Offices)**	**91302** **(Zip Code)**

(818) 212-2250

(Registrant s telephone number, including area code)

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 x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Number of shares of common stock, par value $0.0001 per share, of the registrant issued outstanding as of May 5, 2015 was 37,072,361 shares.

MARCUS & MILLICHAP, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MARCUS & MILLICHAP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollar amounts in thousands, except per share amounts)

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 124,060	$ 149,159
Commissions receivable	4,591	3,412
Employee notes receivable	76	216
Prepaid expenses	4,187	7,536
Income tax receivable	446	1,711
Deferred tax assets, net	12,228	13,600
Other assets, net	3,501	2,839
Total current assets	149,089	178,473
Prepaid rent	3,713	3,645
Property and equipment, net	8,038	7,693
Employee notes receivable	142	162
Marketable securities, available for sale	25,331	14,752
Investments held in rabbi trust	5,631	4,332
Deferred tax assets, net	21,089	21,265
Other assets	4,296	3,282
Total assets	$ 217,329	$ 233,604
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 10,529	$ 9,488
Accounts payable and accrued expenses related party, net	273	97
Notes payable to former stockholders	894	894
Commissions payable	17,640	28,932
Accrued bonuses and other employee related expenses	8,543	27,793
Total current liabilities	37,879	67,204
Deferred compensation and commissions	34,048	36,581
Notes payable to former stockholders	10,610	10,610

Other liabilities	2,332	2,400
Total liabilities	84,869	116,795
Stockholders equity:		
Preferred stock, $0.0001 par value:		
Authorized shares 25,000,000; issued and outstanding shares none at March 31, 2015 and December 31, 2014		
Common Stock $0.0001 par value:		
Authorized shares 150,000,000; issued and outstanding shares 37,072,155 and 36,918,442 at March 31, 2015 and December 31, 2014, respectively	4	4
Additional paid-in capital	76,679	75,058
Stock notes receivable from employees	(4)	(4)
Retained earnings	55,261	41,592
Accumulated other comprehensive income	520	159
Total stockholders equity	132,460	116,809
Total liabilities and stockholders equity	$ 217,329	$ 233,604

See accompanying notes to condensed consolidated financial statements.

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MARCUS & MILLICHAP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF NET AND COMPREHENSIVE INCOME

(UNAUDITED)

(dollar and share amounts in thousands, except per share amounts)

	Three Months Ended March 31,	
	2015	**2014**
Revenues:		
Real estate brokerage commissions	$ 134,193	$ 104,748
Financing fees	8,031	6,100
Other revenues	4,317	3,742
Total revenues	146,541	114,590
Operating expenses:		
Cost of services	86,158	68,396
Selling, general, and administrative expense	35,829	33,357
Depreciation and amortization expense	780	775
Total operating expenses	122,767	102,528
Operating income	23,774	12,062
Other income (expense), net	125	(61)
Interest expense	(583)	(404)
Income before provision for income taxes	23,316	11,597
Provision for income taxes	9,647	4,815
Net income	13,669	6,782
Other comprehensive income:		
Unrealized gain on marketable securities, net of tax of $126 and $0 for the three months ended March 31, 2015 and 2014, respectively	188	
Foreign currency translation gain, net of tax of $117 and $30 for the three months ended March 31, 2015 and 2014, respectively	173	42
Total other comprehensive income	361	42
Comprehensive income	$ 14,030	$ 6,824
Earnings per share:		
Basic	$ 0.35	$ 0.17
Diluted	$ 0.35	$ 0.17

Weighted average common shares outstanding:		
Basic	39,029	38,847
Diluted	39,152	38,907

See accompanying notes to condensed consolidated financial statements.

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MARCUS & MILLICHAP, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(UNAUDITED)

(dollar amounts in thousands)

	Preferred Stock		Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Stock Notes Receivable From Employees	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance as of December 31, 2014		$	36,918,442	$ 4	$ 75,058	$ (4)	$ 41,592	$ 159	$ 116,809
Net and comprehensive income							13,669	361	14,030
Stock-based compensation					1,907				1,907
Issuance of common stock for vesting of restricted stock units			175,122						
Shares withheld related to net share settlement of restricted stock units			(21,409)		(716)				(716)
Tax benefit from stock-based award activity					430				430
Balance as of March 31, 2015		$	37,072,155	$ 4	$ 76,679	$ (4)	$ 55,261	$ 520	$ 132,460

See accompanying notes to condensed consolidated financial statements.

