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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

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

The number of shares of the registrant's Class A common stock, par value \$0.01 per share, outstanding as of November 9, 2018 was 5,693,814. The number of shares of the registrant's Class B common stock, par value \$0.01 per share, outstanding as of November 9, 2018 was 100.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Form 10-Q") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that reflect our current views with respect to, among other things, our operations and financial performance. Forward-looking statements include all statements that are not historical facts. In some cases, you can identify these forward-looking statements by the use of words such as "outlook," "believes," "expects," "potential," "may," "should," "could," "seeks," "approximately," "predicts," "intends," "plans," "estimates," "anticipates," or negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include, but are not limited to, those described under Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, available on the SEC's website at www.sec.gov, which include, but are not limited to, the following:

- difficult market and political conditions may adversely affect our business in many ways, including by reducing the value or hampering the performance of the investments made by our funds, each of which could materially and adversely affect our business, results of operations and financial condition;
- we derive a substantial portion of our revenues from funds managed pursuant to advisory agreements that may be terminated or fund partnership agreements that permit fund investors to remove us as the general partner;
- we may not be able to maintain our current fee structure as a result of industry pressure from fund investors to reduce fees, which could have an adverse effect on our profit margins and results of operations;
- a change of control of us could result in termination of our investment advisory agreements;
- the historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in Medley Management Inc.'s Class A common stock ("Class A common stock");
- if we are unable to consummate or successfully integrate development opportunities, acquisitions or joint ventures, we may not be able to implement our growth strategy successfully;
- we depend on third-party distribution sources to market our investment strategies;
- an investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies;
- our funds' investments in investee companies may be risky, and our funds could lose all or part of their investments;
- prepayments of debt investments by our investee companies could adversely impact our results of operations;
- our funds' investee companies may incur debt that ranks equally with, or senior to, our funds' investments in such companies;
- subordinated liens on collateral securing loans that our funds make to their investee companies may be subject to control by senior creditors with first priority liens and, if there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and our funds;
- there may be circumstances where our funds' debt investments could be subordinated to claims of other creditors or our funds could be subject to lender liability claims;
- our funds may not have the resources or ability to make additional investments in our investee companies;
- economic recessions or downturns could impair our investee companies and harm our operating results;
- a covenant breach by our investee companies may harm our operating results;
- the investment management business is competitive;
- our funds operate in a competitive market for lending that has recently intensified, and competition may limit our funds' ability to originate or acquire desirable loans and investments and could also affect the yields of these assets and have a material adverse effect on our business, results of operations and financial condition;
- dependence on leverage by certain of our funds and by our funds' investee companies subjects us to volatility and contractions in the debt financing markets and could adversely affect our ability to achieve attractive rates of return on those investments;

some of our funds may invest in companies that are highly leveraged, which may increase the risk of loss associated with those investments;

we generally do not control the business operations of our investee companies and, due to the illiquid nature of our investments, may not be able to dispose of such investments;

a substantial portion of our investments may be recorded at fair value as determined in good faith by or under the direction of our respective funds' boards of directors or similar bodies and, as a result, there may be uncertainty regarding the value of our funds' investments;

we may need to pay "clawback" obligations if and when they are triggered under the governing agreements with respect to certain of our funds and SMAs;

our funds may face risks relating to undiversified investments;

third-party investors in our private funds may not satisfy their contractual obligation to fund capital calls when requested, which could adversely affect a fund's operations and performance;

our funds may be forced to dispose of investments at a disadvantageous time;

hedging strategies may adversely affect the returns on our funds' investments;

- our business depends in large part on our ability to raise capital from investors. If we were unable to raise such capital, we would be unable to collect management fees or deploy such capital into investments, which would materially and adversely affect our business, results of operations and financial condition;

we depend on our senior management team, senior investment professionals and other key personnel, and our ability to retain them and attract additional qualified personnel is critical to our success and our growth prospects;

our failure to appropriately address conflicts of interest could damage our reputation and adversely affect our business;

potential conflicts of interest may arise between our Class A common stockholders and our fund investors;

rapid growth of our business may be difficult to sustain and may place significant demands on our administrative, operational and financial resources;

we may enter into new lines of business and expand into new investment strategies, geographic markets and business, each of which may result in additional risks and uncertainties in our business;

extensive regulation affects our activities, increases the cost of doing business and creates the potential for significant liabilities and penalties that could adversely affect our business and results of operations;

failure to comply with "pay to play" regulations implemented by the SEC and certain states, and changes to the "pay to play" regulatory regimes, could adversely affect our business;

new or changed laws or regulations governing our funds' operations and changes in the interpretation thereof could adversely affect our business;

present and future business development companies for which we serve as investment adviser are subject to regulatory complexities that limit the way in which they do business and may subject them to a higher level of regulatory scrutiny;

we are subject to risks in using custodians, counterparties, administrators and other agents;

a portion of our revenue and cash flow is variable, which may impact our ability to achieve steady earnings growth on a quarterly basis and may cause the price of our Class A common stock to decline;

we may be subject to litigation risks and may face liabilities and damage to our professional reputation as a result; employee misconduct could harm us by impairing our ability to attract and retain investors and subjecting us to significant legal liability, regulatory scrutiny and reputational harm, and fraud and other deceptive practices or other misconduct at our investee companies could similarly subject us to liability and reputational damage and also harm our business;

our substantial indebtedness could adversely affect our financial condition, our ability to pay our debts or raise additional capital to fund our operations, our ability to operate our business and our ability to react to changes in the economy or our industry and could divert our cash flow from operations for debt payments;

our Revolving Credit Facility imposes significant operating and financial restrictions on us and our subsidiaries, which may prevent us from capitalizing on business opportunities;

servicing our indebtedness will require a significant amount of cash. Our ability to generate sufficient cash depends on many factors, some of which are not within our control;

despite our current level of indebtedness, we may be able to incur substantially more debt and enter into other transactions, which could further exacerbate the risks to our financial condition;

operational risks may disrupt our business, result in losses or limit our growth;

Medley Management Inc.'s only material asset is its interest in Medley LLC, and it is accordingly dependent upon distributions from Medley LLC to pay taxes, make payments under the tax receivable agreement or pay dividends;

Medley Management Inc. is controlled by our pre-IPO owners, whose interests may differ from those of our public stockholders;

Medley Management Inc. will be required to pay exchanging holders of LLC Units for most of the benefits relating to any additional tax depreciation or amortization deductions that we may claim as a result of the tax basis step-up we receive in connection with sales or exchanges of LLC Units and related transactions;

in certain cases, payments under the tax receivable agreement may be accelerated and/or significantly exceed the actual benefits Medley Management Inc. realizes in respect of the tax attributes subject to the tax receivable agreement;

anti-takeover provisions in our organizational documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable;

the actual costs related to consolidating our business activities to our New York office may be greater than we currently anticipate and we may incur additional costs that are not currently included in our estimate; and

our ability to realize anticipated cost savings and efficiencies from consolidating our business activities to our New York office.

On August 9, 2018 the Company entered into a definitive agreement to merge with Sierra Income Corporation ("Sierra" or "SIC"). Pursuant to the Agreement and Plan of Merger by and among the Company, Sierra and Sierra Management Inc., a newly formed Delaware corporation ("Merger Sub"), the Company will merge with and into Merger Sub, and the Company's existing asset management business will continue to operate as a wholly owned subsidiary of Sierra.

As a condition to closing, Sierra's common stock will be listed to trade on the New York Stock Exchange. The mergers are cross conditioned upon each other and are subject to approval by the shareholders of the Company, MCC and Sierra, regulators, including the SEC, other customary closing conditions and third party consents. Accordingly, the Company can provide no assurance that the mergers will be completed, that the mergers will not be delayed or that the terms of the mergers will not change.

Because forward-looking statements, such as the date that the parties expect the proposed transactions to be completed and the expectation that the proposed transactions will provide improved liquidity for Sierra, MCC, and Medley stockholders and will be accretive to net investment income for both Sierra and MCC, include risks and uncertainties, actual results may differ materially from those expressed or implied and include, but are not limited to, those discussed in each of Sierra's, MCC's and Medley's filings with the SEC, and (i) the satisfaction or waiver of closing conditions relating to the proposed transactions described herein, including, but not limited to, the requisite approvals of the stockholders of each of Sierra, MCC, and Medley; Sierra successfully taking all actions reasonably required with respect to certain outstanding indebtedness of MCC and Medley to prevent any material adverse effect relating thereto; certain required approvals of the SEC and the Small Business Administration, the necessary consents of certain third-party advisory clients of Medley; and any applicable waiting period (and any extension thereof) applicable to the transactions under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, shall have expired or been terminated, (ii) the parties' ability to successfully consummate the proposed transactions, and the timing thereof, and (iii) the possibility that competing offers or acquisition proposals related to the proposed transactions will be made and, if made, could be successful. Additional risks and uncertainties specific to Sierra, MCC and Medley include, but are not limited to, (i) the costs and expenses that Sierra, MCC and Medley have, and may incur, in connection with the proposed transactions (whether or not they are consummated), (ii) the impact that any litigation relating to the proposed transactions may have on any of Sierra, MCC and Medley, (iii) that projections with

respect to dividends may prove to be incorrect, (iv) Sierra's ability to invest its portfolio of cash in a timely manner following the closing of the proposed transactions, (v) the market performance of the combined portfolio, (vi) the ability of portfolio companies to pay interest and principal in the future; (vii) the ability of Medley to grow its fee earning assets under management; (viii) whether Sierra, as the surviving company, will trade with more volume and perform better than MCC and Medley prior to the proposed transactions; and (ix)

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negative effects of entering into the proposed transactions on the trading volume and market price of the MCC's or Medley's common stock.

These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this Form 10-Q, the risk factors and other cautionary statements in our Annual Report on Form 10-K for the year ended December 31, 2017 and other reports we file with the Securities and Exchange Commission. Forward-looking statements speak as of the date on which they are made, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

Unless the context suggests otherwise, references herein to the "Company," "Medley," "we," "us" and "our" refer to Medley Management Inc., Medley LLC, and their consolidated subsidiaries.

The "pre-IPO owners" refers to the senior professionals who were the owners of Medley LLC immediately prior to the Offering Transactions. The "Offering Transactions" refer to Medley Management Inc.'s purchase upon the consummation of its IPO of 6,000,000 newly issued limited liability company units (the "LLC Units") from Medley LLC, which correspondingly diluted the ownership interests of the pre-IPO owners in Medley LLC and resulted in Medley Management Inc.'s holding a number of LLC Units in Medley LLC equal to the number of shares of Class A common stock it issued in its IPO.

Unless the context suggests otherwise, references herein to:

• "Aspect" refers to Aspect-Medley Investment Platform A LP;

• "Aspect B" refers to Aspect-Medley Investment Platform B LP;

• "AUM" refers to the assets of our funds, which represents the sum of the NAV of such funds, the drawn and undrawn debt (at the fund level, including amounts subject to restrictions) and uncalled committed capital (including commitments to funds that have yet to commence their investment periods);

• "base management fees" refers to fees we earn for advisory services provided to our funds, which are generally based on a defined percentage of fee earning AUM or, in certain cases, a percentage of originated assets in the case of certain of our SMAs;

• "BDC" refers to business development company;

• "Caddo" refers to Caddo Investors Holdings 1 LLC;

• "Consolidated Funds" refers to, with respect to periods after December 31, 2013 and before January 1, 2015, MOF II, with respect to periods prior to January 1, 2014, MOF I LP, MOF II and MOF III, subsequent to its formation; and, with respect to periods after May 31, 2017, Sierra Total Return Fund, subsequent to its formation.

• "fee earning AUM" refers to the assets under management on which we directly earn base management fees;

• "hurdle rates" refers to the rates above which we earn performance fees, as defined in the long-dated private funds' and SMAs' applicable investment management or partnership agreements;

• "investee company" refers to a company to which one of our funds lends money or in which one of our funds otherwise makes an investment;

• "long-dated private funds" refers to MOF II, MOF III, MOF III Offshore, MCOF, Aspect, Aspect B and any other private funds we may manage in the future;

• "management fees" refers to base management fees and Part I incentive fees;

• "MCOF" refers to Medley Credit Opportunity Fund LP;

• "Medley LLC" refers to Medley LLC and its consolidated subsidiaries;

• "MOF II" refers to Medley Opportunity Fund II LP;

• "MOF III" refers to Medley Opportunity Fund III LP;

• "MOF III Offshore" refers to Medley Opportunity Fund Offshore III LP;

• "our funds" refers to the funds, alternative asset companies and other entities and accounts that are managed or co-managed by us and our affiliates;

• "our investors" refers to the investors in our permanent capital vehicles, our private funds and our SMAs;

“Part I incentive fees” refers to fees that we receive from our permanent capital vehicles, and in 2017, MCOF and Aspect, which are paid in cash quarterly and are driven primarily by net interest income on senior secured loans subject to hurdle rates. As it relates to Medley Capital Corporation (NYSE: MCC) (TASE:MCC) (“MCC”), these fees are subject to netting against realized and unrealized losses;

•“Part II incentive fees” refers to fees related to realized capital gains in our permanent capital vehicles;

•“performance fees” refers to incentive allocations in our long-dated private funds and incentive fees from our SMAs, which are typically 15% to 20% of the total return after a hurdle rate, accrued quarterly, but paid after the return of all invested capital and in an amount sufficient to achieve the hurdle rate;

•“permanent capital” refers to capital of funds that do not have redemption provisions or a requirement to return capital to investors upon exiting the investments made with such capital, except as required by applicable law, which funds currently consist of MCC, Sierra Total Return Fund (“STRF”) and Sierra Income Corporation (“SIC” or “Sierra”). Such funds may be required, or elect, to return all or a portion of capital gains and investment income. In certain circumstances, the investment adviser of such a fund may be removed;

•“SMA” refers to a separately managed account;

•“standalone” refers to our financial results without the consolidation of any fund(s); and

•“Tac Ops” refers to Medley Tactical Opportunities LLC

PART I.

Item 1. Financial Statements (Unaudited)

Medley Management Inc.

Condensed Consolidated Balance Sheets (unaudited)

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

	As of	
	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$21,515	\$36,327
Investments, at fair value	46,285	56,632
Management fees receivable	10,884	14,714
Performance fees receivable	—	2,987
Other assets	15,421	17,262
Total Assets	\$94,105	\$127,922
Liabilities, Redeemable Non-controlling Interests and Equity		
Liabilities		
Senior unsecured debt, net	\$117,428	\$116,892
Loans payable, net	9,726	9,233
Accounts payable, accrued expenses and other liabilities	37,068	25,130
Total Liabilities	164,222	151,255
Commitments and Contingencies (Note 10)		
Redeemable Non-controlling Interests	32,226	53,741
Equity		
Class A common stock, \$0.01 par value, 3,000,000,000 shares authorized; 6,448,078 and 6,235,332 issued as of September 30, 2018 and December 31, 2017, respectively; 5,693,814 and 5,481,068 outstanding as of September 30, 2018 and December 31, 2017, respectively	57	55
Class B common stock, \$0.01 par value, 1,000,000 shares authorized; 100 shares issued and outstanding	—	—
Additional paid in capital	6,260	2,820
Accumulated other comprehensive loss	—	(1,301)
Accumulated deficit	(17,591)	(9,545)
Total stockholders' deficit, Medley Management Inc.	(11,274)	(7,971)
Non-controlling interests in consolidated subsidiaries	(1,638)	(1,702)
Non-controlling interests in Medley LLC	(89,431)	(67,401)
Total deficit	(102,343)	(77,074)
Total Liabilities, Redeemable Non-controlling Interests and Equity	\$94,105	\$127,922

See accompanying notes to condensed consolidated financial statements

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Medley Management Inc.

Condensed Consolidated Statements of Operations (unaudited)

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

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018		2017	
Revenues						
Management fees (includes Part I incentive fees of \$447, \$1,393, \$447 and \$1,937, respectively)	\$ 12,336	\$ 14,838	\$ 36,386	\$ 41,934		
Performance fees	—	(167)	—	(1,984)		
Other revenues and fees	2,769	2,016	8,136	7,004		
Investment income (loss):						
Carried interest	(326)	(34)	271	139		
Other investment loss	(382)	(91)	(849)	(101)		
Total Revenues	14,397	16,562	43,944	46,992		
Expenses						
Compensation and benefits	6,320	6,382	21,991	17,881		
Performance fee compensation	(79)	(14)	(112)	(845)		
General, administrative and other expenses	6,244	3,510	15,095	8,932		
Total Expenses	12,485	9,878	36,974	25,968		
Other Income (Expense)						
Dividend income	962	1,428	3,351	2,896		
Interest expense	(2,717)	(2,718)	(8,113)	(9,131)		
Other income (expense), net	2,711	(192)	(11,055)	1,399		
Total other income (expense), net	956	(1,482)	(15,817)	(4,836)		
Income (loss) before income taxes	2,868	5,202	(8,847)	16,188		
Provision for income taxes	450	652	835	1,493		
Net Income (Loss)	2,418	4,550	(9,682)	14,695		
Net income (loss) attributable to redeemable non-controlling interests and non-controlling interests in consolidated subsidiaries	3,866	1,917	(3,112)	4,709		
Net (loss) income attributable to non-controlling interests in Medley LLC	(963)	2,172	(4,729)	8,557		
Net (Loss) Income Attributable to Medley Management Inc.	\$(485)	\$461	\$(1,841)	\$1,429		
Dividends declared per share of Class A common stock	\$0.20	\$0.20	\$0.60	\$0.60		
Net (Loss) Income Per Share of Class A Common Stock:						
Basic (Note 12)	\$(0.15)	\$0.03	\$(0.49)	\$0.18		
Diluted (Note 12)	\$(0.15)	\$0.03	\$(0.49)	\$0.18		
Weighted average shares outstanding - Basic and Diluted	5,591,123	5,342,939	5,539,804	5,578,003		

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018		2017	
Net Income (Loss)	\$2,418	\$4,550	\$(9,682)	\$14,695		

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Other Comprehensive Income (Loss):

Change in fair value of available-for-sale securities (net of taxes of \$0.3 million and \$0.4 million for Medley Management Inc. for the three and nine months ended September, 2017, respectively)	—	(2,915)	—	(5,081)
Total Comprehensive Income (Loss)	2,418	1,635	(9,682)	9,614
Comprehensive income (loss) attributable to redeemable non-controlling interests and non-controlling interests in consolidated subsidiaries	3,866	1,917	(3,112)	4,680
Comprehensive (loss) income attributable to non-controlling interests in Medley LLC	(963)	(381)	(4,729)	4,164
Comprehensive (Loss) Income Attributable to Medley Management Inc.	\$(485)	\$99	\$(1,841)	\$770

See accompanying notes to condensed consolidated financial statements

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Medley Management Inc.

Condensed Consolidated Statement of Changes in Equity (unaudited)

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

	Class A Common Stock Shares	Dollar	Class B Common Stock Shares	Dollar	Additional Paid in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Non- controlling Interests in Consolidated Subsidiaries	Non- controlling Interests in Medley LLC	Total Deficit
Balance at December 31, 2017	5,481,068	\$ 55	100	\$	—\$2,820	\$ (1,301)	\$ (9,545)	\$ (1,702)	\$ (67,401)	\$ (77,074)
Cumulative effect of accounting change due to the adoption of the new revenue recognition standard (Note 2)	—	—	—	—	—	—	(686)	—	(2,905)	(3,591)
Cumulative effect of accounting change due to the adoption of updated guidance on equity securities not accounted for under the equity method of accounting and the tax effects stranded in other comprehensive loss as a result of tax reform (Note 2)	—	—	—	—	—	1,301	(1,301)	—	—	—
Net loss	—	—	—	—	—	—	(1,841)	6	(4,729)	(6,564)
Stock-based compensation	—	—	—	—	4,098	—	—	—	—	4,098
Dividends on Class A common stock (\$0.20 per share)	—	—	—	—	—	—	(4,287)	—	—	(4,287)
Reclass of cumulative dividends on forfeited restricted stock units to compensation and benefits expense	—	—	—	—	—	—	69	—	—	69
Issuance of Class A common stock related to vesting of restricted stock units, net of tax withholdings	212,746	2	—	—	(658)	—	—	—	—	(656)

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Distributions	—	—	—	—	—	—	—	(15,361)	(15,361)
Contributions	—	—	—	—	—	—	2	—	2
Issuance of non-controlling interest at fair value	—	—	—	—	—	—	56	—	56
Fair value adjustment to redeemable non-controlling interest in SIC Advisors LLC (Note 15)	—	—	—	—	—	—	—	965	965
Balance at September 30, 2018	5,693,814	\$ 57	100	\$ —	—\$6,260	\$ —	\$(17,591)	\$(1,638)	\$(89,431) \$(102,343)

See accompanying notes to condensed consolidated financial statements

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Medley Management Inc.
Condensed Consolidated Statements of Cash Flows (unaudited)
(Amounts in thousands)

	For the Nine Months Ended September 30, 2018 2017	
Cash flows from operating activities		
Net (loss) income		\$ (9,682) \$ 14,695
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Stock-based compensation	4,098	2,027
Amortization of debt issuance costs	556	1,393
Accretion of debt discount	509	934
(Benefit) provision for deferred taxes	(2,510)	326
Depreciation and amortization	895	689
Net change in unrealized depreciation on investments	11,578	252
Income from equity method investments	(117)	(298)
Reclassification of cumulative dividends paid on forfeited restricted stock units to compensation and benefits expense	69	517
Other non-cash amounts	56	(9)
Changes in operating assets and liabilities:		
Management fees receivable	3,830	(785)
Performance fees receivable	—	1,985
Distributions of income received from equity method investments	547	296
Purchase of investments	(505)	(1,850)
Sale of investments	382	—
Other assets	2,800	2,364
Accounts payable, accrued expenses and other liabilities	(268)	(15,936)
Net cash provided by operating activities	12,238	6,600
Cash flows from investing activities		
Purchases of fixed assets	(53)	(39)
Distributions received from equity method investments	—	42
Capital contributions to equity method investments	(1,538)	(247)
Purchases of investments	—	(34,980)
Net cash used in investing activities	(1,591)	(35,224)
Cash flows from financing activities		
Repayments of loans payable	—	(44,800)
Proceeds from issuance of senior unsecured debt	—	69,108
Capital contributions from non-controlling interests	2	23,000
Distributions to non-controlling interests and redeemable non-controlling interests	(20,518)	(21,290)
Debt issuance costs	—	(2,783)
Dividends paid	(4,287)	(4,419)
Repurchases of Class A common stock	—	(3,589)
Payments of tax withholdings related to net share settlement of restricted stock units	(656)	(685)
Net cash (used in) provided by financing activities	(25,459)	14,542

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Net decrease in cash, cash equivalents and restricted cash equivalents	(14,812)	(14,082)
Cash, cash equivalents and restricted cash equivalents, beginning of period	36,327	54,563
Cash, cash equivalents and restricted cash equivalents, end of period	\$21,515	\$40,481

See accompanying notes to condensed consolidated financial statements

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Medley Management Inc.
Condensed Consolidated Statements of Cash Flows (unaudited)
(Amounts in thousands)

	For the Nine Months Ended September 30,	
	2018	2017
Supplemental disclosure of non-cash investing and financing activities		
Net deferred tax impact on cumulative effect of accounting change due to the adoption of the new revenue recognition standard (Note 2)	Ø125	—
Reclassification of the income tax impact on cumulative effect of accounting change due to the adoption of accounting standards update 2016-01 (Note 2)	649	—
Reclassification of the income tax impact of the Tax Cuts and Jobs Act on items within accumulated other comprehensive loss to retained earnings due to the early adoption of accounting standards update 2018-02 (Note 2)	207	—
Deferred tax asset impact on cumulative effect of accounting change due to the adoption of accounting standards update 2016-09 (Note 2)	—	118
Issuance of non-controlling interest at fair value	56	—
Reclassification of redeemable non-controlling interest in SIC Advisors LLC, including fair value adjustment of \$965 (Note 15)	12,275	—

See accompanying notes to condensed consolidated financial statements

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Medley Management Inc. is an alternative asset management firm offering yield solutions to retail and institutional investors. The Company's national direct origination franchise provides capital to the middle market in the United States of America. Medley Management Inc., through its consolidated subsidiary, Medley LLC, provides investment management services to permanent capital vehicles, long-dated private funds and separately managed accounts and serves as the general partner to the private funds, which are generally organized as pass-through entities. Medley LLC is headquartered in New York City.

The Company's business is currently comprised of only one reportable segment, the investment management segment, and substantially all of the Company operations are conducted through this segment. The investment management segment provides investment management services to permanent capital vehicles, long-dated private funds and separately managed accounts. The Company conducts its investment management business in the U.S., where substantially all its revenues are generated.

Initial Public Offering of Medley Management Inc.

Medley Management Inc. was incorporated on June 13, 2014 and commenced operations on September 29, 2014 upon the completion of its initial public offering ("IPO") of its Class A common stock. Medley Management Inc. raised \$100.4 million, net of underwriting discount, through the issuance of 6,000,000 shares of Class A common stock at an offering price to the public of \$18.00 per share. Medley Management Inc. used the offering proceeds to purchase 6,000,000 newly issued LLC Units (defined below) from Medley LLC. Prior to the IPO, Medley Management Inc. had not engaged in any business or other activities except in connection with its formation and IPO.

In connection with the IPO, Medley Management Inc. issued 100 shares of Class B common stock to Medley Group LLC ("Medley Group"), an entity wholly owned by the pre-IPO members of Medley LLC. For as long as the pre-IPO members and then-current Medley personnel hold at least 10% of the aggregate number of shares of Class A common stock and LLC Units (defined below) (excluding those LLC Units held by Medley Management Inc.) then outstanding, the Class B common stock entitles Medley Group to a number of votes that is equal to 10 times the aggregate number of LLC Units held by all non-managing members of Medley LLC that do not themselves hold shares of Class B common stock and entitle each other holder of Class B common stock, without regard to the number of shares of Class B common stock held by such other holder, to a number of votes that is equal to 10 times the number of membership units held by such holder. The Class B common stock does not participate in dividends and does not have any liquidation rights.

Medley LLC Reorganization

In connection with the IPO, Medley LLC amended and restated its limited liability agreement to modify its capital structure by reclassifying the 23,333,333 interests held by the pre-IPO members into a single new class of units ("LLC Units"). The pre-IPO members also entered into an exchange agreement under which they (or certain permitted transferees thereof) have the right, subject to the terms of an exchange agreement, to exchange their LLC Units for shares of Medley Management Inc.'s Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications. In addition, pursuant to the amended and restated limited liability agreement, Medley Management Inc. became the sole managing member of Medley LLC. The pre-IPO owners were, subject to limited exceptions, prohibited from transferring any LLC Units held by them or any shares of Class A common stock received upon exchange of such LLC Units, until September 29, 2017, which was the third anniversary of the date of the closing of the IPO, without the Company's consent. Thereafter and prior to the fourth and fifth anniversaries of the closing of the IPO, such holders may not transfer more than 33 1/3% and 66 2/3%, respectively, of the number of LLC Units held by them, together with the number of any shares of Class A common stock received by them upon exchange therefore, without the Company's consent.

Agreement and Plan of Merger

On August 9, 2018 the Company entered into a definitive agreement to merge with Sierra Income Corporation ("Sierra" or "SIC"). Pursuant to the Agreement and Plan of Merger by and among the Company, Sierra and Sierra

Management Inc., a newly formed Delaware corporation (“Merger Sub”), the Company will merge with and into Merger Sub, and the Company’s existing asset management business will continue to operate as a wholly owned subsidiary of Sierra. The Company’s Class A stockholders will receive 0.3836 shares of Sierra’s common stock, \$3.44 per share of cash consideration and \$0.65 per share in special cash dividends for each share of Class A common stock held by them. Medley LLC unitholders will convert their units into shares of Class A common stock and will receive 0.3836 shares of Sierra’s common stock, \$3.44 per share of cash consideration and \$0.35 per share in a special cash dividend for each share of Class A common stock held by them. Each share of Class B common stock issued and outstanding immediately prior to the effective date of the merger will be canceled without consideration therefor.

Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

Simultaneously, pursuant to the Agreement and Plan of Merger by and between Medley Capital Corporation ("MCC") and Sierra, MCC will merge with and into SIC, with SIC as the surviving entity. MCC shareholders will receive 0.805 shares of the Sierra's common stock for each share of MCC common stock they hold.

As a condition to closing, Sierra's common stock will be listed to trade on the New York Stock Exchange. The mergers are cross conditioned upon each other and are subject to approval by the shareholders of the Company, MCC and Sierra, regulators, including the SEC, other customary closing conditions and third party consents. While there can be no assurances as to the exact timing, or that the merger will be completed at all, the Company expects the merger to be completed as early as the first quarter of 2019.

Transaction expenses, primarily consisting of professional fees, related to the pending merger are included in general, administrative and other expenses and were approximately \$2.1 million and \$3.9 million for the three and nine months ended September 30, 2018, respectively.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles ("GAAP") and include the accounts of Medley Management Inc., Medley LLC and its consolidated subsidiaries (collectively, "Medley" or the "Company"). Additionally, the accompanying condensed consolidated financial statements of the Company and related financial information have been prepared pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X.

Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with U.S. GAAP may be omitted. In the opinion of management, the unaudited condensed consolidated financial results included herein contain all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods included herein. Therefore, this Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for any future interim period or the full year ending December 31, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

In accordance with Accounting Standards Codification ("ASC") 810, Consolidation, the Company consolidates those entities where it has a direct and indirect controlling financial interest based on either a variable interest model or voting interest model. As such, the Company consolidates entities that the Company concludes are variable interest entities ("VIEs"), for which the Company is deemed to be the primary beneficiary and entities in which it holds a majority voting interest or has majority ownership and control over the operational, financial and investing decisions of that entity.

For legal entities evaluated for consolidation, the Company must determine whether the interests that it holds and fees paid to it qualify as a variable interest in an entity. This includes an evaluation of the management fees and performance fees paid to the Company when acting as a decision maker or service provider to the entity being evaluated. If fees received by the Company are customary and commensurate with the level of services provided, and the Company does not hold other economic interests in the entity that would absorb more than an insignificant amount of the expected losses or returns of the entity, the interest that the Company holds would not be considered a variable interest. The Company factors in all economic interests including proportionate interests through related parties, to determine if fees are considered a variable interest.

An entity in which the Company holds a variable interest is a VIE if any one of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, (b) the holders of equity investment at risk have the right to direct the activities of the

entity that most significantly impact the legal entity's economic performance, (c) the voting rights of some investors are disproportionate to their obligation to absorb losses or rights to receive returns from a legal entity. For limited partnerships and other similar entities, non-controlling investors must have substantive rights to either dissolve the fund or remove the general partner ("kick-out rights") in order to not qualify as a VIE.

For those entities that qualify as a VIE, the primary beneficiary is generally defined as the party who has a controlling financial interest in the VIE. The Company is generally deemed to have a controlling financial interest if it has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, and the obligation to absorb losses or receive benefits from the VIE that could potentially be significant to the VIE. The Company determines whether it is the primary beneficiary of a VIE at the time it becomes initially involved with the VIE and reconsiders that conclusion continuously. The primary beneficiary

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

evaluation is generally performed qualitatively on the basis of all facts and circumstances. However, quantitative information may also be considered in the analysis, as appropriate. These assessments require judgment. Each entity is assessed for consolidation on a case-by-case basis.

For those entities evaluated under the voting interest model, the Company consolidates the entity if it has a controlling financial interest. The Company has a controlling financial interest in a voting interest entity ("VOE") if it owns a majority voting interest in the entity.

Consolidated Variable Interest Entities

Medley Management Inc. is the sole managing member of Medley LLC and, as such, it operates and controls all of the business and affairs of Medley LLC and, through Medley LLC, conducts its business. Under ASC 810, Medley LLC meets the definition of a VIE because the equity of Medley LLC is not sufficient to permit business activities without additional subordinated financial support. Medley Management Inc. has the obligation to absorb expected losses that could be significant to Medley LLC and holds 100% of the voting power, therefore Medley Management Inc. is considered to be the primary beneficiary of Medley LLC.

As a result, Medley Management Inc. consolidates the financial results of Medley LLC and its subsidiaries and records a non-controlling interest for the economic interest in Medley LLC held by the non-managing members. As of September 30, 2018, Medley Management Inc.'s and the non-managing members' economic interests in Medley LLC are 18.9% and 81.1%, respectively, and as of December 31, 2017, were 18.7% and 81.3%, respectively. Net income (loss) attributable to the non-controlling interests in Medley LLC on the consolidated statements of operations represents the portion of earnings or losses attributable to the economic interest in Medley LLC held by its non-managing members. Non-controlling interests in Medley LLC on the consolidated balance sheets represents the portion of net assets of Medley LLC attributable to the non-managing members based on total LLC Units of Medley LLC owned by such non-managing members.

As of September 30, 2018, Medley LLC had three majority owned subsidiaries, Medley Seed Funding I LLC, Medley Seed Funding II LLC and STRF Advisors LLC, which are consolidated VIEs. Each of these entities were organized as a limited liability company and was legally formed to either manage a designated fund or to strategically invest capital as well as isolate business risk. As of September 30, 2018, total assets and total liabilities, after eliminating entries, of these VIEs reflected in the consolidated balance sheets were \$31.2 million and less than \$0.1 million, respectively. As of December 31, 2017, Medley LLC had four majority owned subsidiaries, Medley Seed Funding I LLC, Medley Seed Funding II LLC, STRF Advisors LLC and SIC Advisors LLC, which are consolidated VIEs. As of December 31, 2017, total assets and total liabilities, after eliminating entries, of these VIEs reflected in the consolidated balance sheets were \$63.3 million and \$13.0 million, respectively. Except to the extent of the assets of these VIEs that are consolidated, the holders of the consolidated VIEs' liabilities generally do not have recourse to the Company.

Seed Investments

The Company accounts for seed investments through the application of the voting interest model under ASC 810-10-25-1 through 25-14 and consolidates a seed investment when the investment advisor holds a controlling interest, which is, in general, 50% or more of the equity in such investment. For seed investments in which the Company does not hold a controlling interest, the Company accounts for such seed investment under the equity method of accounting, at its ownership percentage of such seed investment's net asset value.

The Company seed funded \$2.1 million to Sierra Total Return Fund ("STRF"), which commenced investment operations in June 2017. As of September 30, 2018, the Company owned 100% of the equity of STRF and, as such, consolidates STRF in its condensed consolidated financial statements.

The condensed balance sheet of STRF as of September 30, 2018 and December 31, 2017 is presented in the table below.

Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

	As of	
	September	December
	30,	31, 2017
	2018	
Assets	(Amounts in thousands)	
Cash and cash equivalents	\$211	\$ 164
Investments, at fair value	2,085	2,005
Other assets	570	1,698
Total assets	\$2,866	\$ 3,867
Liabilities and Equity		
Accrued expenses and other liabilities	\$703	\$ 1,744
Equity	2,163	2,123
Total liabilities and equity	\$2,866	\$ 3,867

As of September 30, 2018, the Company's condensed consolidated balance sheet reflects the elimination of \$0.3 million of other assets, less than \$0.1 million of accrued expenses and other liabilities and \$2.2 million of equity as a result of the consolidation of STRF. As of December 31, 2017, the Company's condensed consolidated balance sheet reflects the elimination of \$1.0 million of other assets, \$1.5 million of accrued expenses and other liabilities and \$2.1 million of equity as a result of the consolidation of STRF. During the three and nine months ended September 30, 2018 and 2017, the fund did not generate any significant income or losses from operations.

Non-Consolidated Variable Interest Entities

The Company holds interests in certain VIEs that are not consolidated because the Company is not deemed the primary beneficiary. The Company's interest in these entities is in the form of insignificant equity interests and fee arrangements. The maximum exposure to loss represents the potential loss of assets by the Company relating to these non-consolidated entities.

As of September 30, 2018, the Company recorded investments, at fair value, attributed to these non-consolidated VIEs of \$4.3 million, receivables of \$1.8 million included as a component of other assets and a clawback obligation of \$7.2 million included as a component of accounts payable, accrued expenses and other liabilities on the Company's consolidated balance sheets. The clawback obligation assumes a hypothetical liquidation of a fund's investments, at their then current fair values, and a portion of tax distributions relating to performance fees which would need to be returned. As of December 31, 2017, the Company recorded investments, at fair value, attributed to non-consolidated VIEs of \$4.8 million, receivables of \$2.4 million included as a component of other assets and a clawback obligation of \$7.2 million included as a component of accounts payable, accrued expenses and other liabilities on the Company's consolidated balance sheets. As of September 30, 2018, the Company's maximum exposure to losses from these entities is \$6.0 million.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Management's estimates are based on historical experience and other factors, including expectations of future events that management believes to be reasonable under the circumstances. These assumptions and estimates also require management to exercise judgment in the process of applying the Company's accounting policies. Significant estimates and assumptions by management affect the carrying value of investments, performance compensation payable and certain accrued liabilities. Actual results could differ from these estimates, and such differences could be material.

Non-Controlling Interests in Consolidated Subsidiaries

Non-controlling interests in consolidated subsidiaries represent the component of equity in such consolidated entities held by third-parties. These interests are adjusted for contributions to and distributions from Medley entities and are allocated income or loss from Medley entities based on their ownership percentages.

Redeemable Non-Controlling Interests

Redeemable non-controlling interests represents interests of certain third parties that are not mandatorily redeemable but redeemable for cash or other assets at a fixed or determinable price or a fixed or determinable date, at the option of the holder or upon the occurrence of an event that is not solely within the control of the Company. These interests are classified in the mezzanine section on the Company's condensed consolidated balance sheets.

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

Cash and Cash Equivalents

Cash and cash equivalents include liquid investments in money market funds and demand deposits. The Company had cash balances with financial institutions in excess of Federal Deposit Insurance Corporation insured limits as of September 30, 2018 and December 31, 2017. The Company monitors the credit standing of these financial institutions and has not experienced, and has no expectations of experiencing, any losses with respect to such balances.

Investments

Investments include equity method investments that are not consolidated but over which the Company exerts significant influence. The Company measures the carrying value of its public non-traded equity method investment at Net Asset Value ("NAV") per share. The Company measures the carrying value of its privately-held equity method investments by recording its share of the underlying income or loss of these entities.

Unrealized appreciation (depreciation) resulting from changes in fair value of the equity method investments is reflected as a component of investment income in the consolidated statements of operations along with the income and expense allocations from such investments. The Company evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable.

The carrying amounts of equity method investments are reflected in investments in the consolidated balance sheets. As the underlying entities that the Company manages and invests in are, for U.S. GAAP purposes, primarily investment companies which reflect their investments at estimated fair value, the carrying value of the Company's equity method investments in such entities approximates fair value. The Company evaluates its equity-method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable.

For presentation in its consolidated statements of cash flows, the Company treats distributions received from certain equity method investments using the cumulative earnings approach. Under the cumulative earnings approach, an investor would compare the distributions received to its cumulative equity-method earnings since inception. Any distributions received up to the amount of cumulative equity earnings would be considered a return on investment and classified in operating activities. Any excess distributions would be considered a return of investment and classified in investing activities.

Investments also include publicly traded common stock. The Company measures the fair value of its publicly traded common stock at the quoted market price on the primary market or exchange on which they trade. Any realized gains (losses) from the sale of investments and unrealized appreciation (depreciation) resulting from changes in fair value are recorded in other income (expenses), net.

In connection with the adoption of the new revenue recognition guidance, ASC 606, Revenue from Contracts, on January 1, 2018, the Company reassessed its accounting policy for performance fees earned during the period which represent a capital allocation to the general partner or investment manager. As a result of this reassessment the Company has determined that it should account for such performance fees within the scope of ASC 323, Investments - Equity Method and Joint Ventures. Accordingly, these performance fees are now classified as carried interest within investment income on the Company's consolidated statements of operations and balances due for such fees are included as a part of equity method investments within Investments, at fair value on the Company's consolidated balance sheets. The Company has applied this change in accounting principle on a full retrospective basis, and prior periods presented have been reclassified to conform to the current period's presentation.

Investments also include the Company's investment in CK Pearl Fund, L.P. which is measured at cost less impairment. The Company performs a quantitative and qualitative assessment at each reporting date to determine whether the investment is impaired and an impairment loss equal to the difference between the carrying value and fair value is recorded within other income (expenses), net on the Company's condensed consolidated statement of operations if an impairment has been determined.

Revenues

As further described under Recently Issued Accounting Pronouncements Adopted as of January 1, 2018, the Company adopted new revenue recognition guidance for revenue from contracts with customers, effective January 1, 2018 using the modified retrospective approach. The adoption of this new guidance did not have an impact on the Company's accounting for management fees, administrative fees and loan administration fees.

Management Fees

Medley provides investment management services to both public and private investment vehicles. Management fees include base management fees, other management fees, and Part I incentive fees, as described below.

Base management fees are calculated based on either (i) the average or ending gross assets balance for the relevant period, (ii) limited partners' capital commitments to the funds, (iii) invested capital, (iv) NAV or (v) lower of cost or market value of a

Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

fund's portfolio investments. Depending upon the contracted terms of the investment management agreement, management fees are paid either quarterly in advance or quarterly in arrears, and are recognized as earned over the period the services are provided.

Certain management agreements provide for Medley to receive other management fee revenue derived from up front origination fees paid by the funds' and/or separately managed accounts' underlying portfolio companies. These fees are recognized when the Company becomes entitled to such fees.

Certain management agreements also provide for Medley to receive Part I incentive fee revenue derived from net investment income (excluding gains and losses) above a hurdle rate. As it relates to MCC, these fees are subject to netting against realized and unrealized losses. Part I incentive fees are paid quarterly and are recognized as earned in the period the services are provided.

Performance Fees

Performance fees are contractual fees which do not represent a capital allocation of income to the general partner or investment manager that are earned based on the performance of certain funds, typically, the Company's separately managed accounts. Performance fees are earned based on the fund performance during the period, subject to the achievement of minimum return levels in accordance with the respective terms set out in each fund's investment management agreement.

Prior to the adoption of ASC 606, effective January 1, 2018, the Company accounted for performance fees under Method 2 of ASC 605, Revenue Recognition, for revenue based on a formula. Under this method, performance fees for any period were based upon an assumed liquidation of the underlying fund's net assets on the reporting date and were subject to reversal to the extent that cumulative previously recognized performance fees exceeded the amount due to the general partner or investment manager based on a fund's cumulative investment returns. Upon the adoption of ASC 606, the Company accounts for performance fees in accordance with this new standard, and will only recognize performance fees when it is probable that a significant reversal of such fees will not occur in the future.

During the three and nine months ended September 30, 2018, the Company did not record any reversals of previously recognized performance fees. During the three and nine months ended September 30, 2017, the Company recorded a reversal of \$0.4 million and \$2.7 million of previously recognized performance fees, respectively, under the previous revenue recognition standard.

Other Revenues and Fees

Medley provides administrative services to certain affiliated funds and is reimbursed for direct and allocated expenses incurred in providing such administrative services, as set forth in the respective underlying agreements. These fees are recognized as revenue in the period administrative services are rendered. Medley also acts as the administrative agent on certain deals for which Medley may earn loan administration fees and transaction fees. These fees are recognized as revenue over the period to which the fees directly relate.

Carried Interest

Carried interest are performance based fees that represent a capital allocation of income to the general partner or investment manager. Carried interest are allocated to the Company based on cumulative fund performance to date, subject to the achievement of minimum return levels in accordance with the respective terms set out in each fund's governing documents.

Prior to January 1, 2018, the Company accounted for carried interest under Method 2 of ASC 605, as previously described above. Upon adoption of ASC 606, the Company reassessed its accounting policy for carried interest, and determined that carried interest is within the scope of the accounting for equity method investments, ASC 323, Investments-Equity Method and Joint Ventures, and, as such, is not within the scope of ASC 606. Under ASC 323, the Company records carried interest in a consistent manner as it historically had which is based upon an assumed liquidation of that fund's net assets as of the reporting date, regardless of whether such amounts have been realized. For any given period, carried interest on the Company's condensed consolidated statements of operations may include reversals of previously recognized carried interest due to a decrease in the value of a particular fund that

results in a decrease of cumulative fees earned to date. Since fund return hurdles are cumulative, previously recognized carried interest also may be reversed in a period of appreciation that is lower than the particular fund's hurdle rate.

Carried interest received in prior periods may be required to be returned by the Company in future periods if the funds' investment performance declines below certain levels. Each fund is considered separately in this regard and, for a given fund, carried interest can never be negative over the life of a fund. If upon a hypothetical liquidation of a fund's investments, at their then current fair values, previously recognized and distributed carried interest would be required to be returned, a liability is established for the potential clawback obligation. As of September 30, 2018, the Company had not received any carried interest distributions, except for tax distributions related to the Company's allocation of net income, which included an allocation of carried interest. Pursuant to the organizational documents of each respective fund, a portion of these tax distributions may be subject to clawback. As of September 30, 2018, the Company had accrued \$7.2 million for clawback obligations that would need to be paid

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

if the funds were liquidated at fair value as of the end of the reporting period. The Company's actual obligation, however, would not become payable or realized until the end of a fund's life.

Other Investment Income (loss)

Other investment income is comprised of unrealized appreciation (depreciation) resulting from changes in fair value of the Company's equity method investments in addition to the income and expense allocations from such investments.

Stock-based Compensation

Stock-based compensation expense relating to equity based awards are measured at fair value as of the grant date, reduced for actual forfeitures in the period they occur, and expensed over the requisite service period on a straight-line basis as a component of compensation and benefits on the Company's consolidated statements of operations.

Income Taxes

The Company accounts for income taxes using the asset and liability approach, which requires the recognition of tax benefits or expenses for temporary differences between the financial reporting and tax basis of assets and liabilities. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized. The Company also recognizes a tax benefit from uncertain tax positions only if it is "more likely than not" that the position is sustainable based on its technical merits. The Company's policy is to recognize interest and penalties on uncertain tax positions and other tax matters as a component of its provision for income taxes. For interim periods, the Company accounts for income taxes based on its estimate of the effective tax rate for the year. Discrete items and changes in its estimate of the annual effective tax rate are recorded in the period they occur.

Medley Management Inc. is subject to U.S. federal, state and local corporate income taxes on its allocable portion of the income of Medley LLC at prevailing corporate tax rates. Medley LLC and its subsidiaries are not subject to federal, state and local corporate income taxes since all income, gains and losses are passed through to its members. However, a portion of taxable income from Medley LLC and its subsidiaries are subject to New York City's unincorporated business tax, which is included in the Company's provision for income taxes.

The Company analyzes its tax filing positions in all of the U.S. federal, state and local tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. If, based on this analysis, the Company determines that uncertainties in tax positions exist, a liability is established.

Class A Earnings per Share

The Company computes and presents earnings per share using the two-class method. Under the two-class method, the Company allocates earnings between common stock and participating securities. The two-class method includes an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and undistributed earnings for the period. For purposes of calculating earnings per share, the Company reduces its reported net earnings by the amount allocated to participating securities to arrive at the earnings allocated to Class A common stockholders. Earnings are then divided by the weighted average number of Class A common stock outstanding to arrive at basic earnings per share. Diluted earnings per share reflects the potential dilution beyond shares for basic earnings per share that could occur if securities or other contracts to issue common stock were exercised, converted into common stock, or resulted in the issuance of common stock that would have shared in our earnings. Participating securities consist of the Company's unvested restricted stock units that contain non-forfeitable rights to dividend equivalent payments, whether paid or unpaid, in the number of shares outstanding in its basic and diluted calculations.

Reclassification of Prior Period Presentation

On January 1, 2018, the Company elected a change in accounting policy to account for performance fees earned which represent a capital allocation to the general partner or investment manager under ASC 323, Investments - Equity Method and Joint Ventures. As a result of this change in accounting policy, certain prior year amounts have been reclassified for consistency with the current period presentation. Performance fees earned which represent a capital allocation to the general partner or investment manager were reclassified from performance fees to investment income

along with capital-based allocations of income and losses from our equity method investments, which were previously classified under other income (expense), net on the condensed consolidated statements of operations. On the Company's condensed consolidated balance sheet, receivable amounts related to such performance fees were reclassified from performance fees receivable to investments, at fair value. There were no changes to the income allocations from our equity method investments, which are still included within investments, at fair value. These reclassifications had no net effect on the reported condensed consolidated statements of operations or condensed consolidated balance sheets for any period.

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Additionally, the Company has reclassified \$0.2 million of cash and cash equivalents of its consolidated fund as of December 31, 2017 to cash and cash equivalents on the Company's condensed consolidated balance sheets to conform to the current year's presentation.

Recently Issued Accounting Pronouncements Adopted as of January 1, 2018

In May 2014, the FASB issued accounting standards update ("ASU") 2014-09, Revenue from Contracts with Customers (ASC 606), and since then, has issued several amendments intended to provide interpretive clarifications and to reduce the cost and complexity of applying the new revenue recognition standard, both at transition and on an ongoing basis. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services. To achieve this, entities will apply a five step approach: (1) identify the contract(s) with a customer, (2) identify the performance obligations within the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when, or as, each performance obligation is satisfied. The guidance also requires advanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. ASC 606 became effective for the Company beginning on January 1, 2018 and entities had the option of adopting this guidance using either a full retrospective or a modified retrospective approach. The Company adopted ASC 606 as of January 1, 2018 using the modified retrospective method. Under this method, the Company recognized the cumulative-effect of adoption of this guidance as an adjustment to equity as of January 1, 2018, as further described below, but did not restate prior periods presented in its condensed consolidated financial statements.

Effective January 1, 2018, the Company's current policy of recognizing performance fees earned from certain funds and separately managed accounts, which do not represent a capital allocation to the general partner or investment manager changed. Previously such fees were recognized on a hypothetical liquidation basis as of each reporting date (Method 2 of ASC 605, Revenue Recognition, for revenue based on a formula). Effective January 1, 2018, the Company will not be able to recognize such fees until such time that it is probable that a significant reversal in cumulative performance fees will not occur in the future. For performance fees earned which represent a capital allocation to the general partner or investment manager, the Company effected a change in accounting policy and now accounts for them under ASC 323, Investments - Equity Method and Joint Ventures. As such, these types of performance fees are not in the scope of the new revenue recognition standard. The Company expects that the pattern and amount of recognition under this new policy will not differ materially from the Company's historical recognition of such fees, however the presentation and disclosure of such fees and the income from capital allocations related to these fees were altered. This change in accounting policy for performance fees earned which represent a capital allocation to the general partner or investment manager was retrospectively applied.

Additionally, as of January 1, 2018, the Company no longer defers reimbursable organizational, offering and other pre-launch costs associated with a fund's formation. Effective January 1, 2018, the Company began expensing such costs as incurred until the respective fund commences operations and receives third party committed capital.

Reimbursements for these costs will be recognized as a component of other revenues in the Company's consolidated statements of operations when the respective fund commences operations and receives third party committed capital. As a result of the adoption of the new revenue recognition guidance, the Company recorded a cumulative effect decrease to equity of \$3.6 million, net of benefit from income taxes of \$0.1 million, as of January 1, 2018, which relates to (1) certain performance fee revenue that would not have met the "probable that significant reversal will not occur" criteria of \$3.0 million and (2) the reversal of reimbursable fund formation costs which were deferred on the Company's consolidated balance sheet of \$0.7 million. Also, certain reimbursable costs incurred on behalf of the Company's funds that were previously presented net in the Company's consolidated statements of operations are now presented on a gross basis beginning January 1, 2018. There were no changes from the way the Company previously recognized management fees, administrative fees and loan administration fees as the result of its adoption of ASU 2014-09 or its change in accounting policy for performance fees earned which represent a capital allocation to the

general partner or investment manager.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, which requires that all investments in equity securities (except those accounted for under the equity method of accounting) be measured at fair value with changes in fair value recognized in net income. This guidance eliminates the available-for-sale classification for equity securities with readily determinable fair values. However, companies may elect to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. The Company adopted this guidance effective January 1, 2018. Under this new guidance, changes in the fair value of available-for-sale securities will no longer be classified in the Company's consolidated statements of comprehensive income but rather as a component of other income (expense), net in its consolidated statements of operations. As a result of the adoption of this ASU, on

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January 1, 2018, the Company reclassified \$1.3 million of cumulative unrealized losses, net of income tax benefit, from accumulated other comprehensive (loss) income to accumulated deficit on the Company's condensed consolidated balance sheet. Also, on the adoption date, the Company elected the measurement alternative provided under ASC 321, Investments - Equity Securities and will now account for its investment in CK Pearl Fund, L.P. at cost less impairment, adjusted for observable price changes for an identical or similar investment of the same issuer. The adoption of this guidance may have a significant impact to the consolidated statements of operations going forward as any changes to the fair value of the Company's publicly traded securities that were previously accounted for as available-for-sale securities will now be reflected within other income on the Company's consolidated statements of operations.

In May 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting. This guidance clarifies when changes to share-based payment awards must be accounted for as modifications. The guidance requires an entity to apply modification accounting guidance if the value, vesting conditions or classification of the award changes but will provide relief to entities that make non-substantive changes to their share-based payment awards. The Company adopted this guidance effective January 1, 2018. The Company has evaluated the impact of adopting this standard on its consolidated financial statements, and it did not have a significant impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This guidance permits entities to reclassify tax effects stranded in accumulated other comprehensive income ("OCI") as a result of tax reform to retained earnings. An entity can apply this new guidance either (1) in the period of adoption or (2) retrospectively to each period in which the income tax effects of the 2017 Tax Cuts and Jobs Act related to items in accumulated OCI are recognized. The Company early adopted ASU 2018-02 effective January 1, 2018 and applied this new guidance in the period of adoption. As a result, \$0.2 million of income taxes stranded in accumulated other comprehensive income was reclassified to accumulated deficit.

Recently Issued Accounting Pronouncements Adopted as of July 1, 2018

In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2018-03 clarifies certain aspects of the guidance issued in ASU 2016-01. The clarifications in this accounting standards update relate to three classes of financial instruments: (1) equity securities without a readily determinable fair value, (2) financial liabilities for which the fair value option is elected and (3) forward contracts and purchase options on equity securities without a readily determinable fair value for which the measurement alternative is expected to be applied. This new guidance became effective for the Company on July 1, 2018 and the Company adopted such guidance as of that date. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This guidance requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. This new guidance will become effective for the Company on January 1, 2019, with early adoption permitted. A modified retrospective approach is required for adoption for all leases that exist at or commence after the date of initial application with an option to use certain practical expedients. We expect to use the package of practical expedients that allows us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. We additionally expect to use the practical expedient that allows us to treat the lease and non-lease components of our leases as a single component. We expect to adopt this guidance when effective, using the transition method that allows us to initially apply Topic 842 at the adoption date of January 1, 2019 and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The adoption of this guidance is expected to result

in a significant increase in total assets and total liabilities, but is not expected to have a significant impact on the Company's consolidated statements of operations.

The Company does not believe any other recently issued, but not yet effective, revisions to authoritative guidance will have a material effect on its consolidated balance sheets, results of operations or cash flows.

3. REVENUES FROM CONTRACTS WITH CUSTOMERS

The majority of the Company's revenues are derived from investment management and advisory contracts that are accounted for in accordance with the new revenue recognition standard, ASC 606.

Performance Obligations

Performance obligations are the unit of account under the new revenue recognition standard and represent the distinct goods or services that are promised to the customer. The majority of the Company's contracts have a single performance obligation to

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provide asset management, advisory and other related services to permanent capital vehicles, long-dated private funds and separately managed accounts. The Company also has a separate performance obligation to act as an agent for certain third party lenders and provide loan administration services to certain borrowers. These loan administration services also represent a single performance obligation.