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MARCUS & MILLICHAP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Three Months Ended March 31,	
	2015	**2014**
Cash flows from operating activities		
Net income	$ 13,669	$ 6,782
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization expense	780	775
Provision for bad debt expense	21	11
Stock-based compensation	1,907	717
Deferred taxes, net	1,306	1,314
Net realized gains on marketable securities, available for sale	(74)	
Tax benefit from stock-based award activity	4,739	
Excess tax benefit from stock-based award activity	(4,739)	
Other non-cash items	280	79
Changes in operating assets and liabilities:		
Commissions receivable	(1,179)	942
Prepaid expenses	3,349	784
Prepaid rent	(68)	598
Investments held in rabbi trust	(1,244)	(12)
Other assets	(1,694)	(122)
Accounts payable and accrued expenses	850	1,071
Accounts payable and accrued expenses related party, net	176	(73)
Income tax receivable	(3,045)	(3,163)
Commissions payable	(11,292)	(13,728)
Accrued bonuses and other employee related expenses	(19,042)	(9,487)
Deferred compensation and commissions	(2,625)	(3,236)
Other liabilities	(68)	(328)
Net cash used in operating activities	(17,993)	(17,076)
Cash flows from investing activities		
Purchases of marketable securities, available for sale	(13,849)	
Proceeds from sale of marketable securities, available for sale	3,722	
Payments received on employee notes receivable		56
Issuances of employee notes receivable	(48)	(48)
Purchase of property and equipment	(954)	(575)
Net cash used in investing activities	(11,129)	(567)

Cash flows from financing activities		
Taxes paid related to net share settlement of stock-based awards	(716)	
Excess tax benefit from stock-based award activity	4,739	
Payments on obligations under capital leases		(11)
Net cash provided by (used in) financing activities	4,023	(11)
Net decrease in cash and cash equivalents	(25,099)	(17,654)
Cash and cash equivalents at beginning of period	149,159	100,952
Cash and cash equivalents at end of period	$ 124,060	$ 83,298

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MARCUS & MILLICHAP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(UNAUDITED)

(in thousands)

	Three Months Ended March 31, 2015	2014
Supplemental disclosures of cash flow information		
Interest paid during the period	$ 15	$ 1
Income taxes paid	$ 6,648	$ 6,694
Supplemental disclosures of noncash investing and financing activities		
Reduction of accrued bonuses and other employee related expenses in settlement of employee notes receivable	$ 208	$
Net change in accounts payable and accrued expenses related to property and equipment additions	$ 191	$ 198

See accompanying notes to condensed consolidated financial statements.

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MARCUS & MILLICHAP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Description of Business

Marcus & Millichap, Inc., (the Company , Marcus & Millichap , or MMI), a Delaware corporation, is a brokerage firm specializing in commercial real estate investment sales, financing, research and advisory services. As of March 31, 2015, MMI operates 78 offices in the United States and Canada through its wholly-owned subsidiary, Marcus & Millichap Real Estate Investment Services, Inc. (MMREIS), which includes the operations of Marcus & Millichap Capital Corporation (MMCC).

Reorganization and Initial Public Offering

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

Basis of Presentation

The financial information presented in the accompanying unaudited condensed consolidated financial statements, have been prepared in accordance with rules and regulations of the U.S. Securities and Exchange Commission (SEC) for quarterly reports on Form 10 Q and Article 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements and notes include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2014 included in the Company s Annual Report on Form 10-K filed on March 9, 2015 with the SEC. The results of the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2015, or for other interim periods or future years.

Consolidation

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

Use of Estimates

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

Reclassifications

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash and cash equivalents, commissions receivable, investments in marketable securities - available for sale, due from independent contractors (included under other assets, current caption), security deposits (included under other assets, non-current caption) and company owned variable life insurance policies underlying the investments held in rabbi trust. Cash is placed with high-credit quality financial institutions and invested in high-credit quality money market funds.