The Company primarily provides investment management services to a fund by managing the fund's investments and maximizing returns on those investments. The Company's asset management, advisory and other related services are transferred over time to the customer on a day-to-day basis. The contracts with each fund create a distinct performance obligation for each quarter the Company provides the promised services to the customer, from which the customer can benefit from each individual quarter of service. Furthermore, each quarter of the promised services is considered separately identifiable because there is no integration of the promised services between quarters, each quarter does not modify services provided prior to that quarter, and the services provided are not interdependent or interrelated. Most services provided to these funds are provided continuously over the contract period, so the services in the contract generally represents a single performance obligation comprising a series of distinct service periods. A contract's transaction price is allocated to the series of distinct services that constitute a single performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

The management fees earned by the Company are largely dependent on fluctuations in the market and, thus, the determination of such fees is highly susceptible to factors outside the Company's influence. Management fees typically have a large number and broad range of possible consideration amounts and historical experience is generally not indicative of future performance of the market. Hence, the Company is applying the exemption provided under the new revenue recognition guidance as the Company is unable to estimate the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied and the variable consideration is allocated entirely to a wholly unsatisfied performance obligation.

The new revenue recognition standard also revises the criteria for determining if an entity is acting as a principal or agent in certain arrangements. Depending on whether the Company is acting as the principal or as an agent, certain reimbursable expenses that were previously recorded net are now presented as an expense on a gross basis on the Company's condensed consolidated statement of operations.

Significant Judgments

The Company's contracts with customers generally include a single performance obligation to provide asset management, advisory and other related services on a quarterly basis. Revenues are recognized as such performance obligation is satisfied and the constraint on the management fees is lifted on a quarterly basis, hence, the Company does not need to exercise significant judgments in regards to management fees. Consideration for management fees is received on a quarterly basis as the performance obligations is satisfied.

With respect to performance fees based on the economic performance of its SMAs, significant judgment is required when determining recognition of revenues. Such judgments include:

- whether the fund is near final liquidation
- whether the fair value of the remaining assets in the fund is significantly in excess of the threshold at which the Company would earn an incentive fee
- the probability of significant fluctuations in the fair value of the remaining assets
- the SMA's remaining investments are under contract for sale with contractual purchase prices that would result in no clawback and it is highly likely that the contracts will be consummated

As such, the Company will consider the above factors at each reporting period to determine whether there is an amount of the SMA performance fees which should be recognized as revenue because it is probable that there will not be a significant future revenue reversal, hence, the "constraint" on the performance fees has been lifted.

The Company accounts for performance fees which represent capital allocations to the general partner or investment manager pursuant to accounting rules relating to investments accounted for under the equity method of accounting. As such, these types of performance fees are not within the scope of the new revenue recognition standard and the above

significant judgments and constraints do not apply to them. Refer to Note 2 “Summary of Significant Accounting Policies” and Note 4 "Investments" for additional information.

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Medley Management Inc.

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Revenue by Category

The following tables present the Company's revenue from contracts with customers disaggregated by type of customer for the three and nine months ended September 30, 2018.

For the Three Months Ended September 30, 2018	Permanent Capital Vehicles	Long-dated Private Funds	SMA's	Other	Total
	(Amounts in thousands)				
Management fees	\$8,477	\$ 2,180	\$1,679	\$—	\$12,336
Performance fees	—	—	—	—	—
Other revenues and fees	1,558	—	—	1,211	2,769
Total revenues from contracts with customers	\$10,035	\$ 2,180	\$1,679	\$1,211	\$15,105
For the Nine Months Ended September 30, 2018	Permanent Capital Vehicles	Long-dated Private Funds	SMA's	Other	Total
	(Amounts in thousands)				
Management fees	\$25,244	\$ 6,223	\$4,919	\$—	\$36,386
Performance fees	—	—	—	—	—
Other revenues and fees	5,323	—	—	2,813	8,136
Total revenues from contracts with customers	\$30,567	\$ 6,223	\$4,919	\$2,813	\$44,522

The Other revenues and fees balances above primarily consist of revenues earned by Medley while serving as loan administrative agent on certain deals, including loan administration fees and transaction fees. Additionally, this balance includes reimbursable origination and deal expenses as well as reimbursable entity formation and organizational expenses.

The Company's asset management, advisory and other related services are transferred over time and the Company recognizes these revenues over time as well.

Contract Balances

For certain customers, the Company has a performance obligation to provide loan administration services. The timing of revenue recognition may differ from the timing of invoicing to such customers or receiving consideration. For the majority of these services cash deposits are received prior to the performance obligation being met. The performance obligation of acting as a loan administrator is satisfied over time, therefore, the Company defers any payments received upfront as deferred revenue and recognizes revenue on a pro-rata basis over time as the loan administrative services are performed.

These contract liabilities are reported as deferred revenue within accounts payable, accrued expenses and other liabilities on the condensed consolidated balance sheets and amounted to \$0.3 million as of September 30, 2018. During the three months ended September 30, 2018, the Company recognized revenue from amounts included in deferred revenue of \$0.1 million and received cash deposits of \$0.2 million. During the nine months ended September 30, 2018, the company recognized revenue from amounts included in deferred revenue of \$0.5 million and received cash deposits of \$0.5 million.

The Company did not have any contract assets as of September 30, 2018 or December 31, 2017.

Medley Management Inc.

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Comparative Tables

As the Company adopted the new revenue guidance (ASC 606) under the modified retrospective method, the Company is required to present what the Company's revenues would have been under the previous revenue guidance (ASC 605). The following tables present the reconciliation between the financial statement line items reported on the condensed consolidated balance sheet as of September 30, 2018 under ASC 606 to what would have been reported under the previous guidance ASC 605.

	As of September 30, 2018	
	As Reported under ASC 606	Adjustments under reported ASC 605 Balances
(Amounts in thousands)		
Assets		
Performance fees receivable	\$—	\$ 1,134
Other assets	15,477	16,194
Liabilities		
Accounts payable, accrued expenses and other liabilities	37,068	37,202
Equity		
Accumulated deficit	(17,591)	(17,248)
Non-controlling interests in Medley LLC	(89,430)	(88,001)

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Medley Management Inc.

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The following tables present the reconciliation between the Company's reported condensed consolidated statement of operations for the three and nine months ended September 30, 2018 under ASC 606 to what would have been reported under the previous revenue recognition guidance, ASC 605.

	For the three months ended September 30, 2018		
	As Reported under ASC 606	Adjustments to reported balances	Balances under ASC 605
Revenues	(Amounts in thousands, except share and per share data)		
Management fees	\$ 12,336	\$ —	\$ 12,336
Performance fees	—	(1,251)	(1,251)
Other revenues and fees	2,769	(691)	2,078
Investment income (loss):			
Carried interest	(326)	—	(326)
Other investment loss	(382)	—	(382)
Total Revenues	14,397	(1,942)	12,455
Expenses			
Compensation and benefits	6,320	—	6,320
Performance fee compensation	(79)	—	(79)
General, administrative and other expenses	6,244	(658)	5,586
Total Expenses	12,485	(658)	11,827
Other Income (Expense)			
Dividend income	962	—	962
Interest expense	(2,717)	—	(2,717)
Other expense, net	2,711	—	2,711
Total Other Expense, Net	956	—	956
Income (loss) before provision for income taxes	2,868	(1,284)	1,584
Provision for income taxes	450	(201)	249
Net Income (Loss)	2,418	(1,083)	1,335
Net loss attributable to redeemable non-controlling interests and non-controlling interests in consolidated subsidiaries	3,866	—	3,866
Net loss attributable to non-controlling interests in Medley LLC	(963)	(879)	(1,842)
Net Loss Attributable to Medley Management Inc.	\$(485)	\$ (204)	\$(689)
Net Loss Per Share of Class A Common Stock:			
Basic	\$(0.15)	\$ (0.04)	\$(0.19)
Diluted	\$(0.15)	\$ (0.04)	\$(0.19)
Weighted average shares outstanding - Basic and Diluted	5,591,123	—	5,591,123

Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

	For the nine months ended September 30, 2018		
	As Reported under ASC 606	Adjustments to reported balances	Balances under ASC 605
Revenues	(Amounts in thousands, except share and per share data)		
Management fees	\$36,386	\$ —	\$36,386
Performance fees	—	(1,853)	(1,853)
Other revenues and fees	8,136	(1,312)	6,824
Investment income (loss):			
Carried interest	271	—	271
Other investment loss	(849)	—	(849)
Total Revenues	43,944	(3,165)	40,779
Expenses			
Compensation and benefits	21,991	—	21,991
Performance fee compensation	(112)	—	(112)
General, administrative and other expenses	15,095	(1,266)	13,829
Total Expenses	36,974	(1,266)	35,708
Other Income (Expense)			
Dividend income	3,351	—	3,351
Interest expense	(8,113)	—	(8,113)
Other expense, net	(11,055)	—	(11,055)
Total Other Expense, Net	(15,817)	—	(15,817)
Loss before provision for income taxes	(8,847)	(1,899)	(10,746)
Provision for income taxes	835	(179)	656
Net Loss	(9,682)	(1,720)	(11,402)
Net loss attributable to redeemable non-controlling interests and non-controlling interests in consolidated subsidiaries	(3,112)	—	(3,112)
Net loss attributable to non-controlling interests in Medley LLC	(4,729)	(1,395)	(6,124)
Net Loss Attributable to Medley Management Inc.	\$(1,841)	\$ (325)	\$(2,166)
Net Loss Per Share of Class A Common Stock:			
Basic	\$(0.49)	\$ (0.06)	\$(0.55)
Diluted	\$(0.49)	\$ (0.06)	\$(0.55)
Weighted average shares outstanding - Basic and Diluted	5,539,804	—	5,539,804

Assets Recognized for the Costs to Obtain or Fulfill a Contract

As part of providing investment management services to a fund, the Company might incur certain placement fees to third parties for obtaining new investors for the fund. Any placement fees incurred to third party placement agents for placing investors into a fund are variable as it is based on a percentage of future fees and cannot be reasonably estimated. The Company determined that placement fees which are paid in cash over time, as fees are earned, do not relate to a new contract at the time the payment is made. These costs do not represent a cost to obtain a new contract but rather a cost to fulfill an existing contract. The Company does not recognize any assets for the incremental costs of

obtaining or fulfilling a contract with a customer and expenses placement fees as incurred.

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

4. INVESTMENTS

Investments consist of the following:

	As of September 30, 2018	December 31, 2017
	(Amounts in thousands)	
Equity method investments, at fair value	\$ 14,060	\$ 14,136
Investment in shares of MCC, at fair value	29,632	40,491
Investment held at cost less impairment	508	—
Investments of consolidated fund	2,085	2,005
Total investments, at fair value	\$46,285	\$ 56,632

Equity Method Investments

Medley measures the carrying value of its public non-traded equity method investment at NAV per share. Unrealized appreciation (depreciation) resulting from changes in NAV per share is reflected as a component of investment income in the consolidated statements of operations. The carrying value of the Company's privately-held equity method investments is determined based on the amounts invested by the Company plus the equity in earnings or losses of the investee allocated based on the respective underlying agreements, less distributions received.

The Company evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable. There were no impairment losses recorded during the three and nine months ended September 30, 2018 and 2017.

As of September 30, 2018 and December 31, 2017, the Company's carrying value of its equity method investments was \$14.1 million. The Company's equity method investment in shares of Sierra Income Corporation ("SIC" or "Sierra"), a related party, were \$7.8 million and \$8.5 million as of September 30, 2018 and December 31, 2017, respectively. The remaining balance as of September 30, 2018 and December 31, 2017 relates primarily to the Company's investments in Medley Opportunity Fund II, LP ("MOF II"), Medley Opportunity Fund III LP ("MOF III"), Medley Opportunity Fund Offshore III LP ("MOF III Offshore") and Aspect-Medley Investment Platform B LP ("Aspect B").

For performance fees earned which represent a capital allocation to the general partner or investment manager, the Company elected a change in accounting policy and, as of January 1, 2018, accounts for them under the equity method of accounting. In addition, commencing on January 1, 2018, performance fees due to the Company are included as a part of equity method investments within investments, at fair value rather than as a component of performance fees receivable on the Company's condensed consolidated balance sheets. As of September 30, 2018 and December 31, 2017, the balance due to the Company for such performance fees was \$0.5 million and \$0.2 million, respectively. Revenues associated with these performance fees are classified as carried interest within investment income on the Company's condensed consolidated statements of operations.

The entities in which the Company's investments are accounted for under the equity method are considered to be related parties.

Investments in shares of MCC, at fair value

As of September 30, 2018 and December 31, 2017, the Company held 7,756,938 shares of MCC which are carried at fair value based upon the quoted market price on the exchange on which the shares trade. During the three and nine months ended September 30, 2018, the Company recognized unrealized gains of \$2.7 million and unrealized losses of \$10.9 million, respectively, which were included as a component of other income (expense), net on the Company's condensed consolidated statements of operations.

Prior to the adoption of ASU 2016-01 on January 1, 2018, the Company's investment in shares of MCC were classified as available-for-sale securities, with cumulative unrealized gains (losses) recorded in other comprehensive income (loss). During the three and nine months ended September 30, 2017, the Company recorded unrealized losses of \$3.0 million and \$5.4 million, respectively, as a component of other comprehensive income.

Investment Held at Cost Less Impairment

Effective January 1, 2018, the Company elected to use the measurement alternative provided under ASC 321, Investments- Equity Securities and measure its investment in CK Pearl at cost less impairment, adjusted for observable price changes for an identical or similar investment of the same issuer. The carrying amount of this investment was \$0.5 million as of both September 30,

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Medley Management Inc.

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2018 and December 31, 2017. Prior to January 1, 2018, the Company's investment in CK Pearl was accounted for under the equity method. The carrying value of the Company's investment in CK Pearl is determined based on the financial information provided to the Company by the fund manager and the likelihood of recovering the Company's investment in the fund.

Investments of consolidated fund

Medley measures the carrying value of investments held by its consolidated fund at fair value. As of September 30, 2018, investments of consolidated fund consisted of \$0.4 million of equity investments and \$1.7 million of senior secured loans. As of December 31, 2017, investments of consolidated fund consisted of \$0.4 million of equity investments and \$1.6 million of senior secured loans. Refer to Note 5 "Fair Value Measurements" for additional information.

5. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation models involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. The Company's fair value analysis includes an analysis of the value of any unfunded loan commitments. Financial investments recorded at fair value in the consolidated financial statements are categorized for disclosure purposes based upon the level of judgment associated with the inputs to the valuation of the investment as of the measurement date. Investments which are valued using NAV as a practical expedient are excluded from this hierarchy:

Level I – Valuations based on quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Valuations based on inputs other than quoted prices in active markets included in Level I, which are either directly or indirectly observable at the measurement date. This category includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets including actionable bids from third parties for privately held assets or liabilities, and observable inputs other than quoted prices such as yield curves and forward currency rates that are entered directly into valuation models to determine the value of derivatives or other assets or liabilities.

Level III – Valuations based on inputs that are unobservable and where there is little, if any, market activity at the measurement date. The inputs for the determination of fair value may require significant management judgment or estimation and are based upon management's assessment of the assumptions that market participants would use in pricing the assets and liabilities. These investments include debt and equity investments in private companies or assets valued using the Market or Income Approach and may involve pricing models whose inputs require significant judgment or estimation because of the absence of any meaningful current market data for identical or similar investments. The inputs in these valuations may include, but are not limited to, capitalization and discount rates, beta and EBITDA multiples. The information may also include pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level III information, assuming no additional corroborating evidence.

The following tables summarize the fair value hierarchy of the Company's financial assets measured at fair value (in thousands):

As of September 30, 2018				
	Level I	Level II	Level III	Total
Assets				
Investments of consolidated fund	\$234	\$	—\$1,851	\$2,085

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Investment in shares of MCC	29,632	—	—	29,632
Total Assets	\$29,866	\$	—\$1,851	\$31,717

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

As of December 31, 2017

	Level I	Level II	Level III	Total
Assets				
Investments of consolidated fund	\$435	\$	—\$1,570	\$2,005
Investment in shares of MCC	40,491	—	—	40,491
Total Assets	\$40,926	\$	—\$1,570	\$42,496

Included in investments of consolidated fund as of September 30, 2018 are Level I assets of \$0.2 million in equity investments and Level III assets of \$1.9 million, which consists of senior secured loans and equity investments.

Included in investments of consolidated fund as of December 31, 2017 are Level I assets of \$0.4 million in equity investments and Level III assets of \$1.6 million, which consists of senior secured loans and preferred equity investments. The significant unobservable inputs used in the fair value measurement of Level III assets of the consolidated fund's investments in senior secured loans include market yields. Significant increases or decreases in market yields in isolation would result in a significantly higher or lower fair value measurement. There were no significant unrealized gains or losses related to the investments of consolidated fund for the three and nine months ended September 30, 2018.

The following is a summary of changes in fair value of the Company's financial assets that have been categorized within Level III of the fair value hierarchy (in thousands):

Level III Financial Assets as of September 30, 2018

	Balance at December 31, 2017	Purchases	Transfers In or (Out) of Level III	Unrealized Depreciation	Sale of Level III Assets	Balance at September 30, 2018
Investments of consolidated fund	\$1,570	492	—	(8)	(203)	\$ 1,851

A review of the fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting all levels of the fair value hierarchy are reported as transfers in or out of Level I, II or III category as of the beginning of the quarter during which the reclassifications occur. There were no transfers between levels in the fair value hierarchy during the three and nine months ended September 30, 2018.

When determining the fair value of publicly traded equity securities, the Company uses the quoted closing market price as of the valuation date on the primary market or exchange on which they trade. Our equity method investments for which fair value is measured at NAV per share, or its equivalent, using the practical expedient, are not categorized in the fair value hierarchy.

The Company's investments of consolidated fund are treated as investments at fair value and any realized and unrealized gains and losses from those investments are recorded through the condensed consolidated statement of operations. The Company's treatment is consistent with that of STRF, which is considered an investment company under ASC 946, Financial Services - Investment Companies, for standalone reporting purposes.

Medley Management Inc.

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6. OTHER ASSETS

Other assets consist of the following:

	As of September 30, 2018	December 31, 2017
	(Amounts in thousands)	
Fixed assets, net of accumulated depreciation and amortization of \$3,265 and \$2,370, respectively	\$3,318	\$4,160
Security deposits	1,975	1,975
Administrative fees receivable (Note 11)	1,589	1,903
Deferred tax assets, net of valuation allowance of \$742 as of September 30, 2018 (Note 12)	5,316	2,777
Due from affiliates (Note 11)	1,369	2,979
Prepaid expenses and taxes	548	1,353
Other assets	1,306	2,115
Total other assets	\$15,421	\$17,262

7. SENIOR UNSECURED DEBT

The carrying value of the Company's senior unsecured debt consist of the following:

	As of September 30, 2018	December 31, 2017
	(Amounts in thousands)	
2026 Notes, net of unamortized discount and debt issuance costs of \$3,035 and \$3,266, respectively	\$50,560	\$50,329
2024 Notes, net of unamortized premium and debt issuance costs of \$2,132 and \$2,437, respectively	66,868	66,563
Total senior unsecured debt	\$117,428	\$116,892

On August 9, 2016 and October 18, 2016, the Company issued debt consisting of \$53.6 million in aggregate principal amount of senior unsecured notes due 2026 at a stated coupon rate of 6.875% (the "2026 Notes"). The net proceeds from these offerings were used to pay down a portion of the Company's outstanding indebtedness under its Term Loan Facility. Interest is payable quarterly and interest payments commenced on November 15, 2016. The 2026 Notes are subject to redemption in whole or in part at any time or from time to time, at the option of the Company, on or after August 15, 2019 at a redemption price per security equal to 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments. The 2026 notes were recorded net of discount and direct issuance costs of \$3.8 million which are being amortized over the term of the notes using the effective interest rate method. The 2026 Notes are listed on the New York Stock Exchange and trades thereon under the trading symbol "MDLX." The fair value of the 2026 Notes based on their underlying quoted market price was \$52.3 million as of September 30, 2018.

Interest expense on the 2026 Notes, including accretion of note discount and amortization of debt issuance costs, was \$1.0 million for each of the three months ended September 30, 2018 and 2017, and \$3.0 million for each of the nine months ended September 30, 2018 and 2017.

2024 Notes

On January 18, 2017 and February 22, 2017, the Company issued \$69.0 million in aggregate principal amount of senior unsecured notes due 2024 at a stated coupon rate of 7.25% (the "2024 Notes"). The net proceeds from these offerings were used to pay down the remaining portion of the Company's outstanding indebtedness under its Term Loan Facility (Note 8) with the remaining to be used for general corporate purposes. Interest is payable quarterly and interest payments commenced on April 30, 2017. The 2024 Notes are subject to redemption in whole or in part at any time or from time to time, at the option of the Company, on or after January 30, 2020 at a redemption price per security equal to 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments. The 2024 notes were recorded net of premium and direct issuance costs of \$2.8 million which are being amortized over the term of the notes using the effective interest rate method. The 2024 Notes are listed on the

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New York Stock Exchange and trades thereon under the trading symbol “MDLQ.” The fair value of the 2024 Notes based on their underlying quoted market price was \$69.2 million as of September 30, 2018.

Interest expense on the 2024 Notes, including amortization of debt premium and debt issuance costs, was \$1.4 million for the three months ended September 30, 2018 and 2017, respectively, and \$4.1 million and \$3.5 million for the nine months ended September 30, 2018 and 2017, respectively.

8. LOANS PAYABLE

Loans payable consist of the following:

	As of September 30, 2018	December 31, 2017
	(Amounts in thousands)	
Non-recourse promissory notes, net of unamortized discount of \$274 and \$767, respectively	\$9,726	\$ 9,233
Total loans payable	\$9,726	\$ 9,233

CNB Credit Agreement

On August 19, 2014, the Company entered into a \$15.0 million senior secured revolving credit facility with City National Bank (as amended, the “Revolving Credit Facility”). The most recent amendment dated September 22, 2017 extended the Revolving Credit Facility maturity date to March 31, 2020 and provides for an incremental facility in an amount up to \$10.0 million upon the fulfillment of certain customary conditions, as well as other changes. The Company intends to use any proceeds from borrowings under the Revolving Credit Facility for general corporate purposes, including funding of its working capital needs. Borrowings under the Revolving Credit Facility bear interest, at the option of the Company, either (i) at an Alternate Base Rate, as defined, plus an applicable margin not to exceed 0.25% or (ii) at an Adjusted LIBOR plus an applicable margin not to exceed 2.5%. As of and during the three and nine months ended September 30, 2018, there were no amounts drawn under the Revolving Credit Facility. The capitalized terms below are defined in the Revolving Credit Facility, where applicable.

The Revolving Credit Facility also contains financial covenants that require the Company to maintain a Maximum Net Leverage Ratio, as defined, of not greater than 5.0 to 1.0, a Total Leverage Ratio, as defined, of not greater than 7.0 to 1.0 and Core EBITDA, as defined, of not less than \$15.0 million. These ratios are calculated on a trailing twelve months basis and are calculated using the Company’s financial results and include adjustments made to calculate Core EBITDA. Non-compliance with any of the financial or non-financial covenants without cure or waiver would constitute an event of default. In September 2018, the Company requested and received a waiver from City National Bank that permits the Company to exclude the Maximum Net Leverage Ratio covenant with respect to the fiscal periods ending on each of September 30, 2018 and December 31, 2018. The Revolving Credit Facility also contains customary negative covenants and other customary events of default, including defaults based on events of bankruptcy and insolvency, dissolution, nonpayment of principal, interest or fees when due, breach of specified covenants, change in control and material inaccuracy of representations and warranties. As of September 30, 2018, there were no events of default under the Revolving Credit Facility.

Credit Suisse Term Loan Facility

On August 14, 2014, the Company entered into a \$110.0 million senior secured term loan credit facility (as amended, “Term Loan Facility”) with Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent thereunder, Credit Suisse Securities (USA) LLC, as bookrunner and lead arranger, and the lenders from time-to-time party thereto, which had an original maturity date of June 15, 2019. In February 2017, borrowings under this facility were paid off using the proceeds from the issuance of senior unsecured debt and the Term Loan Facility was terminated.

During the nine months ending September 30, 2017, interest expense under the Term Loan Facility, including accretion of the note discount and amortization of debt issuance costs, as well as the deferred issuance costs associated with the Revolving Credit facility, were \$1.5 million. There was no interest expense under the Term Loan Facility for the three months ending September 30, 2017.

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Non-Recourse Promissory Notes

In April 2012, the Company borrowed \$10.0 million under two non-recourse promissory notes. Proceeds from the borrowings were used to purchase 1,108,033 shares of common stock of SIC, which were pledged as collateral for the obligations. Interest on the notes is paid monthly and is equal to the dividends received by the Company related to the pledged shares. The Company may prepay the notes in whole or in part at any time without penalty and the lenders may call the notes if certain conditions are met. The notes are scheduled to mature in March 2019. The proceeds from the notes were recorded net of issuance costs of \$3.8 million and are being accreted, using the effective interest method, over the term of the non-recourse promissory notes. Total interest expense under these notes, including accretion of the notes discount, was \$0.3 million for each of the three months ending September 30, 2018 and 2017, respectively, and \$1.0 million for each of the nine months ended September 30, 2018 and 2017, respectively. The fair value of the outstanding balance of the notes was \$10.0 million as of September 30, 2018 and \$10.1 million as of December 31, 2017.

Contractual Maturities of Loans Payable

As of September 30, 2018, \$10.0 million of future principal payments will be due, relating to loans payable, during the year ended December 31, 2019.

9. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

Accounts payable, accrued expenses and other liabilities consist of the following:

	As of September 30, 2018	December 31, 2017
	(Amounts in thousands)	
Accrued compensation and benefits	\$3,334	\$ 6,835
Due to affiliates (Note 11)	7,184	7,315
Due to former redeemable non-controlling interest in SIC Advisors LLC (Note 15)	12,275	—
Revenue share payable (Note 10)	3,147	3,841
Accrued interest	1,294	1,294
Professional fees	3,401	1,366
Deferred rent	2,110	2,506
Deferred tax liabilities (Note 13)	—	92
Performance fee compensation payable	—	111
Accounts payable and other accrued expenses	4,323	1,770
Total accounts payable, accrued expenses and other liabilities	\$37,068	\$ 25,130

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Notes to Condensed Consolidated Financial Statements (unaudited)

10. COMMITMENTS AND CONTINGENCIES

Operating Leases

Medley leases office space in New York City and San Francisco under non-cancelable lease agreements that expire at various times through September 2023. Rent expense was \$0.6 million for each of the three months ending September 30, 2018 and 2017, and \$1.8 million for each of the nine months ending September 30, 2018 and 2017.

As of September 30, 2018 future minimum rental payments under non-cancelable leases are as follows (in thousands):

Remaining in 2018	\$676
2019	2,710
2020	2,833
2021	2,430
2022	2,431
Thereafter	1,823
Total future minimum lease payments	\$12,903

Consolidation of Business Activities

During the three months ended March 31, 2018, the Company initiated the consolidation of its business activities to its New York office. The Company believes this will enhance operations by consolidating origination, underwriting and asset management operations and personnel in a single location. During the three and nine months ended September 30, 2018, the Company recorded less than \$0.1 million and \$2.3 million in severance costs, respectively. In addition, the company incurred a \$0.1 million loss from subleasing its San Francisco office during the nine months ended September 30, 2018.

Capital Commitments to Funds

As of September 30, 2018 and December 31, 2017, the Company had aggregate unfunded commitments of \$0.3 million to certain long-dated private funds.