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MARCUS & MILLICHAP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To reduce its credit risk, the Company monitors the credit standing of the financial institutions that hold the Company s cash and cash equivalents and monitors marketable securities, available for sale for impairment. The Company historically has not experienced any losses related to cash and cash equivalents or marketable securities, available for sale. The Company derives its revenues from a broad range of real estate investors, owners, and users in the United States and Canada, none of which individually represents a significant concentration of credit risk. The Company maintains allowances, as needed, for estimated credit losses based on management s assessment of the likelihood of collection. For the three months ended March 31, 2015 and 2014, no transaction represented 10% or more of total revenues. Further, while one or more transactions may represent 10% or more of commissions receivable at any reporting date, amounts due are typically collected within 10 days of settlement and therefore do not expose the Company to significant concentration of credit risk.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes virtually all of the current revenue recognition guidance under U.S. GAAP, and requires entities to recognize revenue for transfer to customer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for those goods or services. ASU 2014-09 is effective for reporting periods beginning after December 15, 2016 and early adoption is not permitted. ASU 2014-09 permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. In April 2015, the FASB proposed to delay the effective date one year, beginning in fiscal year 2018. The proposal will be subject to the FASB s due process requirements, which includes a period for public comment. The Company is currently evaluating the impact of this new standard and will select a transition method when the effect is determined; however, the Company does not expect this standard to have a significant effect on the Company s revenue recognition.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern (ASU 2014-15). Currently, there is no guidance under U.S. GAAP regarding management s responsibility to assess whether there is substantial doubt about an entity s ability to continue as a going concern. Under ASU 2014-15, the Company will be required to assess its ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about the entity s ability to continue as a going concern, including management s plan to alleviate the substantial doubt. ASU 2014-15 is effective for reporting periods beginning after December 15, 2016 and early adoption is permitted. For the Company, the new standard will be effective January 1, 2017. The Company anticipates that this new standard will not have an impact on the Company s condensed consolidated financial position or results of operations.

2. Property and Equipment

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

	March 31, 2015	December 31, 2014
Computer software and hardware equipment	$ 8,669	$ 8,769
Furniture, fixtures, and equipment	14,808	14,684
Less: accumulated depreciation and amortization	(15,439)	(15,760)
	$ 8,038	$ 7,693

During the three months ended March 31, 2015, the Company wrote off approximately $1.1 million of fully depreciated computer software and hardware and furniture fixtures, and equipment no longer in use.

Depreciation and amortization expense on property and equipment was $780,000 and $775,000 for the three months ended March 31, 2015 and 2014, respectively.

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MARCUS & MILLICHAP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2014, the Company did not have any remaining capital lease obligations.

Payments for certain improvements to the Company s leased office space are recorded as prepaid rent. Amortization of prepaid rent is recorded using the straight-line method over the shorter of the estimated economic life or lease term as a charge to rent expense.

3. Selected Balance Sheet Data

Other Assets

Other assets consisted of the following (in thousands):

	Current		Non-Current	
	March 31, 2015	**December 31, 2014**	**March 31, 2015**	**December 31, 2014**
Due from independent contractors, net [(1)] [(2)]	$ 1,423	$ 1,577	$ 2,926	$ 1,820
Security deposits			1,275	1,240
Customer trust accounts and other	2,078	1,262	95	222
	$ 3,501	$ 2,839	$ 4,296	$ 3,282

(1) Includes allowance for doubtful accounts related to current of $208,000 as of March 31, 2015 and $193,000 as of December 31, 2014, respectively. The Company recorded a provision for bad debt expense of $21,000 and $11,000 and wrote off $6,000 and $41,000 of these receivables for the three months ended March 31, 2015 and, 2014, respectively.

(2) Represents amounts advanced, notes receivable and other receivables due from the Company s sales and financing professionals. The notes receivable along with interest, are typically collected from future commissions and are generally due in one to five years. Any cash receipts on notes are applied first to unpaid principal balance prior to any income being recognized.

Deferred Compensation and Commissions

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

	March 31, 2015	**December 31, 2014**
SARs liability	$ 20,756	$ 20,542

Commissions payable to sales and financing professionals	8,083	12,176
Deferred compensation liability	5,209	3,863
	$ 34,048	$ 36,581

SARs Liability

Prior to the IPO, certain employees of the Company were granted stock appreciation rights (SARs) under a stock-based compensation program assumed by MMC. In connection with the IPO, the SARs agreements were revised, and the MMC liability of $20.0 million for the SARs was frozen at March 31, 2013, and was transferred to MMI through a capital distribution. The SARs liability will be settled with each participant in installments upon retirement or departure. Under the revised agreements, MMI is required to accrue interest on the outstanding balance beginning on January 1, 2014 at a rate based on the 10-year treasury note plus 2%. The rate resets annually. The rate at January 1, 2015 and 2014 was 4.173% and 5.03%, respectively, and MMI recorded interest expense related to this liability of $214,000 and $251,000 for the three months ended March 31, 2015 and 2014, respectively. During the year ended December 31, 2014, the Company reduced the SARs liability balance in the amount of $412,000 related to a distribution for the settlement of FICA taxes payable on behalf of certain participants.

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MARCUS & MILLICHAP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Commissions Payable

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

Deferred Compensation Liability

A select group of management is eligible to participate in a Deferred Compensation Plan. The plan is a 409A plan and permits the participant to defer compensation up to limits as determined by the plan. The Company elected to fund the Deferred Compensation Plan through company owned variable life insurance policies. The Deferred Compensation Plan is managed by a third-party institutional fund manager, and the deferred compensation and investment earnings are held as a Company asset in a rabbi trust, which is recorded in investments held in rabbi trust in the accompanying condensed consolidated balance sheets. The assets in the trust are restricted unless the Company becomes insolvent, as defined in the Deferred Compensation Plan, in which case the trust assets are subject to the claims of MMI s creditors. The Company may also, in its sole and absolute discretion, elect to withdraw at any time all or a portion of the trust assets by an amount by which the fair market value of the trust assets exceeds 110% of the aggregate amount in the Deferred Compensation Plan s participants accounts.

The net change in the carrying value of the investments held in the rabbi trust is recorded in other income (expense), net in the condensed consolidated statements of net and comprehensive income and was $115,000 and $71,000 during the three months ended March 31, 2015 and 2014, respectively. The net change in the carrying value of the deferred compensation obligation (exclusive of additional contributions and distributions) is recorded in selling, general, and administrative expense in the condensed consolidated statements of net and comprehensive income and was $154,000 and $77,000 during the three months ended March 31, 2015 and 2014, respectively.

4. Investments in Marketable Securities

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

	March 31, 2015				December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Type of security long-term:								
U.S. government and agency debt securities	$ 7,037	$ 63	$ (7)	$ 7,093	$ 4,993	$ 7	$ (3)	$ 4,997

Corporate debt securities	13,940	252	(5)	14,187	7,442	48	(12)	7,478
Asset-backed securities	3,999	52		4,051	2,277	4	(4)	2,277
	$ 24,976	$ 367	$ (12)	$ 25,331	$ 14,712	$ 59	$ (19)	$ 14,752

As of March 31, 2015, the amortized cost and fair value of the Company s investment in available-for-sale securities that have been in a continuous unrealized loss position for less than 12 months were $727,000 and $715,000, respectively. As of December 31, 2014, the amortized cost and fair value of the Company s investment in available-for-sale securities that have been in a continuous unrealized loss position for less than 12 months were $5.4 million. Unrealized losses related to these investments are due to interest rate fluctuations as opposed to changes in credit quality. In addition, the Company does not intend to sell and it is not more-likely-than-not that the Company would be required to sell these investments before recovery of their amortized cost basis, which may be at maturity. As of March 31, 2015 and December 31, 2014, the Company did not have any investments in a continuous unrealized loss position for 12 months or longer.

For the three months ended March 31, 2015, gross realized gains and gross realized losses from the sales of the Company s available-for-sale securities were $77,000 and $3,000, respectively and were recorded in other income (expense), net in the condensed consolidated statements of net and comprehensive income.

MARCUS & MILLICHAP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company regularly reviews its investment portfolio to determine if any security is other-than-temporarily impaired, which would require the Company to record an impairment charge in the period any such determination is made. In making this judgment, the Company evaluates, among other items, the duration and extent to which the fair market value of a security is less than its amortized cost and the Company s intent and ability to sell, or whether the Company will more likely than not be required to sell, the security before recovery of its amortized cost basis. The Company has evaluated its investments in marketable securities as of March 31, 2015 and has determined that no investments with unrealized losses are other-than-temporarily impaired.