Other Commitments

In April 2012, the Company entered into an obligation to pay to a third party a fixed percentage of management and incentive fees received by the Company from SIC. The agreement was entered into contemporaneously with the \$10.0 million non-recourse promissory notes that were issued to the same parties (Note 8). The two transactions were deemed to be related freestanding contracts and the \$10.0 million of loan proceeds were allocated to the contracts using their relative fair values. At inception, the Company recognized an obligation of \$4.4 million representing the present value of the future cash flows expected to be paid under this agreement. As of September 30, 2018 and December 31, 2017, this obligation amounted to \$3.1 million and \$3.8 million, respectively, and is recorded as revenue share payable, a component of accounts payable, accrued expenses and other liabilities on the consolidated balance sheets. The change in the estimated cash flows for this obligation is recorded in other income (expense), net on the consolidated statements of operations.

Legal Proceedings

From time to time, the Company is involved in various legal proceedings, lawsuits and claims incidental to the conduct of its business. Its business is also subject to extensive regulation, which may result in regulatory proceedings against it. Except as described below, the Company is not currently party to any material legal proceedings.

One of the Company's subsidiaries, MCC Advisors LLC, was named as a defendant in a lawsuit on May 29, 2015, by Moshe Barkat and Modern VideoFilm Holdings, LLC ("MVF Holdings") against MCC, MOF II, MCC Advisors LLC, Deloitte Transactions and Business Analytics LLP A/K/A Deloitte ERG ("Deloitte"), Scott Avila ("Avila"), Charles Sweet, and Modern VideoFilm, Inc. ("MVF"). The lawsuit is pending in the California Superior Court, Los Angeles County, Central District, as Case No. BC 583437. The lawsuit was filed after MCC, as agent for the lender group, exercised remedies following a series of defaults by MVF and MVF Holdings on a secured loan with an outstanding balance at the time in excess of \$65 million. The lawsuit sought damages in excess of \$100 million. Deloitte and Avila

have settled the claims against them in exchange for payment of \$1.5 million. On June 6, 2016, the court granted the Medley defendants' demurrers on several counts and dismissed Mr. Barkat's claims with prejudice except with respect to his claim for intentional interference with contract. On March 18, 2018, the court granted the Medley defendants' motion for summary adjudication with respect to Mr. Barkat's sole remaining claim against the Medley Defendants for intentional interference. Now that the trial court has ruled in favor of the Medley defendants on all counts, the only remaining claims in the Barkat litigation are MCC and MOF II's affirmative counterclaims against Mr. Barkat and MVF Holdings, which MCC and MOF II are diligently prosecuting.

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On August 29, 2016, MVF Holdings filed another lawsuit in the California Superior Court, Los Angeles County, Central District, as Case No. BC 631888 (the “Derivative Action”), naming MCC Advisors LLC and certain of Medley’s employees as defendants, among others. The plaintiff in the Derivative Action, asserts claims against the defendants for breach of fiduciary duty, aiding and abetting breach of fiduciary duty, unfair competition, breach of the implied covenant of good faith and fair dealing, interference with prospective economic advantage, fraud, and declaratory relief. MCC Advisors LLC and the other defendants believe the causes of action asserted in the Derivative Action are without merit and all defendants intend to continue to assert a vigorous defense. All proceedings in the Derivative Action have been stayed as a result of the chapter 11 bankruptcy proceedings of MVF, which were commenced on May 16, 2018.

Medley LLC, Medley Capital Corporation, Medley Opportunity Fund II LP, Medley Management, Inc., Medley Group, LLC, Brook Taube, and Seth Taube were named as defendants, along with other various parties, in a putative class action lawsuit captioned as Royce Solomon, Jodi Belleci, Michael Littlejohn, and Giulianna Lomaglio v. American Web Loan, Inc., AWL, Inc., Mark Curry, MacFarlane Group, Inc., Sol Partners, Medley Opportunity Fund, II, LP, Medley LLC, Medley Capital Corporation, Medley Management, Inc., Medley Group, LLC, Brook Taube, Seth Taube, DHI Computing Service, Inc., Middlemarch Partners, and John Does 1-100, filed on December 15, 2017 and amended on March 9, 2018, in the United States District Court for the Eastern District of Virginia, Newport News Division, as Case No. 4:17-cv-145 (hereinafter, “Class Action 1”). Medley Opportunity Fund II LP and Medley Capital Corporation were also named as defendants, along with various other parties, in a putative class action lawsuit captioned George Hengle and Lula Williams v. Mark Curry, American Web Loan, Inc., AWL, Inc., Red Stone, Inc., Medley Opportunity Fund II LP, and Medley Capital Corporation, filed February 13, 2018, in the United States District Court, Eastern District of Virginia, Richmond Division, as Case No. 3:18-cv-100 (“Class Action 2”). Medley Opportunity Fund II LP and Medley Capital Corporation were also named as defendants, along with various other parties, in a putative class action lawsuit captioned John Glatt, Sonji Grandy, Heather Ball, Dashawn Hunter, and Michael Corona v. Mark Curry, American Web Loan, Inc., AWL, Inc., Red Stone, Inc., Medley Opportunity Fund II LP, and Medley Capital Corporation, filed August 9, 2018 in the United States District Court, Eastern District of Virginia, Newport News Division, as Case No. 4:18-cv-101 (“Class Action 3”) (together with Class Action 1 and Class Action 2, the “Virginia Class Actions”). Medley Opportunity Fund II LP was also named as a defendant, along with various other parties, in a putative class action lawsuit captioned Christina Williams and Michael Stermel v. Red Stone, Inc. (as successor in interest to MacFarlane Group, Inc.), Medley Opportunity Fund II LP, Mark Curry, Brian McGowan, Vincent Ney, and John Doe entities and individuals, filed June 29, 2018 and amended July 26, 2018, in the United States District Court for the Eastern District of Pennsylvania, as Case No. 2:18-cv-2747 (the “Pennsylvania Class Action”) (together with the Virginia Class Actions, the “Class Action Complaints”). The plaintiffs in the Class Action Complaints filed their putative class actions alleging claims under the Racketeer Influenced and Corrupt Organizations Act, and various other claims arising out of the alleged payday lending activities of American Web Loan. The claims against Medley Opportunity Fund II LP, Medley LLC, Medley Capital Corporation, Medley Management, Inc., Medley Group, LLC, Brook Taube, and Seth Taube (in Class Action 1, as amended); Medley Opportunity Fund II LP and Medley Capital Corporation (in Class Action 2 and Class Action 3); and Medley Opportunity Fund II LP (in the Pennsylvania Class Action), allege that those defendants in each respective action exercised control over, or improperly derived income from, and/or obtained an improper interest in, American Web Loan’s payday lending activities as a result of a loan to American Web Loan. The loan was made by Medley Opportunity Fund II LP in 2011. American Web Loan repaid the loan from Medley Opportunity Fund II LP in full in February of 2015, more than 1 year and 10 months prior to any of the loans allegedly made by American Web Loan to the alleged class plaintiff representatives in Class Action 1. In Class Action 2, the alleged class plaintiff representatives have not alleged when they received any loans from American Web Loan. In Class Action 3, the alleged class plaintiff representatives claim to have received loans from American Web Loan at various times from February 2015 through April 2018. In the Pennsylvania Class Action, the alleged class plaintiff representatives claim

to have received loans from American Web Loan in 2017. By orders dated August 7, 2018 and September 17, 2018, the Court presiding over the Virginia Class Actions consolidated those cases for all purposes. On October 12, 2018, Plaintiffs in Class Action 3 filed a notice of voluntary dismissal of their claims, without prejudice, against Medley Opportunity Fund II, LP and Medley Capital Corporation. On October 22, 2018, the parties to Class Action 2 settled. On October 29, 2018, the plaintiffs in Class Action 2 stipulated to the dismissal of their claims against all defendants in Class Action 2 (including Medley Opportunity Fund II LP and Medley Capital Corporation), with prejudice. Medley LLC, Medley Capital Corporation, Medley Management, Inc., Medley Group, LLC, Brook Taube, and Seth Taube never made any loans or provided financing to, or had any other relationship with, American Web Loan. Medley Opportunity Fund II LP, Medley LLC, Medley Capital Corporation, Medley Management, Inc., Medley Group, LLC, Brook Taube, Seth Taube are seeking indemnification from American Web Loan, various affiliates, and other parties with respect to the claims in the Class Action Complaints. Medley Opportunity Fund II LP, Medley LLC, Medley Capital Corporation, Medley Management, Inc., Medley Group, LLC, Brook Taube, and Seth Taube believe the alleged claims in the Class Action Complaints are without merit and they intend to defend these lawsuits vigorously.

11. RELATED PARTY TRANSACTIONS

Substantially all of Medley's revenue is earned through agreements with its non-consolidated funds for which it collects management and performance fees for providing asset management, advisory and other related services.

Administration Agreements

In January 2011 and April 2012, Medley entered into administration agreements with MCC (the "MCC Admin Agreement") and SIC (the "SIC Admin Agreement"), respectively, whereby, as part of its performance obligation to provide asset management, advisory and other related services, Medley agreed to provide administrative services necessary for the operations of MCC and SIC. MCC and SIC agreed to pay Medley for the costs and expenses incurred in providing such administrative services, including an allocable portion of Medley's overhead expenses and an allocable portion of the cost of MCC and SIC's officers and their respective staffs.

Additionally, Medley has entered into administration agreements with other entities that it manages (the "Funds Admin Agreements"), whereby Medley agreed to provide administrative services necessary for the operations of these other vehicles. These other entities agreed to pay Medley for the costs and expenses incurred in providing such administrative services, including an allocable portion of Medley's overhead expenses and an allocable portion of the cost of these other vehicles' officers and their respective staffs.

Medley records these administrative fees as revenue in the period when the performance obligation of providing such administrative services is satisfied and are included in other revenues and fees on the condensed consolidated statements of operations. Amounts due from these agreements are included as a component of other assets on the Company's condensed consolidated balance sheets.

Total revenues recorded under these agreements for the three and nine months ended September 30, 2018 and 2017 are reflected in the table below:

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
	(Amounts in thousands)			
MCC Admin Agreement	\$791	\$860	\$2,609	\$2,932
SIC Admin Agreement	515	746	1,960	2,335
Funds Admin Agreements	252	305	754	924
Total administrative fees from related parties	\$1,558	\$1,911	\$5,323	\$6,191

Amounts due from related parties under these agreements are reflected in the table below:

As of
September 30, 2018
December 31, 2017

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(Amounts in
thousands)

Amounts due from MCC under the MCC Admin Agreement	\$809	\$ 867
Amounts due from SIC under the SIC Admin Agreement	528	696
Amounts due from entities under the Funds Admin Agreements	252	340
Total administrative fees receivable	\$1,589	\$ 1,903

Management fee Waiver

During the first quarter of 2018, the Company voluntarily waived \$0.4 million in management fees for MCC.

Investments

Refer to Note 4 "Investments" for more information related to the Company's investments in related parties.

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Exchange Agreement

Prior to the completion of the Company's IPO, Medley LLC's limited liability agreement was restated among other things, to modify its capital structure by reclassifying the interests held by its existing owners (i.e. the members of Medley prior to the IPO) into the LLC Units. Medley's existing owners also entered into an exchange agreement under which they (or certain permitted transferees thereof) have the right (subject to the terms of the exchange agreement as described therein), to exchange their LLC Units for shares of Medley Management Inc.'s Class A common stock on a one-for-one basis at fair value, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications.

Tax Receivable Agreement

Medley Management Inc. entered into a tax receivable agreement with the holders of LLC Units that provides for the payment by Medley Management Inc. to exchanging holders of LLC Units of 85% of the benefits, if any, that Medley Management Inc. is deemed to realize as a result of increases in tax basis of tangible and intangible assets of Medley LLC from the future exchange of LLC Units for shares of Class A common stock, as well as certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement.

The term of the tax receivable agreement will continue until all such tax benefits under the agreement have been utilized or have expired, unless Medley Management Inc. exercises its right to terminate the tax receivable agreement for an amount based on an agreed value of payments remaining to be made under the agreement. There have been no transactions under this agreement through September 30, 2018.

12. EARNINGS PER CLASS A SHARE

The table below presents basic and diluted net (loss) income per share of Class A common stock using the two-class method for the three and nine months ending September 30, 2018 and 2017, respectively:

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
(Amounts in thousands, except share and per share amounts)				
Basic and diluted net (loss) income per share:				
Numerator				
Net (loss) income attributable to Medley Management Inc.	\$(485)	\$ 461	\$(1,841)	\$ 1,429
Less: Allocation to participating securities	(355)	(296)	(898)	(451)
Net (loss) income available to Class A common stockholders	\$(840)	\$ 165	\$(2,739)	\$ 978
Denominator				
Weighted average shares of Class A common stock outstanding	5,591,123	3,342,939	5,539,804	5,578,003
Net (loss) income per Class A share	\$(0.15)	\$ 0.03	\$(0.49)	\$ 0.18

The allocation to participating securities above generally represents dividends paid to holders of unvested restricted stock units which reduces net income available to common stockholders.

The weighted average shares of Class A common stock is the same for both basic and diluted earnings per share as the diluted amount excludes the assumed conversion of 24,639,302 and 23,653,333 LLC Units and restricted LLC Units as of September 30, 2018 and 2017, respectively, to shares of Class A common stock, the impact of which would be antidilutive.

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The following table reflects the per share dividend amounts that the Company declared on its common stock during the three and nine months ended September 30, 2018 and 2017.

Declaration Dates	Record Date	Payment Dates	Per Share
August 8, 2017	August 23, 2017	September 6, 2017	\$ 0.20
May 10, 2017	May 22, 2017	May 31, 2017	\$ 0.20
February 9, 2017	February 23, 2017	March 6, 2017	\$ 0.20
August 7, 2018	August 23, 2018	September 6, 2018	\$ 0.20
May 10, 2018	May 24, 2018	June 1, 2018	\$ 0.20
February 7, 2018	February 22, 2018	March 7, 2018	\$ 0.20

13. INCOME TAXES

Deferred income taxes reflect the net effect of temporary differences between the tax basis of an asset or liability and its reported amount on the Company's consolidated balance sheets. These temporary differences result in taxable or deductible amounts in future years. As of September 30, 2018 and December 31, 2017, the Company's deferred tax assets were \$5.3 million and \$2.8 million, respectively, which consists primarily of temporary differences relating to certain accrued expenses, stock-based compensation, unrealized losses and a tax benefit relating to tax goodwill. The Company's deferred tax asset balance as of September 30, 2018 is presented net of a valuation allowance of \$0.7 million. This valuation allowance was established during the nine months ended September 30, 2018 and primarily relates to the portion of the Company's deferred tax assets associated with the cumulative unrealized loss on shares of MCC. At this time, the Company considers it more likely than not that it would not be able to generate enough capital gains in the near future to realize the deferred tax asset associated with such capital losses. Deferred tax liabilities were \$0.1 million as of September 30, 2018 and December 31, 2017. The tax provision for deferred income taxes results from temporary differences arising principally from certain accrued expenses, amortization of tax goodwill, deferred rent, stock-based compensation and depreciation.

The Company's effective tax rate was 15.7% and 12.5% for the three months ended September 30, 2018 and 2017, respectively, and (9.4)% and 9.2% for the nine months ended September 30, 2018 and 2017, respectively. The quarterly provision for income taxes is determined based on the Company's estimated full year effective tax rate adjusted by the amount of tax attributable to infrequent or unusual items that are recognized on a discrete basis in the income tax provision in the quarter in which they occur. The Company's effective tax rate includes a rate benefit attributable to the fact that the Company's subsidiaries operate as limited liability companies, which are not subject to federal or state income tax. Accordingly, a portion of the Company's earnings attributable to non-controlling interests are not subject to corporate level taxes. However, a portion of the Company's subsidiaries' income is subject to New York City's unincorporated business tax. For the nine months ended September 30, 2018 and 2017, the Company was only subject to federal, state and city corporate income taxes on its pre-tax income attributable to Medley Management Inc.

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act includes significant changes to the U.S. corporate income tax system including: a federal corporate rate reduction from 34% to 21%; limitations on the deductibility of interest expense and executive compensation; and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system. Changes under the Tax Act were effective for the Company on January 1, 2018.

The variance in the effective tax rate for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily due to the aforementioned rate reduction resulting from the Tax Act, offset by the establishment of a \$0.7 million valuation allowance during the nine months ended September 30, 2018, losses allocated to certain non-controlling interests which are not subject to income taxes, and during the three months ended September 30, 2018, a return to provision true up of the 2017 income tax provision.

Interest expense and penalties related to income tax matters are recognized as a component of the provision for income taxes and were not significant during the three and nine months ended September 30, 2018 and 2017. As of and during the nine months ended September 30, 2018 and 2017, there were no uncertain tax positions taken that were not more likely than not to be sustained.

14. COMPENSATION EXPENSE

Compensation generally includes salaries, bonuses, equity and profit sharing awards. Bonuses, equity and profit sharing awards are accrued over the service period to which they relate. Guaranteed payments made to our senior professionals who are members of Medley LLC are recognized as compensation expense. The guaranteed payments to the Company's Co-Chief Executive Officers are performance based and are periodically set subject to maximums based on the Company's total assets under management. Such maximums aggregated to \$1.3 million during each of the three months ended September 30, 2018 and 2017, and \$3.8 million for each of the nine months ended September 30, 2018 and 2017. During the three and nine months ended September 30, 2018 and 2017, neither of the Company's Co-Chief Executive Officers received any guaranteed payments.

Performance Fee Compensation

In October 2010 and January 2014, the Company granted shares of vested profit interests in certain subsidiaries to select employees. These awards are viewed as a profit-sharing arrangement and are accounted for under ASC 710, Compensation - General, which requires compensation expense to be recognized over the vesting period, which is usually the period over which service is provided. The shares were vested at grant date, subject to a divestiture percentage based on percentage of service completed from the award grant date to the employee's termination date. The Company adjusts the related liability quarterly based on changes in estimated cash flows for the profit interests. In February 2015 and March 2016, the Company granted incentive cash bonus awards to select employees. These awards entitle employees to receive cash compensation based on distributed carried interest received by the Company from certain institutional funds. Eligibility to receive payments pursuant to these incentive awards is based on continued employment and ceases automatically upon termination of employment. Performance compensation expense is recorded based on the fair value of the incentive awards at the date of grant and is recognized on a straight-line basis over the expected requisite service period. The performance compensation liability is subject to re-measurement at the end of each reporting period and any changes in the liability are recognized in such reporting period.

During the three and nine months ended September 30, 2018, the Company recorded a reversal of performance fee compensation expense of \$0.1 million. The Company recorded a reversal of performance fee compensation of less than \$0.1 million and \$0.8 million for the three and nine months ended September 30, 2017, respectively. As of December 31, 2017, total performance fee compensation payable for these awards was \$0.1 million and is included as a component of accounts payable, accrued expenses and other liabilities on the Company's consolidated balance sheets. There was no liability for these awards as of September 30, 2018.

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On November 12, 2018, the Company's board of directors approved the Medley Tactical Opportunities Carried Interest Allocation Plan (the "CI Plan"), pursuant to which certain key employees (each, an "Awardee") involved in and instrumental to the success of the Company's Tactical Opportunities ("Tac Ops") transactions, have been awarded certain carried interest percentage awards (each, a "Carried Interest Percentage") entitling the Awardee to a specified allocation of the carried interest earned on third party capital in connection with each of the Company's four respective Tac Ops funds. The Carried Interest Percentages is issued in consideration of services to be rendered, and is intended to constitute a "profits interest" as that term is used in IRS Revenue Procedures 93-27 and 2001-43.

Retirement Plan

The Company sponsors a defined-contribution 401(k) retirement plan that covers all employees. Employees are eligible to participate in the plan immediately, and participants are 100% vested from the date of eligibility. The Company makes contributions to the plan of 3% of an employee's eligible wages, up to a maximum limit as determined by the Internal Revenue Service. The Company also pays all administrative fees related to the plan. During the three and nine months ended September 30, 2018, the Company's accrued contributions to the plan were \$0.1 million and \$0.5 million, respectively. The Company's accrued contributions to the plan were \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2017, respectively. As of September 30, 2018 and December 31, 2017 the Company's outstanding liability to the plan as of each of those dates was \$0.5 million.

Stock-Based Compensation

In connection with the IPO, the Company adopted the Medley Management Inc. 2014 Omnibus Incentive Plan (the "Plan"). The purpose of the Plan is to provide a means through which the Company may attract and retain key personnel and to provide a means whereby directors, officers, employees, consultants and advisors (and prospective directors, officers, employees, consultants and advisors) of the Company can acquire and maintain an equity interest in the Company, or be paid incentive compensation, including incentive compensation measured by reference to the value of Medley Management Inc.'s Class A common stock or Medley LLC's unit interests, thereby strengthening their commitment to the welfare of the Company and aligning their interests with those of the Company's stockholders. The Plan provides for the issuance of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), restricted LLC Units of Medley LLC, stock bonuses, other stock-based awards and cash awards. The maximum aggregate number of awards available to be granted under the plan, as amended, is 4,500,000, of which all or any portion may be issued as shares of Medley Management Inc.'s Class A common stock or Medley LLC's unit interests. Shares of Class A common stock issued by the Company in settlement of awards may be authorized and unissued shares, shares held in the treasury of the Company, shares purchased on the market or by private purchase or a combination of the foregoing. As of September 30, 2018, there were 0.9 million awards available to be granted under the Plan.

The fair value of RSUs granted under the Plan is determined to be the fair value of the underlying shares on the date of grant. The fair value of restricted LLC Units of Medley LLC is based on the public share price of MDLY at date of grant, adjusted for different distribution rights. The aggregate fair value of these awards is charged to compensation expense on a straight-line basis over the vesting period, which is generally up to five years, with the exception of certain restricted LLC Units that will only vest upon certain conditions such as death, disability, termination without cause or change of control. For these awards, compensation expense is recognized when such condition is met. For the three and nine months ended September 30, 2018, stock-based compensation was \$1.5 million and \$4.1 million, respectively. For the three and nine months ended September 30, 2017, stock based compensation was \$1.2 million and \$2.0 million, respectively.

A summary of RSU and restricted LLC Units activity for the nine months ended September 30, 2018 is as follows:

Number of RSUs	Weighted Average Grant	Number of Restricted LLC Units	Weighted Average Grant
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		Date Fair Value		Date Fair Value
Balance at December 31, 2017	1,451,393	\$ 10.44	320,000	\$ 11.67
Granted	778,018	5.71	985,969	5.30
Forfeited	(65,805)	8.24	—	—
Vested	(337,401)	14.01	—	—
Balance at September 30, 2018	1,826,205	\$ 8.62	1,305,969	\$ 12.82

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

The fair value of RSUs vested during the nine months ended September 30, 2018 was \$4.7 million. The vesting of 337,401 RSUs resulted in the issuance of 212,746 Class A common shares, as the RSUs were net-share settled such that the Company withheld awards with the aggregate fair value equivalent to the employees' minimum statutory tax obligations in accordance with the terms of the Plan. Total employee tax obligations amounted to \$0.7 million and payments to the appropriate taxing authorities are reflected as a financing activity on the Company's consolidated statements of cash flows.

During the three and nine months ended September 30, 2018, less than \$0.1 million and \$0.6 million of previously recognized compensation was reversed relating to forfeited RSUs, respectively. Reversals of previously recognized compensation during the three and nine months ended September 30, 2017 was \$0.1 million and \$2.3 million, respectively. In addition, during the nine months ended September 30, 2018, the Company reclassified cumulative dividends of \$0.1 million from retained earnings to other compensation expense as a result of such forfeited RSUs. Cumulative dividends reclassified from retained earnings for each of the three and nine months ended September 30, 2018 was less than \$0.1 million. Cumulative dividends reclassified from retained earnings to other compensation during the three and nine months ended September 30, 2017 was less than \$0.1 million and \$0.5 million, respectively, as a result of forfeited RSUs. Unamortized compensation cost related to unvested RSUs and restricted LLC units as of September 30, 2018 was \$15.8 million and is expected to be recognized over a weighted average period of 3.4 years. Such amount excludes unamortized compensation of \$1.3 million relating to certain restricted LLC Units which only vest upon death, disability, termination without cause or change of control.

15. REDEEMABLE NON-CONTROLLING INTERESTS

Changes in redeemable non-controlling interests during the nine months ended September 30, 2018 and 2017 are reflected in the table below:

	For the Nine Months Ended September 30, 2018 2017 (Amounts in thousands)	
Beginning balance	\$53,741	\$30,805
Net (loss) income attributable to redeemable non-controlling interests in consolidated subsidiaries	(3,120)	4,699
Contributions	—	23,000
Distributions	(5,155)	(4,540)
Change in fair value of available-for-sale securities	—	(28)
Fair value adjustment to redeemable non-controlling interest in SIC Advisors LLC	(965)	—
Reclassification of redeemable non-controlling interest in SIC Advisors LLC, including fair value adjustment of \$965, to accounts payable, accrued expenses and other liabilities	(12,275)	—
Ending balance	\$32,226	\$53,936

Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

In January 2016, the Company executed an amendment to SIC Advisors' operating agreement which provided the Company with the right to redeem membership units owned by the minority interest holder. The Company's redemption right is triggered by the termination of the dealer manager agreement between SIC and SC Distributors LLC ("DMA Termination"), an affiliate of the minority interest holder. As a result of this redemption feature, the Company reclassified the non-controlling interest in SIC Advisors from the equity section to redeemable non-controlling interests in the mezzanine section of the consolidated balance sheet based on its fair value as of the amendment date. The fair value of the non-controlling interest was determined to be \$12.2 million on the date of the amendment and was adjusted through a charge to non-controlling interests in Medley LLC. On July 31, 2018, a DMA Termination event occurred and the membership units owned by the minority interest holder were redeemed by Medley. In connection with the DMA Termination, the Company reclassified SIC Advisors' minority interest balance from redeemable non-controlling interests in the mezzanine section of its consolidated balance sheet to accounts payable, accrued expenses and other liabilities based on its fair value as of the DMA Termination date. The fair value of the non-controlling interest was determined to be \$12.3 million on the DMA Termination date and was adjusted through a charge to non-controlling interests in Medley LLC. The Company will use the effective interest rate method to accrete the liability to the amount ultimately to be paid. The amount due will be paid in quarterly installments over a four year period. Each quarterly payment shall equal the amount that the minority interest holder would have been allocated had it remained a member, as adjusted, in accordance with SIC Advisors LLC's operating agreement, as amended. On a cumulative basis, the total impact to the statement of operations will be the difference between the fair value of the non-controlling interest on the DMA Termination date and the actual cash payments made to pay down the balance due to the minority interest holder. This amount will be recognized over a period of four years as a component of interest expense.

During the three and nine months ended September 30, 2018, profits allocated to this non-controlling interest was \$0.4 million and \$2.1 million, respectively, and distributions paid were \$0 and \$2.3 million, respectively. During the three and nine months ended September 30, 2017, profits allocated to this non-controlling interest was \$1.2 million and \$3.1 million, respectively, and distributions paid were \$1.0 million and \$3.1 million, respectively. As of September 30, 2018, there was no balance of redeemable non-controlling interest in SIC Advisors LLC. As of December 31, 2017, the balance of the redeemable non-controlling interest in SIC Advisors LLC was \$13.5 million.