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

	March 31, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$	$	$	$
Due after one year through five years	9,797	9,877	4,679	4,679
Due after five years through ten years	11,771	11,961	5,652	5,662
Due after ten years	3,408	3,493	4,381	4,411
	$ 24,976	$ 25,331	$ 14,712	$ 14,752
Weighted average maturity date	8.9 years		9.6 years	

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

5. Notes Payable to Former Stockholders

In conjunction with the Spin-Off and IPO, notes payable to certain former stockholders of MMREIS that were issued in settlement of restricted stock and SARs awards that were redeemed by MMREIS upon the termination of employment by these former stockholders (the Notes), which had been previously assumed by MMC, were transferred to the Company. The Notes are unsecured and bear interest at 5% with annual principal and interest installments and a final principal payment in April 14, 2020 and June 30, 2020. Accrued interest pertaining to the Notes was $540,000 and $396,000 as of March 31, 2015 and December 31, 2014, respectively and was recorded in accounts payable and accrued expenses caption in the accompanying condensed consolidated balance sheets. During the three months ended March 31, 2015 and 2014, interest expense in the amount of $144,000 and $152,000, respectively was recorded in interest expense in the accompanying condensed consolidated statements of net and comprehensive income.

6. Related-Party Transactions

Shared and Transition Services

Prior to October 2013, the Company operated under a shared services arrangement with MMC where by the Company was charged for actual costs specifically incurred on behalf of the Company or allocated to the Company on a pro rata basis. These costs included reimbursement for health insurance premiums, shared services and other general and administrative costs. Beginning in October 2013, certain services are provided to the Company under a Transition Services Agreement (TSA) between MMC and the Company, which replaced the pre-IPO shared services arrangement. The TSA is intended to provide certain services until the Company can acquire the services separately. During the three months ended March 31, 2015 and 2014, the Company incurred $50,000 and $1.1 million under the TSA of which $0 and $1.0 million was incurred for reimbursement of health insurance premiums. These amounts are included in selling, general and administrative expense in the accompanying condensed consolidated statements of net and comprehensive income. In April 2014, the Company established its own health insurance plan significantly reducing the reliance on the TSA. As of March 31, 2015 and December 31, 2014, $273,000 and $97,000, respectively, remains unpaid and included in accounts payable and other accrued expenses related party, net in the accompanying condensed consolidated balance sheets.

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MARCUS & MILLICHAP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Brokerage and Financing Services with the Subsidiaries of MMC

MMC has wholly or majority owned subsidiaries that buy and sell commercial real estate properties. The Company performs certain brokerage and financing services related to transactions of the subsidiaries of MMC. For the three months ended March 31, 2015 and 2014, the Company recorded real estate brokerage commissions and financing fees of $1.0 million and $60,000, respectively, from subsidiaries of MMC related to these services. The Company incurred cost of services of $627,000 and $36,000, respectively, related to these revenues.

Operating Lease with MMC

The Company has an operating lease with MMC for an office located in Palo Alto, California. The lease expires May 31, 2022. Rent expense for this lease totaled $109,500 for each of the three month periods ended March 31, 2015 and 2014, which is included in selling, general and administrative expense in the accompanying condensed consolidated statements of net and comprehensive income.

Other

The Company makes advances to non-executive employees from time-to-time. At March 31, 2015 and December 31, 2014, the aggregate principal amount for employee loans outstanding was $218,000 and $378,000, respectively, which is included in employee notes receivable in the accompanying condensed consolidated balance sheets.

As of March 31, 2015, Mr. Marcus, the Company s founder and Co-Chairman, beneficially owns indirectly approximately 53.3% (includes shares owned by Phoenix Investments Holdings, LLC (Phoenix) and the George and Judy Marcus Family Foundation) of the Company s fully diluted shares, including shares to be issued upon settlement of vested deferred stock units, or DSUs.

On February 6, 2015, the Company filed a shelf Registration Statement on Form S-3, registering for future sale 4,600,000 shares of common stock beneficially owned by Mr. Marcus. No new shares were offered, and the Company did not receive any proceeds from the sale of common stock by the selling stockholders. On March 13, 2015, the Company filed a Prospectus Supplement offering for sale by certain selling stockholders 4,000,000 shares of common stock including an option to sell up to an additional 600,000 shares pursuant to an option granted to the underwriters. On March 18, 2015, 4,000,000 shares were sold at a price per share of $31.9925 and the underwriters exercised their option to purchase an additional 600,000 shares at a price per share of $31.9925. In connection with the Registration Statement and Prospectus Supplement, for the three months ended March 31, 2015, the Company incurred approximately $113,000 of costs. Such costs will be reimbursed by Phoenix during the second quarter of 2015 and are recorded as a reduction in accounts payable and other accrued expenses related party, net in the accompanying condensed consolidated balance sheets.