On June 3, 2016, the Company entered into a Master Investment Agreement with DB MED Investor I LLC and DB MED Investor II LLC (the "Investors") to invest up to \$50.0 million in new and existing Medley managed funds (the "Joint Venture"). The Company agreed to contribute up to \$10.0 million and an interest in STRF Advisors LLC, the investment advisor to Sierra Total Return Fund, in exchange for common equity interests in the Joint Venture. On June 6, 2017, the Company entered into an amendment to its Master Investment Agreement with the Investors, which provided for, among other things, an increase in the Company's capital contribution to up to \$13.8 million and extended the term of the Joint Venture from seven to ten years. The Investors agreed to invest up to \$40.0 million in exchange for preferred equity interests in the Joint Venture. As of September 30, 2017, the Company and the Investors had fully satisfied their capital contributions. On account of the preferred equity interests, the Investors will receive an 8% preferred distribution, 15% of the Joint Venture's profits, and all of the profits from the contributed interest in STRF Advisors LLC. Medley has the option, subject to certain conditions, to cause the Joint Venture to redeem the Investors' interest in exchange for repayment of the outstanding investment amount at the time of redemption, plus certain other considerations. The Investors have the right, after ten years, to redeem their interests in the Joint Venture. As such, the Investors' interest in the Joint Venture is included as a component of redeemable non-controlling interests on the Company's consolidated balance sheets and amounted to \$32.9 million and \$40.6 million as of September 30, 2018 and December 31, 2017, respectively. Total contributions to the Joint Venture amounted to \$53.8 million through September 30, 2018 and 2017, and were used to purchase \$51.8 million of MCC shares on the open market and seed fund \$2.0 million to STRF. During the three months ended September 30, 2018, profits allocated to this non-controlling interest was \$3.5 million and during the nine months ended September 30, 2018, losses allocated were

\$4.9 million. During the three and nine months ended September 30, 2017, profits allocated to this non-controlling interest was \$0.9 million and \$1.8 million, respectively. Distributions paid during the three and nine months ended September 30, 2018 were \$0.8 million and \$2.9 million, respectively. During the three and nine months ended September 30, 2017 distributions paid were \$0.5 million and \$1.4 million, respectively.

In October 2016, the Company executed an operating agreement for STRF Advisors LLC which provided the Company with the right to redeem membership units owned by the minority interest holder. The Company's redemption right is triggered by the termination of the dealer manager agreement between STRF and SC Distributors LLC, an affiliate of the minority interest holder. As a result of this redemption feature, the non-controlling interest in STRF Advisors LLC is classified as in redeemable non-controlling interests in the mezzanine section of the balance sheet. During the three and nine months ended September 30, 2018, net losses allocated to this redeemable non-controlling interest was \$0.1 million and \$0.3 million, respectively. As of September 30, 2018 and December 31, 2017, the balance of the redeemable non-controlling interest in STRF Advisors LLC was \$(0.7) million and \$(0.4) million, respectively.

16. MARKET AND OTHER RISK FACTORS

Due to the nature of the Medley funds' investment strategy, their portfolio of investments has significant market and credit risk. As a result, the Company is subject to market and other risk factors, including, but not limited to the following:

Market Risk

The market price of investments may significantly fluctuate during the period of investment. Investments may decline in value due to factors affecting securities markets generally or particular industries represented in the securities markets. The value of an investment may decline due to general market conditions that are not specifically related to such investment, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry.

Credit Risk

There are no restrictions on the credit quality of the investments the Company intends to make. Investments may be deemed by nationally recognized rating agencies to have substantial vulnerability to default in payment of interest and/or principal. Some investments may have low-quality ratings or be unrated. Lower rated and unrated investments have major risk exposure to adverse conditions and are considered to be predominantly speculative. Generally, such investments offer a higher return potential than higher rated investments, but involve greater volatility of price and greater risk of loss of income and principal.

In general, the ratings of nationally recognized rating organizations represent the opinions of agencies as to the quality of the securities they rate. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of the relevant securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events. The Company may use these ratings as initial criteria for the selection of portfolio assets for the Company but is not required to utilize them.

Limited Liquidity of Investments

The funds managed by the Company invest and intend to continue to invest in investments that may not be readily marketable. Illiquid investments may trade at a discount from comparable, more liquid investments and, at times there may be no market at

Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

all for such investments. Subordinate investments may be less marketable, or in some instances illiquid, because of the absence of registration under federal securities laws, contractual restrictions on transfer, the small size of the market or the small size of the issue (relative to issues of comparable interests). As a result, the funds managed by the Company may encounter difficulty in selling its investments or may, if required to liquidate investments to satisfy redemption requests of its investors or debt service obligations, be compelled to sell such investments at less than fair value.

Counterparty Risk

Some of the markets in which the Company, on behalf of its underlying funds, may affect its transactions are “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight, unlike members of exchange-based markets. This exposes the Company to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the applicable contract (whether or not such dispute is bona fide) or because of a credit or liquidity problem, causing the Company to suffer loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Company has concentrated its transactions with a single or small group of counterparties.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of issuance of the condensed consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the condensed consolidated financial statements as of and for the three and nine months ended September 30, 2018, except as disclosed below.

On November 7, 2018, the Company’s Board of Directors declared a dividend of \$0.20 per share of Class A common stock for the third quarter of 2018. The dividend will be paid on December 12, 2018 to stockholders of record as of November 28, 2018.

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

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q and our financial statements included in our Annual Report on Form 10-K.

Overview

We are an alternative asset management firm offering yield solutions to retail and institutional investors. We focus on credit-related investment strategies, primarily originating senior secured loans to private middle market companies in the U.S. that have revenues between \$50 million and \$1 billion. We generally hold these loans to maturity. Our national direct origination franchise provides capital to the middle market in the U.S. Over the past 16 years, we have provided capital to over 400 companies across 35 industries in North America.

We manage three permanent capital vehicles, two of which are BDCs and one interval fund, as well as long-dated private funds and SMAs, focusing on senior secured credit.

Permanent capital vehicles: MCC, SIC and STRF, have a total AUM of \$2.0 billion as of September 30, 2018.

Long-dated private funds and SMAs: MOF II, MOF III, MOF III Offshore, MCOF, Aspect, Aspect B, MCC JV, SIC JV and SMAs, have a total AUM of \$2.8 billion as of September 30, 2018.

As of September 30, 2018, we had \$4.8 billion of AUM, \$2.0 billion in permanent capital vehicles and \$2.8 billion in long-dated private funds and SMAs. Our AUM as of September 30, 2018 declined by 9% year over year which was driven primarily by the termination of MCC's revolver commitment with ING, distributions and changes in fund values. Our compounded annual AUM growth rate from December 31, 2010 through September 30, 2018 was 22% and our compounded annual Fee Earning AUM growth rate was 16%, both of which have been driven in large part by the growth in our permanent capital vehicles. As of September 30, 2018, we had \$2.9 billion of Fee Earning AUM which consisted of \$1.8 billion in permanent capital vehicles and \$1.1 billion in long-dated private funds and SMAs. Typically the investment periods of our institutional commitments range from 18 to 24 months and we expect our Fee Earning AUM to increase as capital commitments included in AUM are invested.

In general, our institutional investors do not have the right to withdraw capital commitments and, to date, we have not experienced any withdrawals of capital commitments. For a description of the risk factor associated with capital commitments, see "Risk Factors – Third-party investors in our private funds may not satisfy their contractual obligation to fund capital calls when requested, which could adversely affect a fund's operations and performance" included in our Annual Report on Form 10-K.

Direct origination, careful structuring and active monitoring of the loan portfolios we manage are important success factors in our business, which can be adversely affected by difficult market and political conditions. Since our inception in 2006, we have adhered to a disciplined investment process that employs these principles with the goal of delivering strong risk-adjusted investment returns while protecting investor capital. We believe that our ability to directly originate, structure and lead deals enables us to achieve these goals. In addition, the loans we manage generally have a contractual maturity of between three and seven years and are typically floating rate, which we believe positions our business well for rising interest rates.

The significant majority of our revenue is derived from management fees, which include base management fees earned on all of our investment products as well as Part I incentive fees earned from our permanent capital vehicles and certain of our long-dated private funds. Our base management fees are generally calculated based upon fee earning assets and paid quarterly in cash. Our Part I incentive fees are typically calculated based upon net investment income, subject to a hurdle rate, and are also paid quarterly in cash.

We also may earn carried interest from our long-dated funds and contractual performance fees from our SMAs. Typically, these fees are 15.0% to 20.0% of the total return above a hurdle rate. Carried interest represent fees that are a capital allocation to the general partner or investment manager, are accrued quarterly and paid after the return of all invested capital and an amount sufficient to achieve the hurdle rate of return.

We also may receive incentive fees related to realized capital gains in our permanent capital vehicles and certain of our long-dated private funds that we refer to as Part II incentive fees. Part II incentive fees are payable annually and are calculated at the end of each applicable year by subtracting (i) the sum of cumulative realized capital losses and

unrealized capital depreciation from (ii) cumulative aggregate realized capital gains. If the amount calculated is positive, then the Part II incentive fee for such year is equal to 20% of such amount, less the aggregate amount of Part II incentive fees paid in all prior years. If such amount is negative, then no Part II incentive fee will be payable for such year. As our investment strategy is focused on generating yield from senior secured credit, historically we have not generated Part II incentive fees.

For the three and nine months ended September 30, 2018, 83% of our revenues were generated from management fees and carried interest derived primarily from net interest income on senior secured loans.

Our primary expenses are compensation to our employees and general, administrative and other expenses.

Compensation includes salaries, discretionary bonuses, stock-based compensation and benefits paid and payable to our employees. Performance fee compensation is related to performance fees, generally consisting of incentive allocations in our long-dated private funds that we grant to certain of our professionals. General and administrative expenses include costs primarily related to professional services, office rent and related expenses, depreciation and amortization, travel and related expenses, information technology, communication and information services, placement fees and third-party marketing expenses and other general operating items.

Reorganization and Initial Public Offering

Medley Management Inc. was incorporated on June 13, 2014 and commenced operations on September 29, 2014 upon the completion of its IPO of its Class A common stock. We raised \$100.4 million, net of underwriting discounts, through the issuance of 6,000,000 shares of Class A common stock at a public offering price of \$18.00 per share. The offering proceeds were used to purchase 6,000,000 newly issued LLC Units from Medley LLC. Prior to the IPO, Medley Management Inc. had not engaged in any business or other activities except in connection with its formation and IPO.

In connection with the IPO, Medley Management Inc. issued 100 shares of Class B common stock to Medley Group LLC (“Medley Group”), an entity wholly owned by the pre-IPO members of Medley LLC. For so long as the pre-IPO members and then-current Medley personnel hold at least 10% of the aggregate number of shares of Class A common stock and LLC Units (excluding those LLC Units held by Medley Management Inc.) then outstanding, the Class B common stock entitles Medley Group to a number of votes that is equal to 10 times the aggregate number of LLC Units held by all non-managing members of Medley LLC that do not themselves hold shares of Class B common stock and entitle each other holder of Class B common stock, without regard to the number of shares of Class B common stock held by such other holder, to a number of votes that is equal to 10 times the number of membership units held by such holder.

In connection with the IPO, Medley LLC amended and restated its limited liability agreement to modify its capital structure by reclassifying the 23,333,333 interests held by the pre-IPO members into a single new class of units. The pre-IPO members also entered into an exchange agreement under which they (or certain permitted transferees thereof) have the right, subject to the terms of the exchange agreement, to exchange their LLC Units for shares of Medley Management Inc.’s Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications. In addition, pursuant to the amended and restated limited liability agreement, Medley Management Inc. became the sole managing member of Medley LLC.

Our Structure

Medley Management Inc. is a holding company and its sole material asset is a controlling equity interest in Medley LLC. Medley Management Inc. operates and controls all of the business and affairs and consolidates the financial results of Medley LLC and its subsidiaries. We and our pre-IPO owners have also entered into an exchange agreement under which they (or certain permitted transferees) have the right (subject to the terms of the exchange agreement), to exchange their LLC Units for shares of our Class A common stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications.

Medley Group LLC, an entity wholly-owned by our pre-IPO owners, holds all 100 issued and outstanding shares of our Class B common stock. For so long as our pre-IPO owners and then-current Medley personnel hold at least 10% of the aggregate number of shares of Class A common stock and LLC Units (excluding those LLC Units held by Medley Management Inc.), which we refer to as the “Substantial Ownership Requirement,” the Class B common stock entitles Medley Group LLC, without regard to the number of shares of Class B common stock held by it, to a number of votes that is equal to 10 times the aggregate number of LLC Units held by all non-managing members of Medley LLC that do not themselves hold shares of Class B common stock and entitle each other holder of Class B common stock, without regard to the number of shares of Class B common stock held by such other holder, to a number of votes that is equal to 10 times the number of LLC Units held by such holder. For purposes of calculating the

Substantial Ownership Requirement, (1) shares of Class A common stock deliverable to our pre-IPO owners and then-current Medley personnel pursuant to outstanding equity awards will be deemed then outstanding and (2) shares of Class A common stock and LLC Units held by any estate, trust, partnership or limited liability company or other similar entity of which any pre-IPO owner or then-current Medley personnel, or any immediate family member thereof, is a trustee, partner, member or similar party will be considered held by such pre-IPO owner or other then-current Medley personnel. From and after the time that the Substantial Ownership Requirement is no longer satisfied, the Class B common stock will entitle Medley Group LLC, without regard to the number of shares of Class B common stock held by it, to a number of votes that is equal to the aggregate number of LLC Units held by all non-managing members of Medley LLC that do not themselves hold shares of Class B common stock and entitle each other holder of Class B common stock, without regard to the number of shares of Class B common stock held by such

other holder, to a number of votes that is equal to the number of LLC Units held by such holder. At the completion of our IPO, our pre-IPO owners were comprised of all of the non-managing members of Medley LLC. However, Medley LLC may in the future admit additional non-managing members that would not constitute pre-IPO owners. If at any time the ratio at which LLC Units are exchangeable for shares of our Class A common stock changes from one-for-one as set forth in the Exchange Agreement, the number of votes to which Class B common stockholders are entitled will be adjusted accordingly. Holders of shares of our Class B common stock will vote together with holders of our Class A common stock as a single class on all matters on which stockholders are entitled to vote generally, except as otherwise required by law.

Other than Medley Management Inc., holders of LLC Units, including our pre-IPO owners, are, subject to limited exceptions, prohibited from transferring any LLC Units held by them upon consummation of our IPO, or any shares of Class A common stock received upon exchange of such LLC Units, until the third anniversary of our IPO without our consent. Thereafter and prior to the fourth and fifth anniversaries of our IPO, such holders may not transfer more than 33 1/3% and 66 2/3%, respectively, of the number of LLC Units held by them upon consummation of our IPO, together with the number of any shares of Class A common stock received by them upon exchange therefor, without our consent. While this agreement could be amended or waived by us, our pre-IPO owners have advised us that they do not intend to seek any waivers of these restrictions.

The diagram below depicts our organizational structure (excluding those operating subsidiaries with no material operations or assets) as of November 6, 2018:

- The Class B common stock provides Medley Group LLC with a number of votes that is equal to 10 times the aggregate number of LLC Units held by all non-managing members of Medley LLC. From and after the time that
- (1) the Substantial Ownership Requirement is no longer satisfied, the Class B common stock will provide Medley Group LLC with a number of votes that is equal to the aggregate number of LLC Units held by all non-managing members of Medley LLC that do not themselves hold shares of Class B common stock.
 - If our pre-IPO owners exchanged all of their vested LLC Units for shares of Class A common stock, they would hold 81.4% of the outstanding shares of Class A common stock, entitling them to an equivalent percentage of
 - (2) economic interests and voting power in Medley Management Inc., Medley Group LLC would hold no voting power or economic interests in Medley Management Inc. and Medley Management Inc. would hold 100% of outstanding LLC Units and 100% of the voting power in Medley LLC.
 - (3) Medley LLC holds 96.5% of the Class B economic interests in Medley (Aspect) Management LLC.
 - (4) Medley LLC holds 100% of the outstanding Common Interest, and DB MED Investor I LLC holds 100% of the outstanding Preferred Interest in each of Medley Seed Funding I LLC and Medley Seed Funding II LLC.
 - Medley Seed Funding III LLC holds 100% of the senior preferred interest, Strategic Capital Advisory Services,
 - (5) LLC holds 100% of the junior preferred interest, and Medley LLC holds 100% of the common interest in STRF Advisors LLC.
 - (6) Medley LLC holds 95.5% of the Class B economic interests in MCOF Management LLC.
 - (7) Medley LLC holds 100% of the outstanding Common Interest, and DB MED Investor II LLC holds 100% of the outstanding Preferred Interest in Medley Seed Funding III LLC.

(8) Medley GP Holdings LLC holds 95.5% of the Class B economic interests in MCOF GP LLC.

Certain employees, former employees and former members of Medley LLC hold approximately 40% of the limited liability company interests in MOF II GP LLC, the entity that serves as general partner of MOF II, entitling the holders to share the performance fees earned from MOF II.

(10) Medley GP Holdings LLC holds 96.5% of the Class B economic interests in Medley (Aspect) GP LLC.

Agreement and Plan of Merger

On August 9, 2018 we entered into a definitive agreement to merge with Sierra Income Corporation. Pursuant to the Agreement and Plan of Merger by and among us, Sierra and Sierra Management Inc., a newly formed Delaware corporation ("Merger Sub"), we will merge with and into Merger Sub, and our existing asset management business will continue to operate as a wholly owned subsidiary of Sierra. The Company's Class A stockholders will receive 0.3836 shares of Sierra's common stock, \$3.44 per share of cash consideration and \$0.65 per share in special cash dividends for each share of Class A common stock held by them. Medley LLC unitholders will convert their units into shares of Class A common stock and will receive 0.3836 shares of Sierra's common stock, \$3.44 per share of cash consideration and \$0.35 per share in a special cash dividend for each share of Class A common stock held by them. Each share of Class B common stock issued and outstanding immediately prior to the effective date of the merger will be canceled without consideration therefor.

Simultaneously, pursuant to the Agreement and Plan of Merger by and between Medley Capital Corporation ("MCC") and Sierra, MCC will merge with and into Sierra, with Sierra as the surviving entity. MCC shareholders will receive 0.805 shares of the Sierra's common stock for each share of MCC common stock they hold.

As a condition to closing, Sierra's common stock will be listed to trade on the New York Stock Exchange. The mergers are cross conditioned upon each other and are subject to approval by our shareholders, MCC and Sierra, regulators, including the SEC, other customary closing conditions and third party consents. While there can be no assurances as to the exact timing, or that the merger will be completed at all, the Company expects the merger to be completed as early as the first quarter of 2019.

Transaction expenses, primarily consisting of professional fees, related to the pending merger are included in general, administrative and other expenses and were approximately \$2.1 million and \$3.9 million for the three and nine months ended September 30, 2018, respectively.

For additional information related to the merger, please refer to our transaction statement on Schedule 13E-3 filed with the SEC on November 7, 2018 and Preliminary Joint Proxy Statement/Prospectus of Sierra Income Corporation on Form N-14 also filed with the SEC on November 7, 2018.

Trends Affecting Our Business

Our results of operations, including the fair value of our AUM, are affected by a variety of factors, including conditions in the global financial markets as well as economic and political environments, particularly in the U.S. During the nine months ended September 30, 2018, the domestic economy exhibited continued growth, and key financial market indicators generated positive readings. Coincident with improving economic growth, LIBOR rates have increased, while credit spreads have tightened. Across the lending spectrum, year over year loan issuance has increased, driven by several factors, including robust merger and acquisition activity, as well as significant refinance activity. Our platform provides us the ability to lend across the capital structure and at varying interest rates providing our firm access to a larger borrower subset over time.

In addition to these macroeconomic trends and market factors, our future performance is dependent on our ability to attract new capital. We believe the following factors will influence our future performance:

• The extent to which investors favor directly originated private credit investments. Our ability to attract additional capital is dependent on investors' views of directly originated private credit investments relative to traditional assets.

We believe fundraising efforts will continue to be impacted by certain fundamental asset management trends that include: (i) the increasing importance of directly originated private credit investment strategies for institutional investors; (ii) increasing demand for directly originated private credit investments from retail investors; (iii) recognition by the consultant channel, which serves endowment and pension fund investors, that directly originated private credit is an important component of asset allocation; (iv) increasing demand from insurance companies seeking alternatives to investing in the liquid credit markets; and (v) de-leveraging of the global banking system, bank consolidation and increased bank regulatory requirements.

• Our ability to generate strong, stable returns and retain investor capital throughout market cycles. The capital we are able to attract and retain drives the growth of our AUM, fee earning AUM and management fees. We believe we

are well positioned to invest through market cycles given our AUM is in either permanent capital vehicles or long-dated private funds and SMAs.

Our ability to source investments with attractive risk-adjusted returns. Our ability to grow our revenue is dependent on our continued ability to source attractive investments and deploy the capital that we have raised. We believe that the current economic environment provides attractive investment opportunities. Our ability to identify attractive investments and execute on those investments is dependent on a number of factors, including the general macroeconomic environment, valuation, size and the liquidity of these investment opportunities. A significant decrease in the quality or quantity of investment opportunities in the directly originated private credit market, a substantial increase in corporate default rates, an increase in competition from new entrants providing capital to the private debt market and a decrease in recovery rates of directly originated private credit could adversely affect our ability to source investments with attractive risk-adjusted returns.

The attractiveness of our product offering to investors. We believe defined contribution plans, retail investors, public institutional investors, pension funds, endowments, sovereign wealth funds and insurance companies are increasing exposure to directly originated private credit investment products to seek differentiated returns and current yield. Our permanent capital vehicles and long-dated private funds and SMAs benefit from this demand by offering institutional and retail investors the ability to invest in our private credit investment strategy. We believe that the breadth, diversity and number of investment vehicles we offer allow us to maximize our reach with investors.

The strength of our investment process, operating platform and client servicing capabilities. Following the most recent financial crisis, investors in alternative investments, including those managed by us, have heightened their focus on matters such as manager due diligence, reporting transparency and compliance infrastructure. Since inception, we have invested heavily in our investment monitoring systems, compliance and enterprise risk management systems to proactively address investor expectations and the evolving regulatory landscape. We believe these investments in operating infrastructure will continue to support our growth in AUM.

Components of Our Results of Operations

Revenues

Management Fees. Management fees include both base management fees as well as Part I incentive fees.

Base Management Fees. Base management fees are generally based on a defined percentage of (i) average or total gross assets, including assets acquired with leverage, (ii) total commitments, (iii) net invested capital, (iv) NAV or (v) lower of cost or market value of a fund's portfolio investments. These fees are calculated quarterly and are paid in cash in advance or in arrears. Base management fees are recognized as revenue in the period advisory services are rendered, subject to our assessment of collectability.

In addition, we also receive non asset-based management fees that may include special fees such as origination fees, transaction fees and similar fees paid to us in connection with portfolio investments of our funds. These fees are specific to particular transactions and the contractual terms of the portfolio investments, and are recognized when earned.

Part I Incentive Fees. We also include Part I incentive fees that we receive from our permanent capital vehicles and certain of our long-dated private funds in management fees. Part I incentive fees are paid quarterly, in cash, and are driven primarily by net interest income on senior secured loans. As it relates to MCC, these fees are subject to netting against realized and unrealized losses. We are primarily an asset manager of yield-oriented products and our incentive fees are primarily derived from spread income rather than trading or capital gains. In addition, we also carefully manage interest rate risk. We are generally positioned to benefit from a raising rate environment, which should benefit fees paid to us from our vehicles and funds.

Performance Fees. Performance fees are contractual fees which do not represent a capital allocation to the general partner or investment manager that are earned based on the performance of certain funds, typically our separately managed accounts. Performance fees are earned based on the fund performance during the period, subject to the achievement of minimum return levels in accordance with the respective terms set out in each fund's investment management agreement.

Prior to the adoption of the new revenue recognition standard on January 1, 2018, we accounted for contractual based performance fees under Method 2 of ASC 605, Revenue Recognition, for revenue based on a formula. Under this method, performance fees for any period were based upon an assumed liquidation of the underlying fund's net assets on the reporting date and were subject to reversal to the extent that cumulative previously recognized performance fees exceeded the amount due to the general partner or investment manager based on a fund's cumulative investment returns. Effective January 1, 2018, we account

for such performance fees in accordance with ASC 606, Revenue from Contracts with Customers, and will only recognize contractual based performance fees when it is probable that a significant reversal of such fees will not occur in the future.

The timing and amount of performance fees generated by our funds is uncertain. If we were to have a realization event in a particular quarter or year, it may have a significant impact on our results for that particular quarter or year that may not be replicated in subsequent periods. Refer to “Risk Factors — Risks Related to Our Business and Industry” included in our Annual Report on Form 10-K.

Part II Incentive Fees. For our permanent capital vehicles and certain of our long-dated private funds, Part II incentive fees generally represent 20.0% of each fund’s cumulative realized capital gains (net of realized capital losses and unrealized capital depreciation). We have not received these fees historically, and do not expect such fees to be material in the future given our focus on senior secured lending.

Other Revenues and Fees. We provide administrative services to certain of our vehicles that are reported as other revenues and fees. Such fees are recognized as revenue in the period that administrative services are rendered. These fees are generally based on expense reimbursements for the portion of overhead and other expenses incurred by certain professionals directly attributable to each respective fund. We also act as the administrative agent on certain deals for which we may earn loan administration fees and transaction fees. Additionally, this line item includes reimbursable origination and deal expenses as well as reimbursable entity formation and organizational expenses.

Carried Interest. Carried interest are performance based fees that represent a capital allocation of income to the general partner or investment manager. Carried interest is allocated to us based on cumulative fund performance to date, subject to the achievement of minimum return levels in accordance with the respective terms set out in each fund’s governing documents.

Prior to January 1, 2018, we accounted for carried interest under Method 2 of ASC 605, as previously described above. Upon adoption of the new revenue recognition standard, we reassessed our accounting policy for carried interest, and determined that carried interest is within the scope of the accounting for equity method investments, and, as such, is not within the scope of the new revenue recognition guidance. Under the equity method of accounting, we will record carried interest in a consistent manner as we historically had which is based upon an assumed liquidation of that fund’s net assets as of the reporting date, regardless of whether such amounts have been realized. For any given period, carried interest on our condensed consolidated statements of operations may include reversals of previously recognized carried interest due to a decrease in the value of a particular fund that results in a decrease of cumulative carried interest earned to date. Since fund return hurdles are cumulative, previously recognized fees also may be reversed in a period of appreciation that is lower than the particular fund’s hurdle rate.

Carried interest received in prior periods may be required to be returned by us in future periods if the funds’ investment performance declines below certain levels. Each fund is considered separately in this regard and, for a given fund, carried interest can never be negative over the life of a fund. If upon a hypothetical liquidation of a fund’s investments, at their then current fair values, previously recognized and distributed carried interest would be required to be returned, a liability is established for the potential clawback obligation. As of September 30, 2018, we have not received any carried interest distributions, except for tax distributions related to our allocation of net income, which included an allocation of carried interest. Pursuant to the organizational documents of each respective fund, a portion of these tax distributions may be subject to clawback. As of September 30, 2018, we have accrued \$7.2 million for clawback obligations that would need to be paid if the funds were liquidated at fair value as of the end of the reporting period. Our actual obligation, however, would not become payable or realized until the end of a fund’s life.

Other Investment income. Other investment income is comprised of unrealized appreciation (depreciation) resulting from changes in fair value of our equity method investments in addition to the income/expense allocations from such investments.

In certain cases, the entities that receive management and incentive fees from our funds are owned by Medley LLC together with other persons. See “Critical Accounting Policies” and Note 2, “Summary of Significant Accounting Policies,” to our unaudited condensed consolidated financial statements included in this Form 10-Q for additional information regarding the manner in which management fees, performance fees, investment income and other fees are

generated.

Expenses

Compensation and Benefits. Compensation and benefits consists primarily of salaries, discretionary bonuses and benefits paid and payable to our employees and stock-based compensation associated with the grants of equity-based awards to our employees. Compensation expense relating to equity based awards are measured at fair value as of the grant date, reduced for actual forfeitures when they occur, and expensed over the vesting period on a straight-line basis. Bonuses are accrued over the service period to which they relate.

Guaranteed payments made to our senior professionals who are members of Medley LLC are recognized as compensation expense. The guaranteed payments to our Co-Chief Executive Officers are performance based and periodically set subject to

maximums based on our total assets under management. Such maximums aggregated to \$0.6 million for each of the Co-Chief Executive Officers for the three months ending September 30, 2018 and 2017 and \$1.9 million for the nine months ending September 30, 2018 and 2017. During the three and nine months ending September 30, 2018 and 2017, neither of our Co-Chief Executive Officers received any guaranteed payments.

Performance Fee Compensation. Performance fee compensation includes compensation related to performance fees and carried interest, which generally consists of profit interests that we grant to certain of our employees. Depending on the nature of each fund, the performance fee participation is generally structured as a fixed percentage or as an annual award. The liability is recorded subject to the vesting of the profit interests granted and is calculated based upon the net present value of the projected performance fees or carried interest to be received. Payments to profit interest holders are payable when the performance fees or carried interest are paid to Medley LLC by the respective fund. It is possible that we may record performance fee compensation during a period in which we do not record any performance fee related revenue or we have a reversal of previously recognized performance fee related revenue.

General, Administrative and Other Expenses. General and administrative expenses include costs primarily related to professional services, office rent, depreciation and amortization, general insurance, recruiting, travel and related expenses, information technology, communication and information services and other general operating items.

Other Income (Expense)

Dividend Income. Dividend income consists of dividends associated with our investments in SIC and MCC. Dividends are recognized on an accrual basis to the extent that such amounts are declared and expected to be collected.

Interest Expense. Interest expense consists primarily of interest expense relating to debt incurred by us.

Other Income (Expenses), Net. Other income (expenses), net consists primarily of expenses associated with our revenue share payable and unrealized gains (losses) from our investment in MCC.

Provision for Income Taxes. Medley Management Inc. is subject to U.S. federal, state and local corporate income taxes on its allocable portion of taxable income from Medley LLC at prevailing corporate tax rates. Medley LLC and its subsidiaries are not subject to U.S. federal, state and local corporate income taxes since all of its income or losses are passed through to its members. However, Medley LLC and its subsidiaries are subject to New York City's unincorporated business tax on its taxable income allocated to New York City. Our effective income tax rate is dependent on many factors, including the impact of nondeductible items, the need for or changes in the valuation allowance on deferred tax assets, and a rate benefit attributable to the fact that a portion of our earnings are not subject to corporate level taxes.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. To the extent it is more likely than not that the deferred tax assets will not be recognized, a valuation allowance is provided to offset their benefit.

We recognize the benefit of an income tax position only if it is more likely than not that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit is recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than 50% percent likelihood of being realized upon ultimate settlement. Interest expense and penalties related to income tax matters are recognized as a component of the provision for income taxes.

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act includes significant changes to the U.S. corporate income tax system including: a federal corporate rate reduction from 34% to 21%; limitations on the deductibility of interest expense and executive compensation; and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system. Changes under the Tax Act were effective for us as of January 1, 2018.

Net (Loss) Income Attributable to Redeemable Non-Controlling Interests and Non-Controlling Interests in Consolidated Subsidiaries. Net income attributable to redeemable non-controlling interests and non-controlling interests in consolidated subsidiaries represents the ownership interests that third parties hold in certain consolidated

subsidiaries.

Net (Loss) Income Attributable to Non-Controlling Interests in Medley LLC. Net income attributable to non-controlling interests in Medley LLC represents the ownership interests that non-managing members' hold in Medley LLC.

Our private funds are closed-end funds, and accordingly do not permit investors to redeem their interests other than in limited circumstances that are beyond our control, such as instances in which retaining the limited partnership interest could cause the

limited partner to violate a law, regulation or rule. In addition, SMAs for a single investor may allow such investor to terminate the investment management agreement at the discretion of the investor pursuant to the terms of the applicable documents. We manage assets for MCC and SIC, both of which are BDCs. The capital managed by MCC and SIC is permanently committed to these funds and cannot be redeemed by investors.

Managing Business Performance

Non-GAAP Financial Information

In addition to analyzing our results on a GAAP basis, management also makes operating decisions and assesses business performance based on the financial and operating metrics and data that are presented without the consolidation of any fund(s). Core Net Income, Core EBITDA, Core Net Income Per Share and Core Net Income Margin are non-GAAP financial measures that are used by management to assess the performance of our business. There are limitations associated with the use of non-GAAP financial measures as compared to the use of the most directly comparable U.S. GAAP financial measure and these measures supplement and should be considered in addition to and not in lieu of the results of operations discussed further under "Results of Operations," which are prepared in accordance with U.S. GAAP. Furthermore, such measures may be inconsistent with measures presented by other companies. For a reconciliation of these measures to the most comparable measure in accordance with U.S. GAAP, see "Reconciliation of Certain Non-GAAP Performance Measures to Consolidated U.S. GAAP Financial Measures."

Core Net Income. Core Net Income is an income measure that is used by management to assess the performance of our business through the removal of non-core items, as well as non-recurring expenses associated with our IPO. It is calculated by adjusting net income attributable to Medley Management Inc. and net income attributable to non-controlling interests in Medley LLC to exclude reimbursable expenses associated with the launch of funds, amortization of stock-based compensation expense associated with grants of restricted stock units at the time of our IPO, other non-core items and the income tax impact of these adjustments.

Core Earnings Before Interest, Income Taxes, Depreciation and Amortization (Core EBITDA). Core EBITDA is an income measure also used by management to assess the performance of our business. Core EBITDA is calculated as Core Net Income before interest expense, income taxes, depreciation and amortization.

Pro-Forma Weighted Average Shares Outstanding. The calculation of Pro-Forma Weighted Average Shares Outstanding assumes the conversion by the pre-IPO holders of up to 24,639,302 vested and unvested LLC Units for 24,639,302 shares of Class A common stock at the beginning of each period presented.

Core Net Income Per Share. Core Net Income Per Share is Core Net Income adjusted for corporate income taxes assuming that all of our pre-tax earnings are subject to federal, state and local corporate income taxes, divided by Pro-Forma Weighted Average Shares Outstanding (as defined above). In determining corporate income taxes we used an annual effective corporate tax rate of 43.0% for 2017 and 33.0% for 2018. Please refer to the calculation of Core Net Income Per Share in "Reconciliation of Certain Non-GAAP Performance Measures to Consolidated U.S. GAAP Financial Measures."

Core Net Income Margin. Core Net Income Margin equals Core Net Income Per Share divided by total revenue per share.

Key Performance Indicators

When we review our performance we focus on the indicators described below:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
(Amounts in thousands, except AUM, share and per share amounts)				
Consolidated Financial Data:				
Net (loss) income attributable to Medley Management Inc. and non-controlling interests in Medley LLC	\$(1,448)	\$ 2,633	\$(6,570)	\$ 9,986
Net (loss) income per Class A common stock	\$(0.15)	\$ 0.03	\$(0.49)	\$ 0.18
Net (Loss) Income Margin ⁽¹⁾	(10.1)%	15.9 %	(15.0)%	21.2 %
Weighted average shares - Basic and Diluted	5,591,123	5,342,939	5,539,804	5,578,003

Non-GAAP Data:

Core Net Income	\$1,889	\$ 3,851	\$5,163	\$13,171
Core EBITDA	\$5,582	\$ 7,592	\$15,941	\$23,737
Core Net Income Per Share	\$0.06	\$ 0.09	\$0.16	\$0.28
Core Net Income Margin	12.5 %	15.9 %	11.0 %	18.2 %
Pro-Forma Weighted Average Shares Outstanding	32,174,946	30,777,252	31,539,125	30,922,950

Other Data (at period end, in millions):

AUM	\$4,796	\$ 5,296	\$4,796	\$5,296
Fee Earning AUM	\$2,891	\$ 3,241	\$2,891	\$3,241

(1) Net Income (Loss) Margin equals Net income attributable to Medley Management Inc. and non-controlling interests in Medley LLC divided by total revenue.

AUM

AUM refers to the assets of our funds. We view AUM as a metric to measure our investment and fundraising performance as it reflects assets generally at fair value plus available uncalled capital. For our funds, our AUM equals the sum of the following:

- Gross asset values or NAV of such funds;
 - the drawn and undrawn debt (at the fund-level, including amounts subject to restrictions); and
 - uncalled committed capital (including commitments to funds that have yet to commence their investment periods).
- The table below provides the roll forward of AUM for the three months ending September 30, 2018.

	Permanent Capital Vehicles			Long-dated Private Funds and SMAs			Total	% of AUM		
	(Dollars in millions)			(Dollars in millions)						
Ending balance, June 30, 2018	\$2,192	\$ 2,844					\$5,036	44 %	56 %	
Commitments ⁽¹⁾	(162)	40					(122)			
Distributions ⁽²⁾	(21)	(39)					(60)			
Change in fund value ⁽³⁾	(34)	(24)					(58)			
Ending balance, September 30, 2018	\$1,975	\$ 2,821					\$4,796	41 %	59 %	

With respect to permanent capital vehicles, represents decreases during the period through debt repayments offset, (1) in part, by equity offerings. With respect to long-dated private funds and SMAs, represents new commitments or gross inflows, respectively, as well as any increases in available undrawn borrowings.

With respect to permanent capital vehicles, represents distributions of income. With respect to long-dated private (2) funds and SMAs, represents return of capital, given our funds' stage in their respective life cycle and the prioritization of capital distributions.

(3) Includes interest income, realized and unrealized gains (losses), fees and/or expenses.

AUM was \$4.8 billion as of September 30, 2018 compared to \$5.0 billion of AUM as of June 30, 2018. Our permanent capital vehicles decreased by \$217.0 million as of September 30, 2018, primarily due to the reduction in committed debt as a result of the termination of MCC's revolver commitment with ING. Our long-dated private funds and SMAs decreased AUM by \$23.0 million.

The table below provides the roll forward of AUM for the nine months ending September 30, 2018.

	Permanent Capital Vehicles			Long-dated Private Funds and SMAs			Total			% of AUM		
	Permanent Capital Vehicles			Long-dated Private Funds and SMAs			Total			Permanent Capital Vehicles		

Our calculations of fee earning AUM and AUM may differ from the calculations of other asset managers and, as a result, this measure may not be comparable to similar measures presented by others. In addition, our calculations of fee earning AUM

and AUM may not be based on any definition of fee earning AUM or AUM that is set forth in the agreements governing the investment funds that we advise.

Components of Fee Earning AUM

	As of September 30, 2018	December 31, 2017
	(Amounts in millions)	
Fee earning AUM based on gross asset value	\$1,814	\$ 2,090
Fee earning AUM based on capital commitments	20	126
Fee earning AUM based on invested capital or NAV	1,057	942
Total fee earning AUM	\$2,891	\$ 3,158

As of September 30, 2018, fee earning AUM based on gross asset value decreased by \$276.0 million, compared to December 31, 2017. The decrease in fee earning AUM based on gross asset value was primarily due to a decrease in the gross asset fair values and a decrease in leverage in the permanent capital vehicles.

As of September 30, 2018, fee earning AUM based on capital commitments decreased \$106.0 million, compared to December 31, 2017. The decrease in fee earning AUM based on capital commitments was due to one of our long-dated funds, whose fee earning AUM was based on its capital commitments during its investment period, exiting its investment period.

As of September 30, 2018, fee earning AUM based on invested capital or NAV increased by \$115.0 million, compared to December 31, 2017. The increase in fee earning AUM based on invested capital or NAV was due to one of our long-dated funds, whose fee earning AUM was previously based on its capital commitments during its investment period, is now based on invested capital.

The table below presents the roll forward of fee earning AUM for the three months ended September 30, 2018.

				% of Fee Earning AUM		
	Permanent Capital Vehicles	Long-dated Private Funds and SMAs	Total	Permanent Capital Vehicles	Long-dated Private Funds and SMAs	
	(Dollars in millions)					
Ending Balance, June 30, 2018	\$1,896	\$ 1,064	\$2,960	64%	36	%
Commitments ⁽¹⁾	(27)	60	33			
Distributions ⁽²⁾	(21)	(12)	(33)			
Change in fund value ⁽³⁾	(34)	(35)	(69)			
Ending Balance, September 30, 2018	\$1,814	\$ 1,077	\$2,891	63%	37	%

With respect to permanent capital vehicles, represents increases or temporary reductions during the period through

⁽¹⁾ equity and debt offerings, as well as any increases in capital commitments. With respect to long-dated private funds and SMAs, represents new commitments or gross inflows, respectively.

⁽²⁾ Represents distributions of income, return of capital and return of portfolio investment capital to the fund.

⁽³⁾ Includes interest income, realized and unrealized gains (losses), fees and/or expenses.

Total fee earning AUM decreased by \$69.0 million, or 2%, to \$2.9 billion as of September 30, 2018 compared to June 30, 2018, primarily due to changes in fund value.

The table below presents the roll forward of fee earning AUM for the nine months ended September 30, 2018.

				% of Fee Earning AUM		
	Permanent Capital Vehicles	Long-dated Private Funds and SMAs	Total	Permanent Capital Vehicles	Long-dated Private Funds and SMAs	
(Dollars in millions)						
Ending balance, December 31, 2017	\$2,090	\$ 1,068	\$3,158	66 %	34 %	
Commitments ⁽¹⁾	(116)	214	98			
Distributions ⁽²⁾	(66)	(100)	(166)			
Change in fund value ⁽³⁾	(94)	(105)	(199)			
Ending Balance, September 30, 2018	\$1,814	\$ 1,077	\$2,891	63 %	37 %	

With respect to permanent capital vehicles, represents increases or temporary reductions during the period through equity and debt offerings, as well as any increases in capital commitments. With respect to long-dated private funds and SMAs, represents new commitments or gross inflows, respectively.

⁽²⁾ Represents distributions of income, return of capital and return of portfolio investment capital to the fund.

⁽³⁾ Includes interest income, realized and unrealized gains (losses), fees and/or expenses.

Total fee earning AUM decreased by \$267.0 million, or 8%, to \$2.9 billion as of September 30, 2018 compared to December 31, 2017, primarily due to changes in fund value and distributions.

Returns

The following section sets forth historical performance for our active funds.

Sierra Income Corporation (SIC)

We launched SIC, our first public non-traded permanent capital vehicle, in April 2012. SIC primarily focuses on direct lending to middle market borrowers in the United States. Since inception, we have provided capital for a total of 391 investments and have invested a total of \$2.3 billion. As of September 30, 2018, the fee earning AUM was \$1.1 billion. The performance for SIC as of September 30, 2018 is summarized below:

Annualized Net Total Return⁽¹⁾: 4.7 %

Annualized Realized Losses on Invested Capital: 1.4 %

Average Recovery⁽³⁾: 61.7 %

Medley Capital Corporation (MCC)

We launched MCC, our first permanent capital vehicle in January 2011. MCC primarily focuses on direct lending to private middle market borrowers in the United States. Since inception, we have provided capital for a total of 230 investments and have invested a total of \$2.2 billion. As of September 30, 2018, excluding Medley SBIC LP, the fee earning AUM was \$530 million. The performance for MCC as of September 30, 2018 is summarized below:

Annualized Net Total Return⁽²⁾: 1.6 %

Annualized Realized Losses on Invested Capital: 2.8 %

Average Recovery⁽³⁾: 41.2 %

Medley SBIC LP (Medley SBIC)

We launched Medley SBIC in March 2013 as a wholly owned subsidiary of MCC. Medley SBIC lends to smaller middle market private borrowers that we otherwise would not target in our other funds, primarily due to size. Since inception, we have provided capital for a total of 49 investments and have invested a total of \$472 million. As of September 30, 2018, the fee earning AUM was \$212 million. The performance for Medley SBIC fund as of September 30, 2018 is summarized below:

Gross Portfolio Internal Rate of Return⁽⁴⁾: 10.0 %

Net Investor Internal
Rate of Return⁽⁵⁾: 5.6 %

Annualized Realized
Losses on Invested
Capital: 1.8 %

Average Recovery: 26.3 %

Medley Opportunity Fund II LP (MOF II)

MOF II is a long-dated private investment fund that we launched in December 2010. MOF II lends to middle market private borrowers, with a focus on providing senior secured loans. Since inception, we have provided capital for a total of 86 investments and have invested a total of \$963 million. As of September 30, 2018, the fee earning AUM was \$225 million. MOF II is currently fully invested and actively managing its assets. The performance for MOF II as of September 30, 2018, is summarized below:

Gross Portfolio Internal Rate of Return⁽⁴⁾: 8.3 %

Net Investor Internal Rate of Return⁽⁶⁾: 4.1 %

Annualized Realized Losses on Invested Capital: 2.4 %

Average Recovery⁽³⁾: 36.7 %

Medley Opportunity Fund III LP (MOF III)

MOF III is a long-dated private investment fund that we launched in December 2014. MOF III lends to middle market private borrowers in the U.S., with a focus on providing senior secured loans. Since inception, we have provided capital for a total of 45 investments and have invested a total of \$203 million. As of September 30, 2018, the fee earning AUM was \$114 million. The performance for MOF III as of September 30, 2018 is summarized below:

Gross Portfolio Internal
Rate of Return⁽⁴⁾: 10.5 %

Net Investor Internal
Rate of Return⁽⁶⁾: 5.8 %

Annualized Realized
Losses on Invested
Capital: — %

Average Recovery: N/A

Other Long-Dated Private Funds and Permanent Capital Vehicles

We launched Sierra Total Return Fund (“STRF”), a public non-traded permanent capital vehicle, in June 2017. The Fund seeks to provide a total return through a combination of current income and long-term capital appreciation by investing in a portfolio of debt securities and fixed-income related equity securities.

We launched Medley Opportunity Fund Offshore III LP (“MOF III Offshore”) in May 2017. MOF III Offshore invests in senior secured loans made to middle market private borrowers in the US.

We launched Aspect-Medley Investment Platform A LP (“Aspect”) in November 2016 and Aspect-Medley Investment Platform B LP (“Aspect-B”) in May 2018 to meet the current demand for equity capital solutions in the traditional corporate debt-backed collateralized loan obligation (“CLO”) market. Its investment objective is to generate current income, and also to generate capital appreciation through investing in CLO equity, as well as, equity and junior debt tranches trading in the secondary market.

We launched Medley Credit Opportunity Fund (“MCOF”) in July 2016 to meet the current demand for equity capital solutions in the traditional corporate debt-backed collateralized loan obligation (“CLO”) market. Its investment objective is to generate current income, and also to generate capital appreciation through investing in CLO equity, as well as, equity and junior debt tranches trading in the secondary market.

The performance of STRF, MOF III Offshore, Aspect, and MCOF as of September 30, 2018 is not meaningful given the funds' limited operations and capital invested to date.

Separately Managed Accounts (SMAs)

In the case of our separately managed accounts, the investor, rather than us, may control the assets or investment vehicle that holds or has custody of the related investments. Certain subsidiaries of Medley LLC serve as the investment adviser for our SMAs. Since inception, we have provided capital for a total of 211 investments and have invested a total of \$1.2 billion. As of September 30, 2018, the fee earning AUM in our SMAs was \$614 million. The aggregate performance of our SMAs as of September 30, 2018, is summarized below:

Gross Portfolio Internal Rate of Return ⁽⁴⁾ :	7.6 %
Net Investor Internal Rate of Return ⁽⁷⁾ :	6.2 %
Annualized Realized Losses on Invested Capital:	1.9 %
Average Recovery ⁽³⁾ :	34.4 %

Annualized Net Total Return for SIC represents the annualized return assuming an investment at the initial public offering price, reinvestments of all dividends and distributions at prices obtained under SIC's dividend reinvestment plan and selling at the NAV as of the measurement date.

Annual Net Total Return for MCC, including Medley SBIC, represents the annualized return assuming an investment at the initial public offering price, reinvestments of all dividends and distributions at prices obtained under MCC's dividend reinvestment plan and selling at NAV as of the measurement date.

Average Recovery includes only those realized investments in which we experience a loss of principal on a cumulative cash flow basis and is calculated by dividing the total actual cash inflows for each respective investment, including all interest, principal and fee note repayments, dividends and transactions fees, if applicable, by the total actual cash outflows for each respective investment.

For Medley SBIC, MOF II, MOF III, and SMAs, the Gross Internal Rate of Return represents the cumulative investment performance from inception of each respective fund through September 30, 2018. The Gross Internal Rate of Return includes both realized and unrealized investments and excludes the impact of base management fees, incentive fees and other fund related expenses. For realized investments, the investment returns were calculated based on the actual cash outflows and inflows for each respective investment and include all interest, principal and fee note repayments, dividends and transactions fees, if applicable. For unrealized investments, the investment returns were calculated based on the actual cash outflows and inflows for each respective investment and include all interest, principal and fee note repayments, dividends and transactions fees, if applicable. The investment return assumes that the remaining unrealized portion of the investment is realized at the investment's most recent fair value, as calculated in accordance with GAAP. There can be no assurance that the investments will be realized at these fair values and actual results may differ significantly.

Earnings from Medley SBIC are paid to MCC. The Net Internal Rate of Return for Medley SBIC was calculated based upon i) the actual cash contribution and distributions to/from MCC and Medley SBIC ii) an allocable portion of MCC's management and incentive fees and general fund related expenses and iii) assumes the NAV as of the measurement date is distributed to MCC. As of September 30, 2018, Medley SBIC Net Internal Rate of Return as described above assuming only the inclusion of management fees was 13.6%.

Net Internal Rate of Return for MOF II and MOF III was calculated net of all management fees and carried interest allocation since inception and was computed based on the actual dates of capital contributions and the ending aggregate partners' capital at the end of the period.

Net Internal Rate of Return for our SMAs was calculated using the Gross Internal Rate of Return, as described in note 4, and includes the actual management fees, incentive fees and general fund related expenses.

Results of Operations

The following table and discussion sets forth information regarding our condensed consolidated results of operations for the three and nine months ended September 30, 2018 and 2017. The unaudited condensed consolidated financial statements of Medley have been prepared on substantially the same basis for all historical periods presented.

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018		For the Three Months Ended September 30, 2017		For the Nine Months Ended September 30, 2017	
	</							

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Revenues

Management Fees. Total management fees decreased by \$2.5 million, or 17%, to \$12.3 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017.

- Our management fees from permanent capital vehicles decreased by \$2.5 million during the three months ended September 30, 2018 compared to the same period in 2017. The decrease was primarily due to lower base management fees from both SIC and MCC as a result of a decrease in fee earning assets under management.
- Our management fees from long-dated private funds and SMAs were relatively consistent during the three months ended September 30, 2018, compared to the same period in 2017.

Performance Fees. We did not recognize any performance fees during the three months ended September 30, 2018 compared to a reversal of performance fees of \$0.2 million during the same period 2017. As a result of the adoption of the new revenue recognition standard on January 1, 2018, we did not recognize any performance fees in 2018 as we determined that it was not probable that a significant reversal of such fees would not occur in the future.

Other Revenues and Fees. Other revenues and fees increased by \$0.8 million to \$2.8 million during the three months ended September 30, 2018 compared to the same period in 2017. The increase was primarily due to reimbursable origination and deal related expenses which were recognized in 2018 as a result of the adoption of the new revenue recognition standard on January 1, 2018. Depending on whether the Company is acting as the principal or as an agent, certain reimbursable expenses that were previously recorded net are now presented on a gross basis on the Company's condensed consolidated statements of operations (See Note 2 to the Condensed Consolidated Financial Statements).

Investment Income. Investment income decreased by approximately \$0.6 million to a loss of \$0.7 million during the three months ended September 30, 2018 compared to the same period in 2017. The decrease was primarily due to lower carried interest from our private long dated funds and unrealized losses from our equity method investments.

Expenses

Compensation and Benefits. Compensation and benefits expenses of \$6.3 million for the three months ended September 30, 2018 remained relatively consistent with the comparative period in 2017.

Performance Fee Compensation. Performance fee compensation remained relatively consistent and was less than \$0.1 million during each of the three months ended September 30, 2018 and 2017.

General, Administrative and Other Expenses. General, administrative and other expenses increased by \$2.7 million to \$6.2 million during the three months ended September 30, 2018 compared to the same period in 2017. The increase was primarily due to a \$2.9 million increase in professional fees. The increase in professional fees was primarily attributed to fees incurred in connection with our pending merger with SIC.

Other Income (Expense)

Dividend Income. Dividend income decreased by \$0.5 million to \$1.0 million during the three months ended September 30, 2018 compared to the same period in 2017. The decrease was primarily due to a reduction in dividend income from our investment in shares of MCC.

Interest Expense. Interest expense remained consistent at \$2.7 million during the three months ended September 30, 2018 compared to the same period in 2017.

Other Income (Expenses), net. Other income (expenses), net increased by \$2.9 million to \$2.7 million during the three months ended September 30, 2018 compared to the same period in 2017. The increase was due primarily to \$2.7 million of unrealized gains relating to one of our investments. The \$2.7 million of unrealized gains were allocated to non-controlling interests in consolidated subsidiaries which did not have any impact on the income attributed to Medley Management Inc. and non-controlling interests in Medley LLC.

Provision for Income Taxes

Our effective income tax rate was 15.7% and 12.5% for the three months ended September 30, 2018 and 2017, respectively. Our tax rate is affected by recurring items, such as permanent differences and income allocated to certain redeemable non-controlling interests which is not subject to U.S. federal, state and local corporate income taxes. Our effective tax rate is also impacted by discrete items that may occur in any given period, but are not consistent from period to period. The increase in our effective tax rate is attributed primarily to losses allocated to redeemable

non-controlling interests that are not subject to income taxes which

result in no tax benefit being recorded in our provision and a return to provision true up of the 2017 income tax provision, offset in part by the reduction in the federal corporate tax rate from 34% to 21%, effective January 1, 2018, as a result of the Tax Cuts and Jobs Act.

Redeemable Non-Controlling Interests and Non-Controlling Interests in Consolidated Subsidiaries

Net income attributable to redeemable non-controlling interests and non-controlling interests in consolidated subsidiaries increased by \$1.9 million to \$3.9 million for the three months ended September 30, 2018 compared to the same period in 2017. The increase was primarily due to the allocation of an unrealized gain on shares of MCC to DB MED Investor I LLC, a third party, based on its preferred ownership interests held in one of our consolidated subsidiaries.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

Revenues

Management Fees. Total management fees decreased by \$5.5 million, or 13%, to \$36.4 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

- Our management fees from permanent capital vehicles decreased by \$5.9 million during the nine months ended September 30, 2018 compared to the same period in 2017. The decrease was primarily due to lower base management fees from both SIC and MCC as a result of a decrease in fee earning assets under management.
- Our management fees from long-dated private funds and SMAs increased by \$0.4 million to \$11.1 million during the nine months ended September 30, 2018, compared to the same period in 2017.

Performance Fees. We did not recognize any performance fees during the nine months ended September 30, 2018 compared to a reversal of \$2.0 million of performance fees during the same period in 2017. As a result of the adoption of the new revenue recognition standard on January 1, 2018, we did not recognize any performance fees in 2018 as we determined that it was not probable that a significant reversal of such fees would not occur in the future. The reversal of previously recognized performance fees in 2017 was a result of declines in the underlying fund values of our SMAs.

Other Revenues and Fees. Other revenues and fees increased by \$1.1 million to \$8.1 million for the nine months ended September 30, 2018 compared to the same period in 2017. The increase was primarily due to reimbursable origination and deal expenses which were recognized in 2018 as a result of the adoption of the new revenue recognition standard on January 1, 2018. Depending on whether the Company is acting as the principal or as an agent, certain reimbursable expenses that were previously recorded net are now presented on a gross basis on the Company's condensed consolidated statement of operations (see Note 2 to the Condensed Consolidated Financial Statements).

Investment Income. Investment income decreased by \$0.6 million to a loss of \$0.6 million for the nine months ended September 30, 2018 compared to the same period in 2017. The decrease was primarily due to losses from our equity method investments partially offset by higher carried interest from our private long dated funds.

Expenses

Compensation and Benefits. Compensation and benefits increased by \$4.1 million, or 23% to \$22.0 million for the nine months ended September 30, 2018 compared to 2017. The variance was primarily due to a \$1.1 million increase in severance expense associated with the consolidation of our business activities to our New York office, a \$2.1 million increase in stock-based compensation and a \$1.4 million increase in employee bonus expense. The increase in stock-based compensation was attributed to an increase in the number of outstanding awards and the impact of forfeitures that occurred period over period. Bonuses are at our discretion and will vary based on individual and overall performance as well the timing of new hires and employee departures during each of the comparative periods.