7. Fair Value Measurements

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

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

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

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

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

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

Recurring Fair Value Measurements

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

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

	March 31, 2015				December 31, 2014			
	Fair Value	**Level 1**	**Level 2**	**Level 3**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Investments held in rabbi trust	$ 5,631	$	$ 5,631	$	$ 4,332	$	$ 4,332	$
Money market funds [1]	$ 85,248	$ 85,248			$ 25,310	$ 25,310		
Marketable securities, available for sale:								
Long-term investments:								
U.S. government and agency debt securities	$ 7,093	$ 5,068	$ 2,025	$	$ 4,997	$ 2,980	$ 2,017	$
Corporate debt securities	14,187		14,187		7,478		7,478	
Asset-backed securities	4,051		4,051		2,277		2,277	
	$ 25,331	$ 5,068	$ 20,263	$	$ 14,752	$ 2,980	$ 11,772	$

[1] Included in cash and cash equivalents.

There were no transfers in or out of Level 1 and Level 2 during the three months ended March 31, 2015 and 2014.

Non-Recurring Fair Value Measurements

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

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

8. Stockholders Equity

Common Stock

As of March 31, 2015 and December 31, 2014, there were 37,072,155 and 36,918,442 shares of common stock, $0.0001 par value, issued and outstanding, including 42,882 and 42,882 of unvested restricted stock awards issued to non-employee directors, respectively.

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

Preferred Stock

The Company has 25,000,000 authorized shares of preferred stock with a par value $0.0001 per share. At March 31, 2015 and December 31, 2014, there were no preferred shares issued or outstanding.

Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income as of March 31, 2015, by component, net of income taxes consisted of the following (in thousands):

	Unrealized gains and losses of available-for-sale securities [(1)]	Foreign currency translation [(1)]	Total
Beginning balance, December 31, 2014	$ 24	$ 135	$ 159
Other comprehensive income before reclassifications	193	173	366
Amounts reclassified from accumulated other comprehensive loss [(2)]	(5)		(5)
Net current-period other comprehensive income	188	173	361
Ending balance, March 31, 2015	$ 212	$ 308	$ 520

(1) Amounts in parentheses indicate debits.

(2) Amount represents gain on the sale of marketable securities, available for sale and is included as a component of other income (expense), net in the condensed consolidated statements of net and comprehensive income.

9. Stock-Based Compensation Plans

2013 Omnibus Equity Incentive Plan

In October 2013, the board of directors adopted the 2013 Omnibus Equity Incentive Plan (2013 Plan), which became effective upon the Company s IPO. The 2013 Plan, in general, authorizes the granting of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards (RSAs), restricted stock units (RSUs), performance units and performance shares to the Company and subsidiary corporations employees, independent contractors, directors and consultants. Grants are made from time to time at the discretion of the Company s board of directors.

The following limits apply to any awards granted under the 2013 Plan:

Options and stock appreciation rights no employee or independent contractor can be granted, within any fiscal year, one or more options or stock appreciation rights, which in the aggregate cover more than 500,000 shares; provided, however, that in connection with an employee or independent contractor s initial service as an employee or independent contractor, an employee or independent contractor s aggregate limit may be increased by 1,000,000 shares;

Restricted stock and restricted stock units no employee or independent contractor can be granted, within any fiscal year one or more awards of restricted stock or restricted stock units, which in the aggregate cover more than 500,000 shares; provided, however, that in connection with an employee or independent contractor s initial service as an employee or independent contractor, an employee or independent contractor s aggregate limit may be increased by 1,000,000 shares; and

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Performance units and performance shares no employee or independent contractor can receive performance units or performance shares having a grant date value (assuming maximum payout) greater than $2 million dollars or covering more than 500,000 shares, whichever is greater; provided, however, that in connection with an employee or independent contractor s initial service as an employee or independent contractor, an employee or independent contractor may receive performance units or performance shares having a grant date value (assuming maximum payout) of up to an additional amount equal to $5 million dollars or covering up to 1,000,000 shares, whichever is greater. An individual may only have one award of performance units or performance shares for a performance period.

Upon adoption of the 2013 Plan, 5,500,000 shares of common stock were reserved for the issuance of awards under the 2013 Plan. The number of shares available for issuance under the 2013 Plan increases annually on the first day of each year beginning with the 2015 fiscal year, by an amount equal to the lesser of: (i) 5,500,000 shares of the Company s common stock; (ii) 3% of the outstanding shares of the Company s common stock as of the last day of the immediately preceding fiscal year; and (iii) such other amount as the Company s board of directors may determine. Pursuant to the automatic increase provided for in the 2013 Plan, the board of directors approved a share reserve increase of 1,100,000 shares in 2015. At March 31, 2015, there were 3,297,829 shares available for future grants under the Plan.