Performance Fee Compensation. There was a reversal in performance fee compensation of \$0.1 million during the nine months ended September 30, 2018 compared to a reversal of performance fee compensation of \$0.8 million during 2017. The variance in performance fee compensation was primarily due to changes in projected future payments for which the performance fee compensation is based on.

General, Administrative and Other Expenses. General, administrative and other expenses increased by \$6.2 million to \$15.1 million for the nine months ended September 30, 2018 compared to the same period in 2017. The increase was primarily due to a \$5.4 million increase in professional fees and a \$0.4 million increase in expenses related to our

consolidated fund, STRF. The increase in professional fees relates to strategic initiatives including our pending merger with SIC. The increase in STRF expenses is primarily attributed to STRF commencing operations in June 2017, as a result there were nine months of operating expenses in 2018 versus four months in 2017.

Other Income (Expense)

Dividend Income. Dividend income increased by \$0.5 million to \$3.4 million for the nine months ended September 30, 2018 compared to the same period in 2017. The increase was primarily due to dividend income from our investment in MCC shares attributed to an increase in average shares held in 2018 compared to 2017.

Interest Expense. Interest expense decreased by \$1.0 million, or 11%, to \$8.1 million for the nine months ended September 30, 2018 compared to the same period in 2017. The higher expense in 2017 was primarily due to an acceleration of amortization of debt issuance costs and discount relating to prepayments made on our Term Loan Facility as a result of the refinancing of our indebtedness from the issuance of senior unsecured debt. In addition, our average debt outstanding during the nine months ended September 30, 2018 and 2017 was \$132.6 million and \$126.5 million, respectively.

Other Income (Expenses), net. Other income (expenses), net decreased by \$12.5 million to \$(11.1) million for the nine months ended September 30, 2018 compared to the same period in 2017. The decrease was primarily due to a \$10.9 million unrealized loss incurred during the nine months ended September 30, 2018 related to our investment in shares of MCC. Of the \$10.9 million of unrealized losses, \$7.3 million was allocated to non-controlling interests in consolidated subsidiaries which did not have any impact on the net income attributed to Medley Management Inc. and income attributed to non-controlling interests in Medley LLC. During 2017, any unrealized gains or losses attributed to our investment in shares of MCC were recorded in other comprehensive income and not part of other income (expense).

Provision for Income Taxes

Our effective income tax rate was (9.4)% and 9.2% for the nine months ended September 30, 2018 and 2017, respectively. Our tax rate is affected by recurring items, such as permanent differences and income allocated to certain redeemable non-controlling interests which is not subject to U.S. federal, state and local corporate income taxes. The variance in the effective tax rate during the nine months ended September 30, 2018 as compared to the same period in 2017 was primarily due to the reduction in the federal corporate tax rate from 34% to 21%, effective January 1, 2018, as a result of the Tax Cuts and Jobs Act offset by the establishment of a \$0.7 million valuation allowance against our deferred tax asset associated with the cumulative unrealized losses in shares of MCC and SIC, losses allocated to redeemable non-controlling interests that are not subject to income taxes and, during the three months ended September 30, 2018, a return to provision true up of the 2017 income tax provision.

Redeemable Non-Controlling Interests and Non-Controlling Interests in Consolidated Subsidiaries

Net income attributable to redeemable non-controlling interests and non-controlling interests in consolidated subsidiaries decreased by \$7.8 million to a loss of \$3.1 million for the nine months ended September 30, 2018 compared to the same period in 2017. The decrease was primarily due to the allocation of unrealized loss in shares of MCC to DB MED Investor I LLC, a third party, based on its preferred ownership interests held in one of our consolidated subsidiaries.

Reconciliation of Certain Non-GAAP Performance Measures to Consolidated U.S. GAAP Financial Measures

In addition to analyzing our results on a GAAP basis, management also makes operating decisions and assesses business performance based on the financial and operating metrics and data that are presented in the table below. Management believes that these measures provide analysts, investors and management with helpful information regarding our underlying operating performance and our business, as they remove the impact of items management believes are not reflective of underlying operating performance. These non-GAAP measures are also used by management for planning purposes, including the preparation of internal budgets; and for evaluating the effectiveness of operational strategies. Additionally, we believe these non-GAAP measures provide another tool for investors to use in comparing our results with other companies in our industry, many of whom use similar non-GAAP measures. There are limitations associated with the use of non-GAAP financial measures as compared to the use of the most directly comparable U.S. GAAP financial measure and these measures supplement and should be considered in addition to and not in lieu of the results of operations discussed below. Furthermore, such measures may be inconsistent with measures presented by other companies.

Net income attributable to Medley Management Inc. and non-controlling interests in Medley LLC is the U.S. GAAP financial measure most comparable to Core Net Income and Core EBITDA.

The following table is a reconciliation of net income attributable to Medley Management Inc. and non-controlling interests in Medley LLC on a consolidated basis to Core Net Income and Core EBITDA.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Amounts in thousands, except share and per share amounts)			
Net (loss) income attributable to Medley Management Inc.	\$(485)	\$ 461	\$(1,841)	\$ 1,429
Net (loss) income attributable to non-controlling interests in Medley LLC	(963)	2,172	(4,729)	8,557
Net income (loss) attributable to Medley Management Inc. and non-controlling interests in Medley LLC	\$(1,448)	\$ 2,633	\$(6,570)	\$ 9,986
Reimbursable fund startup expenses	240	596	1,304	847
IPO date award stock-based compensation	444	532	1,018	189
Other non-core items:				
Unrealized losses on shares of MCC	—	—	3,543	—
Severance expense	39	20	2,263	1,184
Acceleration of debt issuance costs ⁽¹⁾	—	—	—	1,148
Other ⁽²⁾	2,959	218	4,819	218
Income tax expense on adjustments	(345)	(148)	(1,214)	(401)
Core Net Income	\$1,889	\$ 3,851	\$5,163	\$ 13,171
Interest expense	2,717	2,718	8,113	7,982
Income taxes	795	800	2,049	1,894
Depreciation and amortization	181	223	616	690
Core EBITDA	\$5,582	\$ 7,592	\$15,941	\$ 23,737
Core Net Income Per Share	\$0.06	\$ 0.09	\$0.16	\$ 0.28

Pro-Forma Weighted Average Shares Outstanding ⁽³⁾ 32,174,946 30,777,252 31,539,125 30,922,950

(1) For the nine months ended September 30, 2017, this amount relates to additional interest expense associated with the acceleration of amortization of debt issuance costs and discount relating to prepayments made on our Term Loan Facility as a result of the refinancing of our indebtedness from the issuance of Senior Unsecured Debt.

(2) For the three and nine months ended September 30, 2018, other items consists primarily of expenses related to our pending merger with SIC, and prior to the pending merger, the pursuit of other strategic initiatives.

(3) The calculation of Pro-Forma Weighted Average Shares Outstanding assumes the conversion by the pre-IPO holders of up to 24,639,302 vested and unvested LLC Units for 24,639,302 shares of Class A common stock at the beginning of each period presented, as well as the vesting of the weighted average number of restricted stock units granted to employees and directors during each of the periods presented.

The calculation of Core Net Income Per Share is presented in the table below:

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	2017		2017	
(Amounts in thousands, except share and per share amounts)				
Numerator				
Core Net Income	\$1,889	\$ 3,851	\$5,163	\$ 13,171
Add: Income taxes	795	800	2,049	1,894
Pre-Tax Core Net Income	\$2,684	\$ 4,651	\$7,212	\$ 15,065
Denominator				
Class A common stock	5,591,125	5,342,939	5,539,804	5,578,003
Conversion of LLC Units and restricted LLC Units to Class A common stock	24,215,302	23,653,333	24,008,825	23,592,381
Restricted stock units	2,368,521	1,780,980	1,990,506	1,752,566
Pro-Forma Weighted Average Shares Outstanding	32,174,948	30,777,252	31,539,125	30,922,950
Pre-Tax Core Net Income Per Share	\$0.08	\$ 0.15	\$0.23	\$ 0.49
Less: corporate income taxes per share ⁽¹⁾	(0.02)	(0.06)	(0.07)	(0.21)
Core Net Income Per Share	\$0.06	\$ 0.09	\$0.16	\$ 0.28

Assumes that all of our pre-tax earnings are subject to federal, state and local corporate income taxes. In

- (1) determining corporate income taxes, we used a combined effective corporate tax rate of 33.0% for 2018 and 43.0% for 2017. The lower effective corporate tax rate was primarily the result of the enactment of the Tax Cuts and Jobs Act which reduced the federal corporate tax rate from 34.0% to 21.0% effective January 1, 2018.

Net Income Margin is the U.S. GAAP financial measure most comparable to Core Net Income Margin. Net Income margin is equal to Net income attributable to Medley Management Inc. and non-controlling interests in Medley LLC divided by total revenue. The following table is a reconciliation of Net Income Margin to Core Net Income Margin.

	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	2017		2017	
Net Income Margin	(10.1)%	15.9 %	(15.0)%	21.2 %
Reimbursable fund startup expenses ⁽¹⁾	1.7 %	3.6 %	3.0 %	1.7 %
IPO date award stock-based compensation ⁽¹⁾	3.1 %	3.2 %	2.3 %	0.4 %
Other non-core items: ⁽¹⁾				
Unrealized losses on shares of MCC	— %	— %	8.1 %	— %
Severance expense	0.3 %	0.1 %	5.1 %	2.6 %
Acceleration of debt issuance costs	— %	— %	— %	2.4 %
Other	20.6 %	1.3 %	11.0 %	0.5 %
Provision for income taxes ⁽¹⁾	3.1 %	3.9 %	1.9 %	3.2 %
Corporate income taxes ⁽²⁾	(6.2)%	(12.1)%	(5.4)%	(13.8)%
Core Net Income Margin	12.5 %	15.9 %	11.0 %	18.2 %

- (1) Adjustments to Net income attributable to Medley Management Inc. and non-controlling interests in Medley LLC to calculate Core Net Income are presented as a percentage of total revenue.

Assumes that all our pre-tax earnings, including adjustments above, are subject to federal, state and local corporate

- (2) income taxes. In determining corporate income taxes, we used a combined effective corporate tax rate of 33.0% for 2018 and 43.0% for 2017 and presented the calculation as a percentage of total revenue.

Liquidity and Capital Resources

Our primary cash flow activities involve: (i) generating cash flow from operations, which largely includes management fees; (ii) making distributions to our members and redeemable non-controlling interests; (iii) paying dividends and (iv) borrowings, interest payments and repayments under our debt facilities. As of September 30, 2018, we had \$21.5 million in cash and cash equivalents.

Our material source of cash from our operations is management fees, which are collected quarterly. We primarily use cash flows from operations to pay compensation and benefits, general, administrative and other expenses, federal, state and local corporate income taxes, debt service costs and distributions to our owners. Our cash flows, together with the proceeds from equity and debt issuances, are also used to fund investments in limited partnerships, purchase publicly traded securities, purchase fixed assets and other capital items. If cash flows from operations were insufficient to fund distributions, we expect that we would suspend paying such distributions.

Debt Instruments

Senior Unsecured Debt

On August 9, 2016, Medley LLC completed a registered public offering of \$25.0 million of an aggregate principal amount of 6.875% senior notes due 2026 (the “2026 Notes”). On October 18, 2016, Medley LLC completed a registered public offering of an additional \$28.6 million in aggregate principal amount of the 2026 Notes. The 2026 Notes mature on August 15, 2026.

On January 18, 2017, Medley LLC completed a registered public offering of \$34.5 million in aggregate principal amount of 7.25% senior notes due 2024 (the “2024 Notes”). On February 22, 2017, Medley LLC completed a registered public offering of an additional \$34.5 million in aggregate principal amount of 2024 Notes. The 2024 Notes mature on January 30, 2024.

As of September 30, 2018, the outstanding senior unsecured debt balance was \$117.4 million, and is reflected net of unamortized discount, premium and debt issuance costs of \$5.2 million.

See Note 7, “Senior Unsecured Debt”, to our condensed consolidated financial statements included in this Form 10-Q for additional information on the 2026 Notes and the 2024 Notes.

Revolving Credit Facility

On August 19, 2014, we entered into a \$15.0 million senior secured revolving credit facility with City National Bank (as amended, the “Revolving Credit Facility”), as administrative agent and collateral agent thereunder, and the lenders from time to time party thereto. On September 22, 2017 we amended the Revolving Credit Facility to, among other things, extend the maturity date until March 31, 2020 and provide for an incremental facility in an amount up to \$10.0 million upon the satisfaction of certain customary conditions. We intend to use any proceeds of borrowings under the Revolving Credit Facility for general corporate purposes, including funding our working capital needs. We have not incurred any borrowings under the Revolving Credit Facility through September 30, 2018.

Interest Rate and Fees

Borrowings under the Revolving Credit Facility bear interest, at our option, either (i) at ABR, plus an applicable margin not to exceed 0.25 percentage points, or (ii) at an adjusted LIBOR plus an applicable margin not to exceed 2.50 percentage points. In addition to paying interest on any outstanding principal under the Revolving Credit Facility, we are required to pay an unused line fee on the first day of the second month following each fiscal quarter in an amount equal to (i) if the average daily balance for the applicable fiscal quarter was less than \$9.0 million, 0.50% per annum, or (ii) if the average daily balance for the applicable fiscal quarter was equal to or greater than \$9.0 million, 0.25% per annum.

Guarantees and Collateral

Any obligations under the Revolving Credit Facility are unconditionally and irrevocably guaranteed by certain of Medley LLC’s subsidiaries. In addition, any outstanding borrowings are collateralized by first priority or equivalent security interests in (i) all the capital stock of, or other equity interests in, the borrower and each of the borrower’s and credit agreement guarantors’ direct or indirect domestic subsidiaries and 65% of the capital stock of, or other equity interests in, each of the borrower’s or any subsidiary guarantors’ direct wholly owned first-tier restricted foreign subsidiaries, and (ii) certain tangible and intangible assets of the borrower and the credit agreement guarantors

(subject to certain exceptions and qualifications).

None of our non-wholly owned domestic subsidiaries are obligated to guarantee the Revolving Credit Facility.

Certain Covenants and Events of Default

The Revolving Credit Facility contains a number of significant affirmative and negative covenants and customary events of default. Such covenants, among other things, will limit or restrict, subject to certain exceptions, the ability of the borrower and its restricted subsidiaries to:

- incur additional indebtedness, make guarantees and enter into hedging arrangements;
- create liens on assets;
- enter into sale and leaseback transactions;
- engage in mergers or consolidations;
- make fundamental changes;
- pay dividends and distributions or repurchase our capital stock;
- make investments, loans and advances, including acquisitions;
- engage in certain transactions with affiliates;
- make changes in the nature of their business; and
- make prepayments of junior debt.

In addition, the credit agreement governing our Revolving Credit Facility contains financial covenants that require us to maintain a Maximum Net Leverage Ratio of not greater than 5.0 to 1.0, a Total Leverage Ratio of not greater than 7.0 to 1.0, and Core EBITDA of not less than \$15.0 million. These ratios are calculated on a trailing twelve months basis and are calculated using our standalone financial results and include adjustments to calculate Core EBITDA. In September 2018, we requested and received a waiver from City National Bank that permits us to exclude the Maximum Net Leverage Ratio with respect to the fiscal periods ending on each of September 30, 2018 and December 31, 2018.

Our Revolving Credit Facility contains certain customary representations and warranties, affirmative covenants and events of default. If an event of default occurs, the lender under the Revolving Credit Facility will be entitled to take various actions, including the acceleration of any amounts due under the Revolving Credit Facility and all actions permitted to be taken by a secured creditor.

Non-Recourse Promissory Notes

In April 2012, we borrowed \$5.0 million under a non-recourse promissory note with a foundation, and \$5.0 million under a non-recourse promissory note with a trust. These notes are scheduled to mature in March 2019.

See Note 8 "Loans Payable" to our condensed consolidated financial statements included in this Form 10-Q for additional information regarding the promissory notes.

Cash Flows

The significant captions and amounts from our consolidated statements of cash flows are summarized below. Negative amounts represent a net outflow, or use of cash.

	For the Nine Months Ended September 30, 2018 2017 (Amounts in thousands)	
Statements of cash flows data		
Net cash provided by operating activities	\$12,238	\$6,600
Net cash used in investing activities	(1,591)	(35,224)
Net cash (used in) provided by financing activities	(25,459)	14,542
Net decrease in cash and cash equivalents	\$(14,812)	\$(14,082)

Operating Activities

Our net cash flow provided by operating activities was \$12.2 million and \$6.6 million during the nine months ended September 30, 2018 and 2017, respectively. During the nine months ended September 30, 2018 and 2017, net cash flow provided by operating activities was attributed to net (loss) income of \$(9.7) million and \$14.7 million,

respectively, non-cash adjustments of \$15.1

million and \$5.8 million, respectively, and changes in operating assets and liabilities of \$6.8 million and \$(13.9) million, respectively.

Investing Activities

Our investing activities generally reflect cash used to acquire fixed assets, purchase investments, and make capital contributions to our equity method investments. Cash provided by our investing activities generally reflect return of capital distributions received from our equity method investments. Purchases of fixed assets were less than \$0.1 million for the nine months ended September 30, 2018 and 2017. Capital contributions to equity method investments represented a use of cash of \$1.5 million and \$0.2 million for the nine months ended September 30, 2018 and 2017, respectively. Excluding the investments held by our consolidated fund, purchases of investments were \$35.0 million during the nine months ended September 30, 2017.

Financing Activities

Dividends paid were \$4.3 million and \$4.4 million during the nine months ended September 30, 2018 and 2017, respectively. Distributions to non-controlling interests and redeemable non-controlling interests were \$20.5 million and \$21.3 million for the nine months ended September 30, 2018 and 2017, respectively. Capital contributions from non-controlling interests and redeemable non-controlling interests resulted in an inflow of cash of less than \$0.1 million and \$23.0 million for the nine months ended September 30, 2018 and 2017, respectively. Repurchases of Class A common stock represented a use of cash from financing activities of \$3.6 million during the nine months ended September 30, 2017. There were no repurchases of Class A common stock during the nine months ended September 30, 2018. Payments of tax withholdings related to net share settlement of restricted stock units represented outflows of \$0.7 million for each of the nine months ended September 30, 2018 and 2017.

On August 9, 2016, Medley LLC completed its first registered public offering of senior unsecured debt and on October 18, 2016, January 18, 2017, and February 22, 2017 Medley LLC completed additional registered public offerings of senior unsecured debt. The proceeds from these offerings, net of offering expenses paid by us, amounted to \$116.2 million. The net proceeds from the offerings were used to pay-down the outstanding indebtedness under the Term Loan Facility with the remaining amount to be used for working capital purposes. During the nine months ended September 30, 2017, repayments of loans payable resulted in an outflow of cash of \$44.8 million and proceeds from the issuance of debt obligations provided an inflow of cash of \$69.1 million.

Sources and Uses of Liquidity

Our sources of liquidity are (i) cash on hand, (ii) net working capital, (iii) cash flows from operations, (iv) realizations on our investments, (v) net proceeds from borrowings under the Revolving Credit Facility and issuances of publicly-registered debt and (vi) other potential financings. We believe that these sources of liquidity will be sufficient to fund our working capital requirements and to meet our commitments in the foreseeable future. We expect that our primary liquidity needs will be comprised of cash to (i) provide capital to facilitate the growth of our existing investment management business, (ii) fund our commitments to funds that we advise, (iii) provide capital to facilitate our expansion into businesses that are complementary to our existing investment management business, (iv) pay operating expenses, including cash compensation to our employees and payments under the TRA, (v) fund capital expenditures, (vi) pay income taxes, and (vii) make distributions to our shareholders in accordance with our dividend policy.

We intend to use a portion of our available liquidity to fund cash dividends to our common shareholders on a quarterly basis. Our ability to fund cash dividends to our common shareholders is dependent on a myriad of factors, including among others: general economic and business conditions; our strategic plans and prospects; our business and investment opportunities; timing of capital calls by our funds in support of our commitments; our financial condition and operating results; working capital requirements and other anticipated cash needs; contractual restrictions and obligations; legal, tax and regulatory restrictions; restrictions on the payment of distributions by our subsidiaries to us; and other relevant factors.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. GAAP. In applying many of these accounting principles, we need to make assumptions, estimates or judgments that affect the reported amounts of

assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates or judgments, however, are both subjective and subject to change, and actual results may differ from our assumptions and estimates. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates or judgments. See Note 2, "Summary of Significant Accounting Policies," to our unaudited condensed consolidated financial statements included in this Form 10-Q for a summary of our significant accounting policies.

Principles of Consolidation

In accordance with ASC 810, Consolidation, we consolidate those entities where we have a direct and indirect controlling financial interest based on either a variable interest model or voting interest model. As such, we consolidate entities that we conclude are VIEs, for which we are deemed to be the primary beneficiary and entities in which we hold a majority voting interest or have majority ownership and control over the operational, financial and investing decisions of that entity.

For legal entities evaluated for consolidation, we must determine whether the interests that it holds and fees paid to it qualify as a variable interest in an entity. This includes an evaluation of the management fees and performance fees paid to us when acting as a decision maker or service provider to the entity being evaluated. Fees received by us that are customary and commensurate with the level of services provided, and we don't hold other economic interests in the entity that would absorb more than an insignificant amount of the expected losses or returns of the entity, would not be considered a variable interest. We factor in all economic interests including proportionate interests through related parties, to determine if fees are considered a variable interest.

An entity in which we hold a variable interest is a VIE if any one of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, (b) the holders of equity investment at risk have the right to direct the activities of the entity that most significantly impact the legal entity's economic performance, (c) the voting rights of some investors are disproportionate to their obligation to absorb losses or rights to receive returns from a legal entity. For limited partnerships and other similar entities, non-controlling investors must have substantive rights to either dissolve the fund or remove the general partner ("kick-out rights") in order to qualify as a VIE.

For those entities that qualify as a VIE, the primary beneficiary is generally defined as the party who has a controlling financial interest in the VIE. We are generally deemed to have a controlling financial interest if we have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, and the obligation to absorb losses or receive benefits from the VIE that could potentially be significant to the VIE. We determine whether we are the primary beneficiary of a VIE at the time we become initially involved with the VIE and we reconsider that conclusion continuously. The primary beneficiary evaluation is generally performed qualitatively on the basis of all facts and circumstances. However, quantitative information may also be considered in the analysis, as appropriate.

These assessments require judgments. Each entity is assessed for consolidation on a case-by-case basis.

For those entities evaluated under the voting interest model, we consolidate the entity if we have a controlling financial interest. We have a controlling financial interest in a voting interest entity ("VOE") if we own a majority voting interest in the entity.

Performance Fees

Performance fees are contractual fees which do not represent a capital allocation of income to the general partner or investment manager that are earned based on the performance of certain funds, typically, our separately managed accounts. Performance fees are earned based on the fund performance during the period, subject to the achievement of minimum return levels in accordance with the respective terms set out in each fund's investment management agreement. We account for performance fees in accordance with the new revenue standard, ASC 606, Revenue from Contracts with Customers, and we will only recognize performance fees when it is probable that a significant reversal of such fees will not occur in the future.

Carried Interest

Carried interest are performance based fees that represent a capital allocation of income to the general partner or investment manager. Carried interest is allocated to us based on cumulative fund performance to date, subject to the achievement of minimum return levels in accordance with the respective terms set out in each fund's governing documents.

Effective January 1, 2018, we account for carried interest under, ASC 323, Investments-Equity Method and Joint Ventures. Under this standard, we record carried interest in a consistent manner as we historically had which is based upon an assumed liquidation of that fund's net assets as of the reporting date, regardless of whether such amounts have been realized. For any given period, carried interest on our condensed consolidated statements of operations may

include reversals of previously recognized carried interest due to a decrease in the value of a particular fund that results in a decrease of cumulative fees earned to date. Since fund return hurdles are cumulative, previously recognized carried interest also may be reversed in a period of appreciation that is lower than the particular fund's hurdle rate.

Carried interest received in prior periods may be required to be returned by us in future periods if the funds' investment performance declines below certain levels. Each fund is considered separately in this regard and, for a given fund, carried interest can never be negative over the life of a fund. If upon a hypothetical liquidation of a fund's investments, at their then current fair

values, previously recognized and distributed carried interest would be required to be returned, a liability is established for the potential clawback obligation. Our actual obligation, however, would not become payable or realized until the end of a fund's life.

Income Taxes

We account for income taxes using the asset and liability approach, which requires the recognition of tax benefits or expenses for temporary differences between the financial reporting and tax basis of assets and liabilities. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized. We also recognize a tax benefit from uncertain tax positions only if it is "more likely than not" that the position is sustainable based on its technical merits. Our policy is to recognize interest and penalties on uncertain tax positions and other tax matters as a component of income tax expense. For interim periods, we account for income taxes based on our estimate of the effective tax rate for the year. Discrete items and changes in our estimate of the annual effective tax rate are recorded in the period they occur.

Medley Management Inc., is subject to U.S. federal, state and local corporate income taxes on its allocable portion of taxable income from Medley LLC at prevailing corporate tax rates, which are reflected in our unaudited condensed consolidated financial statements included in this Form 10-Q. Medley LLC and its subsidiaries are not subject to federal, state and local corporate income taxes since all income, gains and losses are passed through to its members. However, Medley LLC and its subsidiaries are subject to New York City's unincorporated business tax, which is included in our provision for income taxes.

We analyze our tax filing positions in all of the U.S. federal, state and local tax jurisdictions where we are required to file income tax returns, as well as for all open tax years in these jurisdictions. If, based on this analysis, we determine that uncertainties in tax positions exist, a liability is established.

Stock-based Compensation

We account for stock-based compensation in accordance with ASC 718, Compensation – Stock Compensation. Under the fair value recognition provision of this guidance, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period and reduced for actual forfeitures in the period they occur. Stock-based compensation is included as a component of compensation and benefits in our consolidated statements of operations.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements and their impact on us can be found in Note 2, "Summary of Significant Accounting Policies," to our unaudited condensed consolidated financial statements included in this Form 10-Q.

Off-Balance Sheet Arrangements

In the normal course of business, we may engage in off-balance sheet arrangements, including transactions in guarantees, commitments, indemnifications and potential contingent repayment obligations.

See Note 10, "Commitments and Contingencies," to our unaudited condensed consolidated financial statements included in this Form 10-Q for a discussion of our commitments and contingencies.

Contractual Obligations

The following table sets forth information relating to our contractual obligations as of September 30, 2018.

	Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years	Total
(Amounts in thousands)					
Medley Obligations					
Operating lease obligations ⁽¹⁾	\$2,708	\$5,333	\$4,862	\$—	\$12,903
Loans payable ⁽²⁾	10,000	—	—	—	10,000
Senior unsecured debt ⁽³⁾	—	—	—	122,595	122,595
Payable to former minority interest holder of SIC Advisors LLC (Note 15)	5,212	7,063	—	—	12,275

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Revenue share payable	1,216	1,931	—	—	3,147
Capital commitments to funds ⁽⁴⁾	256	—	—	—	256
Total	\$ 19,392	\$ 14,327	\$ 4,862	\$ 122,595	\$ 161,176

We lease office space in New York and San Francisco under non-cancelable lease agreements. The amounts in this

⁽¹⁾ table represent the minimum lease payments required over the term of the lease, and include operating leases for office equipment.

- (2) We have included all loans described in Note 8, “Loans Payable,” to our unaudited condensed consolidated financial statements included in this Form 10-Q.

- (3) We have included all our obligations described in Note 7, “Senior Unsecured Debt,” to our unaudited condensed consolidated financial statements included in this Form 10-Q. In addition to the principal amounts above, the Company is required to make quarterly interest payments of \$1.2 million related to our 2024 Notes and \$0.9 million related to our 2026 Notes.

- (4) Represents equity commitments by us to certain long-dated private funds managed by us. These amounts are generally due on demand and are therefore presented in the less than one year category.