Awards Granted and Vested

Under the 2013 Plan, the Company has issued RSA s to non-employee directors and RSU s to employees and non-employee sales and financing professionals. All RSAs vest in equal annual installments over a three year period from the date of grant. All RSUs vest in equal annual installments over a five year period from the date of grant. Any unvested awards are canceled upon termination of service. As of March 31, 2015, there were no issued or outstanding options, stock appreciation rights, performance units or performance shares awards.

During the three months ended March 31, 2015, 175,122 shares of RSUs vested, and 21,409 shares of common stock were withheld to pay applicable required employee statutory withholding taxes based on the market value of the shares on the vesting date. The amount remitted to the tax authorities for the employees tax obligation was reflected in the taxes paid related to net share settlement of stock-based awards caption in the financing section of the condensed consolidated statements of cash flows. The shares withheld for taxes were returned to the share reserve and are available for future issuance in accordance with provisions of the 2013 Plan.

During the three months ended March 31, 2015, the Company realized $4.7 million of windfall tax benefits from stock-based award activity, which is included in cash flows from financing activities in the accompanying condensed consolidated statement of cash flows. These windfall tax benefits resulted from the settlement of stock-based award activity, which is excluded from the provision for income taxes, and was recorded in additional paid-in capital in the amounts of $430,000 and $4.3 million during the three months ended March 31, 2015 and December 31, 2014, respectfully.

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Outstanding Awards

The following table summarizes the Company s activity under the 2013 Plan for the three months ended March 31, 2015 (dollars in thousands, except per share data):

	RSA Grants to Non-employee Directors	RSU Grants to Employees	RSU Grants to Independent Contractors	Total	Weighted-Average Grant Date Fair Value Per Share
Nonvested shares at December 31, 2014	42,882	516,437	647,690	1,207,009	$ 18.23
Granted					
February 2015		*15,847*	*9,720*	*25,567*	*38.58*
Total Granted		15,847	9,720	25,567	38.58
Vested		(53,972)	(121,150)	(175,122)	14.59
Transferred		(6,877)	6,877		14.54
Forfeited/canceled		(3,422)	(5,502)	(8,924)	20.71
Nonvested shares at March 31, 2015 (1)	42,882	468,013	537,635	1,048,530	$ 19.32
Unrecognized stock-based compensation expense as of March 31, 2015 (2)	$ 444	$ 9,988	$ 17,789	$ 28,221	
Weighted average remaining vesting period (years) as of March 31, 2015	1.87	4.29	3.83	3.95	

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

(2) The total unrecognized compensation expense is expected to be recognized over a weighted-average period of approximately 3.95 years.

In November 2013, MMI issued the following deferred stock units (DSUs) under the 2013 Plan: (i) DSUs for an aggregate of 2,192,413 shares granted as replacement awards related to the prior SARs program to the MMREIS managing directors and (ii) DSUs for 83,334 shares granted to the Company s Co-chairman of the board of directors (Mr. Millichap). The DSU s are fully vested and shares will be issued 20% per year. As of March 31, 2015, fully vested DSUs for 1,820,596 shares remained outstanding. See Amendments to Restricted Stock and SARs section below and Note 11 Earnings Per Share for additional information.

Employee Stock Purchase Plan

In 2013, the Company adopted the 2013 Employee Stock Purchase Plan (2013 ESPP Plan). The ESPP Plan qualifies under Section 423 of the IRS Code and provides for consecutive, nonoverlapping 6-month offering periods. The offering periods generally start on the first trading day on or after May 15 and November 15 of each year. The first offering period began on May 15, 2014. Qualifying employees may purchase shares of the Company stock at a 10% discount based on the lower of the market price at the beginning or end of the offering period, subject to IRS limitations.

The Company determined that the 2013 ESPP Plan was a compensatory plan and is required to expense the fair value of the awards over each 6-month offering period. The Company determines the fair value of ESPP shares to be acquired during each offering period using the Black Scholes option pricing model. The Company calculates the expected volatility based on the historical volatility of the Company s common stock and the risk-free interest rate based on the U.S. Treasury yield curve in effect at the time of grant both consistent with the term of