Indemnifications

In the normal course of business, we enter into contracts that contain indemnities for our affiliates, persons acting on our behalf or such affiliates and third parties. The terms of the indemnities vary from contract to contract and the maximum exposure under these arrangements, if any, cannot be determined and has neither been recorded in our consolidated financial statements. As of September 30, 2018, we have not had prior claims or losses pursuant to these contracts and expect the risk of loss to be remote.

Contingent Obligations

The partnership documents governing our funds generally include a clawback provision that, if triggered, may give rise to a contingent obligation that may require the general partner to return amounts to the fund for distribution to investors. Therefore, carried interest, generally, is subject to reversal in the event that the funds incur future losses. These losses are limited to the extent of the cumulative carried interest recognized in income to date, net of a portion of taxes paid. Due in part to our investment performance and the fact that our carried interest is generally determined on a liquidation basis, as of September 30, 2018, we accrued \$7.2 million for clawback obligations that would need to be paid had the funds been liquidated as of that date. There can be no assurance that we will not incur additional clawback obligations in the future. If all of the existing investments were valued at \$0, the amount of cumulative carried interest that has been recognized would be reversed. We believe that the possibility of all of the existing investments becoming worthless is remote. At September 30, 2018, had we assumed all existing investments were valued at \$0, the net amount of carried interest subject to additional reversal would have been approximately \$0.5 million.

Carried interest is also affected by changes in the fair values of the underlying investments in the funds that we advise. Valuations, on an unrealized basis, can be significantly affected by a variety of external factors including, but not limited to, bond yields and industry trading multiples. Under the governing agreements of certain of our funds, we may have to fund additional amounts on account of clawback obligations beyond what we received in performance fee compensation on account of distributions of performance fee payments made to current or former professionals from such funds if they do not fund their respective shares of such clawback obligations. We will generally retain the right to pursue any remedies that we have under such governing agreements against those carried interest recipients who fail to fund their obligations.

Additionally, at the end of the life of the funds, there could be a payment due to a fund by us if we have recognized more carried interest than was ultimately earned. The general partner obligation amount, if any, will depend on final realized values of investments at the end of the life of the fund.

Recent Developments

On August 9, 2018 we entered into a definitive agreement to merge with Sierra Income Corporation. Pursuant to the Agreement and Plan of Merger by and among Medley Management Inc., Sierra and Sierra Management Inc., a newly formed Delaware corporation (“Merger Sub”), we will merge with and into the Merger Sub, and our existing asset management business will continue to operate as a wholly owned subsidiary of Sierra. Our Class A stockholders will receive 0.3836 shares of Sierra’s common stock, \$3.44 per share of cash consideration and \$0.65 per share in special cash dividends for each share of Class A common stock held by them. Medley LLC unitholders will convert their units into shares of Class A common stock and will receive 0.3836 shares of Sierra’s common stock, \$3.44 per share of cash consideration and \$0.35 per share in a special cash dividend for each share of Class A common stock held by them.

Simultaneously, pursuant to the Agreement and Plan of Merger by and between MCC and Sierra, MCC will merge with and into Sierra, with Sierra as the surviving entity. MCC shareholders will receive 0.805 shares of the Sierra's common stock for each share of MCC common stock they hold.

As a condition to closing, Sierra's common stock will be listed to trade on the New York Stock Exchange. The mergers are cross conditioned upon each other and are subject to approval by the shareholders of the Company, MCC and Sierra, regulators, including the SEC, other customary closing conditions and third party consents. Accordingly, we can provide no assurance that the mergers will be completed, that the mergers will not be delayed or that the terms of the mergers will not change.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary exposure to market risk is related to our role as general partner or investment advisor to our investment funds and the sensitivity to movements in the fair value of their investments, including the effect on management fees, performance fees and investment income.

The market price of investments may significantly fluctuate during the period of investment. Investments may decline in value due to factors affecting securities markets generally or particular industries represented in the securities markets. The value of an investment may decline due to general market conditions which are not specifically related to such investment, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry.

Effect on Management Fees

Management fees are generally based on a defined percentage of gross asset values, total committed capital, net invested capital and NAV of the investment funds managed by us as well as a percentage of net interest income over a performance hurdle. Management fees calculated based on fair value of assets or net investment income are affected by short-term changes in market values.

The overall impact of a short-term change in market value may be mitigated by fee definitions that are not based on market value including invested capital and committed capital, market value definitions that exclude the impact of realized and/or unrealized gains and losses, market value definitions based on beginning of the period values or a form of average market value including daily, monthly or quarterly averages, as well as monthly or quarterly payment terms.

As such, based on an incremental 10% short-term increase in fair value of the investments in our permanent capital vehicles, long-dated private funds and SMAs as of September 30, 2018, we calculated approximately a \$0.6 million and \$2.1 million increase in management fees for the three and nine months ended September 30, 2018, respectively. In the case of a 10% short-term decline in fair value of the investments in our permanent capital, long-dated funds and SMAs as of September 30, 2018, we calculated approximately a \$0.9 million and \$2.8 million decrease in management fees for the three and nine months ended September 30, 2018, respectively.

Effect on Performance Fees

Performance fees are based on certain specific hurdle rates as defined in the funds' applicable investment management or partnership agreements. Performance fees for any period are based upon the probability that there will not be a significant future revenue reversal of such fees in the future. We exercise significant judgments when determining if any performance fees should be recognized in a given period including the below.

- whether the fund is near final liquidation
- whether the fair value of the remaining assets in the fund is significantly in excess of the threshold at which the Company would earn an incentive fee
- the probability of significant fluctuations in the fair value of the remaining assets
- the SMA's remaining investments are under contract for sale with contractual purchase prices that would result in no clawback and it is highly likely that the contracts will be consummated

Short-term changes in the fair values of funds' investments usually do not impact accrued performance fees. The overall impact of a short-term change in market value may be mitigated by a number of factors including, but not limited to, the way in which carried interest performance fees are calculated, which is not ultimately dependent on short-term moves in fair market value, but rather realize cumulative performance of the investments through the end of the long-dated private funds, and SMAs lives.

We have not recognized any performance fees for the three and nine months ended September 30, 2018. As such, we would not be impacted by an incremental 10% short-term increase or decrease in fair value of the investments in our separately management accounts.

Effect on Part I and Part II Incentive Fees

Incentive fees are based on certain specific hurdle rates as defined in our permanent capital vehicles' applicable investment management agreements. The Part II incentive fees are based upon realized gains netted against cumulative realized and unrealized losses. The Part I incentive fees are not subject to clawbacks as our carried interest performance fees are.

Short-term changes in the fair values of the investments of our permanent capital vehicles may materially impact Part II

incentive fees depending on the respective vehicle's performance relative to applicable hurdles to the extent there were realized gains that we would otherwise earn Part II incentive fees on.

As such, based on an incremental 10% short-term increase in fair value of the investments in our permanent capital vehicles as of September 30, 2018, we calculated a \$0.4 million decrease in Part I and II incentive fees for the three and nine months ended September 30, 2018. In the case of a 10% short-term decline in fair value of the investments in our permanent capital vehicles as of September 30, 2018, we calculated a \$0.4 million increase in Part I incentive fees for the three and nine months ended September 30, 2018.

Effect on Carried Interest

Carried interest are performance based fees that represent a capital allocation of income to the general partner or investment manager. Carried interest are allocated to the Company based on cumulative fund performance to date, subject to the achievement of minimum return levels in accordance with the respective terms set out in each fund's governing documents.

Short-term changes in the fair values of funds' investments may materially impact accrued carried interest depending on the respective funds' performance relative to applicable return levels. The overall impact of a short-term change in market value may be mitigated by a number of factors including, but not limited to, the way in which carried interest are calculated, which is not ultimately dependent on short-term moves in fair market value, but rather realized cumulative performance of the investments through the end of the long-dated private funds' lives. However, short-term moves can meaningfully impact our ability to accrue carried interest and receive cash payments in any given period.

As such, based on an incremental 10% short-term increase in fair value of the investments in our long-dated private funds as of September 30, 2018, we calculated approximately a \$6.6 million increase in carried interest for the three and nine months ended September 30, 2018. In the case of a 10% short-term decline in fair value of investments in our long-dated private funds as of September 30, 2018, we calculated approximately a \$0.5 million decrease in carried interest for the three and nine months ended September 30, 2018.

Interest Rate Risk

As of September 30, 2018, we had \$127.2 million of debt outstanding, net of unamortized discount, premium, and issuance costs, presented as loans payable and senior unsecured debt in our audited financial statements included elsewhere in this Form 10-Q. Our debt bears interest at fixed rates, and therefore is not subject to interest rate fluctuation risk.

As credit-oriented investors, we are also subject to interest rate risk through the securities we hold in our funds. A 100 basis point increase in interest rates would be expected to negatively affect prices of securities that accrue interest income at fixed rates and therefore negatively impact net change in unrealized appreciation on the funds' investments. The actual impact is dependent on the average duration of such holdings. Conversely, securities that accrue interest at variable rates would be expected to benefit from a 100 basis points increase in interest rates because these securities would generate higher levels of current income and therefore positively impact interest and dividend income, subject to LIBOR. In the cases where our funds pay management fees based on NAV, we would expect management fees to experience a change in direction and magnitude corresponding to that experienced by the underlying portfolios.

Credit Risk

We are party to agreements providing for various financial services and transactions that contain an element of risk in the event that the counterparties are unable to meet the terms of such agreements. In such agreements, we depend on the respective counterparty to make payment or otherwise perform. We generally endeavor to minimize our risk of exposure by limiting to reputable financial institutions the counterparties with which we enter into financial transactions. In other circumstances, availability of financing from financial institutions may be uncertain due to market events, and we may not be able to access these financing markets.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our co-principal executive officers and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. The design of any disclosure controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Our management, with the participation of our Co-Chief Executive Officers and our Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, and subject to the foregoing, our Co-Chief Executive Officers and our Chief Financial Officer have concluded that, as of the end of the period covered by this report, the design and operation of our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.

Item 1. Legal Proceedings

From time to time, the Company is involved in various legal proceedings, lawsuits and claims incidental to the conduct of its business. Its business is also subject to extensive regulation, which may result in regulatory proceedings against it. Except as described below, the Company is not currently party to any material legal proceedings.

One of the Company's subsidiaries, MCC Advisors LLC, was named as a defendant in a lawsuit on May 29, 2015, by Moshe Barkat and Modern VideoFilm Holdings, LLC ("MVF Holdings") against MCC, MOF II, MCC Advisors LLC, Deloitte Transactions and Business Analytics LLP A/K/A Deloitte ERG ("Deloitte"), Scott Avila ("Avila"), Charles Sweet, and Modern VideoFilm, Inc. ("MVF"). The lawsuit is pending in the California Superior Court, Los Angeles County, Central District, as Case No. BC 583437. The lawsuit was filed after MCC, as agent for the lender group, exercised remedies following a series of defaults by MVF and MVF Holdings on a secured loan with an outstanding balance at the time in excess of \$65 million. The lawsuit sought damages in excess of \$100 million. Deloitte and Avila have settled the claims against them in exchange for payment of \$1.5 million. On June 6, 2016, the court granted the Medley defendants' demurrers on several counts and dismissed Mr. Barkat's claims with prejudice except with respect to his claim for intentional interference with contract. On March 18, 2018, the court granted the Medley defendants' motion for summary adjudication with respect to Mr. Barkat's sole remaining claim against the Medley Defendants for intentional interference. Now that the trial court has ruled in favor of the Medley defendants on all counts, the only remaining claims in the Barkat litigation are MCC and MOF II's affirmative counterclaims against Mr. Barkat and MVF Holdings, which MCC and MOF II are diligently prosecuting.

On August 29, 2016, MVF Holdings filed another lawsuit in the California Superior Court, Los Angeles County, Central District, as Case No. BC 631888 (the "Derivative Action"), naming MCC Advisors LLC and certain of Medley's employees as defendants, among others. The plaintiff in the Derivative Action, asserts claims against the defendants for breach of fiduciary duty, aiding and abetting breach of fiduciary duty, unfair competition, breach of the implied covenant of good faith and fair dealing, interference with prospective economic advantage, fraud, and declaratory relief. MCC Advisors LLC and the other defendants believe the causes of action asserted in the Derivative Action are without merit and all defendants intend to continue to assert a vigorous defense. All proceedings in the Derivative Action have been stayed as a result of the chapter 11 bankruptcy proceedings of MVF, which were commenced on May 16, 2018.

Medley LLC, Medley Capital Corporation, Medley Opportunity Fund II LP, Medley Management, Inc., Medley Group, LLC, Brook Taube, and Seth Taube were named as defendants, along with other various parties, in a putative class action lawsuit captioned as Royce Solomon, Jodi Belleci, Michael Littlejohn, and Giulia Lomaglio v. American Web Loan, Inc., AWL, Inc., Mark Curry, MacFarlane Group, Inc., Sol Partners, Medley Opportunity Fund, II, LP, Medley LLC, Medley Capital Corporation, Medley Management, Inc., Medley Group, LLC, Brook Taube, Seth Taube, DHI Computing Service, Inc., Middlemarch Partners, and John Does 1-100, filed on December 15, 2017 and amended on March 9, 2018, in the United States District Court for the Eastern District of Virginia, Newport News Division, as Case No. 4:17-cv-145 (hereinafter, "Class Action 1"). Medley Opportunity Fund II LP and Medley Capital Corporation were also named as defendants, along with various other parties, in a putative class action lawsuit captioned George Hengle and Lula Williams v. Mark Curry, American Web Loan, Inc., AWL, Inc., Red Stone, Inc., Medley Opportunity Fund II LP, and Medley Capital Corporation, filed February 13, 2018, in the United States District Court, Eastern District of Virginia, Richmond Division, as Case No. 3:18-cv-100 ("Class Action 2"). Medley Opportunity Fund II LP and Medley Capital Corporation were also named as defendants, along with various other parties, in a putative class action lawsuit captioned John Glatt, Sonji Grandy, Heather Ball, Dashawn Hunter, and Michael Corona v. Mark Curry, American Web Loan, Inc., AWL, Inc., Red Stone, Inc., Medley Opportunity Fund II LP, and Medley Capital Corporation, filed August 9, 2018 in the United States District Court, Eastern District of Virginia, Newport News Division, as Case No. 4:18-cv-101 ("Class Action 3") (together with Class Action 1 and Class Action 2, the "Virginia Class Actions"). Medley Opportunity Fund II LP was also named as a defendant, along with

various other parties, in a putative class action lawsuit captioned Christina Williams and Michael Stermel v. Red Stone, Inc. (as successor in interest to MacFarlane Group, Inc.), Medley Opportunity Fund II LP, Mark Curry, Brian McGowan, Vincent Ney, and John Doe entities and individuals, filed June 29, 2018 and amended July 26, 2018, in the United States District Court for the Eastern District of Pennsylvania, as Case No. 2:18-cv-2747 (the “Pennsylvania Class Action”) (together with the Virginia Class Actions, the “Class Action Complaints”). The plaintiffs in the Class Action Complaints filed their putative class actions alleging claims under the Racketeer Influenced and Corrupt Organizations Act, and various other claims arising out of the alleged payday lending activities of American Web Loan. The claims against Medley Opportunity Fund II LP, Medley LLC, Medley Capital Corporation, Medley Management, Inc., Medley Group, LLC, Brook Taube, and Seth Taube (in Class Action 1, as amended); Medley Opportunity Fund II LP and Medley Capital Corporation (in Class Action 2 and Class Action 3); and Medley Opportunity Fund II LP (in the Pennsylvania Class Action), allege that those defendants in each respective action exercised control over, or

improperly derived income from, and/or obtained an improper interest in, American Web Loan's payday lending activities as a result of a loan to American Web Loan. The loan was made by Medley Opportunity Fund II LP in 2011. American Web Loan repaid the loan from Medley Opportunity Fund II LP in full in February of 2015, more than 1 year and 10 months prior to any of the loans allegedly made by American Web Loan to the alleged class plaintiff representatives in Class Action 1. In Class Action 2, the alleged class plaintiff representatives have not alleged when they received any loans from American Web Loan. In Class Action 3, the alleged class plaintiff representatives claim to have received loans from American Web Loan at various times from February 2015 through April 2018. In the Pennsylvania Class Action, the alleged class plaintiff representatives claim to have received loans from American Web Loan in 2017. By orders dated August 7, 2018 and September 17, 2018, the Court presiding over the Virginia Class Actions consolidated those cases for all purposes. On October 12, 2018, Plaintiffs in Class Action 3 filed a notice of voluntary dismissal of their claims, without prejudice, against Medley Opportunity Fund II, LP and Medley Capital Corporation. On October 22, 2018, the parties to Class Action 2 settled. On October 29, 2018, the plaintiffs in Class Action 2 stipulated to the dismissal of their claims against all defendants in Class Action 2 (including Medley Opportunity Fund II LP and Medley Capital Corporation), with prejudice. Medley LLC, Medley Capital Corporation, Medley Management, Inc., Medley Group, LLC, Brook Taube, and Seth Taube never made any loans or provided financing to, or had any other relationship with, American Web Loan. Medley Opportunity Fund II LP, Medley LLC, Medley Capital Corporation, Medley Management, Inc., Medley Group, LLC, Brook Taube, Seth Taube are seeking indemnification from American Web Loan, various affiliates, and other parties with respect to the claims in the Class Action Complaints. Medley Opportunity Fund II LP, Medley LLC, Medley Capital Corporation, Medley Management, Inc., Medley Group, LLC, Brook Taube, and Seth Taube believe the alleged claims in the Class Action Complaints are without merit and they intend to defend these lawsuits vigorously.

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, see the information under the heading "Risk Factors" in Part I, Item 1A. of our Annual Report on Form 10-K, which is accessible on the SEC's website at www.sec.gov.

On August 9, 2018 the Company entered into a definitive agreement to merge with Sierra Income Corporation ("Sierra" or "SIC"). Pursuant to the Agreement and Plan of Merger by and among the Company, Sierra and Sierra Management Inc., a newly formed Delaware corporation ("Merger Sub"), the Company will merge with and into Merger Sub, and the Company's existing asset management business will continue to operate as a wholly owned subsidiary of Sierra.

As a condition to closing, Sierra's common stock will be listed to trade on the New York Stock Exchange. The mergers are cross conditioned upon each other and are subject to approval by the shareholders of the Company, MCC and Sierra, regulators, including the SEC, other customary closing conditions and third party consents. Accordingly, the Company can provide no assurance that the mergers will be completed, that the mergers will not be delayed or that the terms of the mergers will not change.

Because forward-looking statements, such as the date that the parties expect the proposed transactions to be completed and the expectation that the proposed transactions will provide improved liquidity for Sierra, MCC, and Medley stockholders and will be accretive to net investment income for both Sierra and MCC, include risks and uncertainties, actual results may differ materially from those expressed or implied and include, but are not limited to, those discussed in each of Sierra's, MCC's and Medley's filings with the SEC, and (i) the satisfaction or waiver of closing conditions relating to the proposed transactions described herein, including, but not limited to, the requisite approvals of the stockholders of each of Sierra, MCC, and Medley; Sierra successfully taking all actions reasonably required with respect to certain outstanding indebtedness of MCC and Medley to prevent any material adverse effect relating thereto; certain required approvals of the SEC and the Small Business Administration, the necessary consents of certain third-party advisory clients of Medley; and any applicable waiting period (and any extension thereof)

applicable to the transactions under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, shall have expired or been terminated, (ii) the parties' ability to successfully consummate the proposed transactions, and the timing thereof, and (iii) the possibility that competing offers or acquisition proposals related to the proposed transactions will be made and, if made, could be successful. Additional risks and uncertainties specific to Sierra, MCC and Medley include, but are not limited to, (i) the costs and expenses that Sierra, MCC and Medley have, and may incur, in connection with the proposed transactions (whether or not they are consummated), (ii) the impact that any litigation relating to the proposed transactions may have on any of Sierra, MCC and Medley, (iii) that projections with respect to dividends may prove to be incorrect, (iv) Sierra's ability to invest our portfolio of cash in a timely manner following the closing of the proposed transactions, (v) the market performance of the combined portfolio, (vi) the

ability of portfolio companies to pay interest and principal in the future; (vii) the ability of Medley to grow its fee earning assets under management; (viii) whether Sierra, as the surviving company, will trade with more volume and perform better than MCC and Medley prior to the proposed transactions; and (ix) negative effects of entering into the proposed transactions on the trading volume and market price of the MCC's or Medley's common stock.

There were no other material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Carried Interest Compensation Awards

On November 12, 2018 (the "Award Date"), the board of directors (the "Board") of Medley Management Inc. approved the Medley Tactical Opportunities Carried Interest Allocation Plan (the "CI Plan"), pursuant to which certain key employees (each, an "Awardee") involved in and instrumental to the success of the Company's Tactical Opportunities ("Tac Ops") transactions, have been awarded certain carried interest percentage awards (each, a "Carried Interest Percentage") entitling the Awardee to a specified allocation of the carried interest earned on third party capital in connection with each of the four respective Tac Ops funds (each, a "Tac Ops Fund").

In connection with the adoption of the CI Plan and the issuance of the awards thereunder, effective as of the Award Date, each Awardee entered into an award letter with respect to each of the Tac Ops Funds as to which such Awardee received an award (each, an "Award Letter"), specifying such Awardee's Carried Interest Percentage as to such Tac Ops Fund. Pursuant to the Award Letters, each Awardee is admitted as a non-managing member of the Delaware limited liability company associated with the corresponding Tac Ops Fund (each, a "Plan LLC") to the extent of such Awardee's Carried Interest Percentage. The Carried Interest Percentage awards are governed by the terms and subject to the conditions of the amended and restated limited liability company agreement of the respective Plan LLC (each, a "Plan LLC Agreement"). Medley Capital LLC is the managing member (the "Managing Member") of each of the four Plan LLCs.

The CI Plan allocates to the Awardees an aggregate of 70% of the carried interest, performance allocation and incentive fees earned directly or indirectly in respect of each of the four Tac Ops Funds (“Carried Interest Proceeds”). The following table sets forth, for each of the Company’s named executive officers, the Carried Interest Percentage awarded to such person in connection with the Plan with respect to each Tac Ops Fund (expressed as a percentage of the total carried interest received by each respective Plan LLC):

Named Executive Officer	Carried Interest Percentages Awarded			
	Medley Real D (Annuity) LLC	Medley Tactical Opportunities LLC	Medley Chiller Holdings LLC	Caddo Investors Holdings 1 LLC
Brook Taube	3.9%	3.1%	3.7%	3.3%
Seth Taube	3.9%	3.1%	3.7%	3.3%
Jeffrey Tonkel	3.9%	3.1%	3.7%	3.3%
Richard T. Allorto, Jr.	5.9%	4.6%	5.6%	4.9%
John D. Fredericks	5.9%	4.6%	5.6%	4.9%

In addition, Christopher Taube (the Company’s Senior Managing Director, Head of Institutional Fund Raising, and who is the brother of Messrs. Brook and Seth Taube, the Company’s Co-Chief Executive Officers and Co-Chairmen of the Board), was awarded the following Carried Interest Percentages under the Plan: Medley Real D (Annuity) LLC (9.8%), Medley Tactical Opportunities LLC (7.7%), Medley Chiller Holdings LLC (9.3%), and Caddo Investors Holdings 1 LLC (8.2%). Company employees other than the named executive officers and Mr. Christopher Taube as referred to above, have been granted awards under the Plan consisting of the following Carried Interest Percentages in the aggregate for all such other employees: Medley Real D (Annuity) LLC (36.6%), Medley Tactical Opportunities LLC (44.0%), Medley Chiller Holdings LLC (38.5%), and Caddo Investors Holdings 1 LLC (42.2%).

In accordance with the Plan LLC Agreements, the Carried Interest Percentages is issued in consideration of services to be rendered, and is intended to constitute a “profits interest” as that term is used in IRS Revenue Procedures 93-27 and 2001-43. Distributions of Carried Interest Proceeds are to be made ratably to each Awardee based on each Awardee’s respective Carried Interest Percentages, at such times as the Managing Member determines in its discretion; provided that the Managing Member shall use commercially reasonable efforts to cause the Plan LLCs to distribute Carried Interest Proceeds to the Awardees reasonably promptly upon receipt, and no less frequently than quarterly, and to distribute to the Awardees certain amounts in respect of minimum tax distributions. Distributions to Awardees are to be made in cash to the extent the relevant proceeds are received by the Plan LLC in cash, with in-kind distributions also permitted in certain circumstances as provided in the Plan LLC Agreements. In the event of any obligation on the part of any Plan LLC or the Managing Member, pursuant to the agreement governing the underlying Tac Ops Fund, to make a payment to the Tac Ops Fund or its investors in respect of a clawback of the related Carried Interest Proceeds, the Managing Member may demand that the Awardees render payment back to the Plan LLC of their respective pro rata shares of the clawback obligation.

Pursuant to the terms and subject to the conditions of the Plan LLC Agreements, the Company, in its capacity as the Managing Member of each of the Plan LLCs, may admit additional non-managing members to the Plan LLCs on such terms as the Managing Member may approve, and may create interests of separate classes in the Plan LLCs which interests shall have the rights, powers and duties as set forth in the respective Plan LLC Agreement, in an addendum thereto or in an award letter. To the extent an Awardee ceases to be an officer or employee of the Company or any of its affiliates for any reason (a “Non-Continuing Member”), such Awardee’s Carried Interest Percentage shall be subject to adjustment in accordance with the Plan LLC Agreements, which provide generally that (i) to the extent an Awardee becomes a Non-Continuing Member following the occurrence of “Cause” (as defined and determined pursuant to the

Plan LLC Agreements), the Carried Interest Percentages of such Awardee shall be reduced to zero (with such reduction in the Carried Interest Percentages of the Non-Continuing Member reallocated to the Managing Member unless otherwise determined by the Managing Member) and such person shall not be entitled to any further distributions from the Plan LLC, and (ii) to the extent an Awardee becomes a Non-Continuing Member due to any reason other than Cause, the Carried Interest Percentages of such Member shall not be subject to any reduction. Notwithstanding the foregoing, the Managing Member may, in its discretion, reduce all or any Carried Interest Percentage of any Non-Continuing Member by a lesser amount than that which would apply under the foregoing principles.

The above description of the CI Plan, the Carried Interest Percentage awards thereunder and the terms and conditions thereof, is subject in all respects to the full texts of the form of Award Letter for the CI Plan and the form of Amended and Restated

Limited Liability Company Agreement for the Plan LLCs, copies of which are attached to this Quarterly Report on Form 10-Q as Exhibits 10.1 and 10.2, respectively, and are incorporated into this Item 5 by reference.

Item 6. Exhibits

Exhibit No.	Exhibit Description
2.1	<u>Agreement and Plan of Merger, dated as of August 9, 2018, by and among Medley Management Inc., Sierra Income Corporation and Sierra Management, Inc. (incorporated by reference to Exhibit 2.1 to Medley Management Inc.'s Current Report on Form 8-K (File No. 001-36638) filed on August 15, 2018).</u>
3.1	<u>Amended and Restated Certificate of Incorporation of Medley Management Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-36638) filed on September 29, 2014).</u>
3.2	<u>Amended and Restated By-Laws of Medley Management Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 001-36638) filed on September 29, 2014).</u>
4.1	<u>Indenture, dated August 9, 2016, between Medley LLC and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of Medley LLC's Current Report on Form 8-K filed on August 9, 2016).</u>
4.2	<u>First Supplemental Indenture, dated August 9, 2016, between Medley LLC and U.S. Bank National Association, as trustee, including the form of note attached as an exhibit thereto (incorporated by reference to Exhibit 4.2 of Medley LLC's Current Report on Form 8-K filed on August 9, 2016).</u>
4.3	<u>Second Supplemental Indenture dated as of October 18, 2016, between Medley LLC and U.S. Bank National Association, as Trustee, with the form of note included therein (incorporated by reference to Exhibit 4.1 of Medley LLC's Current Report on Form 8-K filed on October 19, 2016).</u>
4.4	<u>Third Supplemental Indenture, dated January 18, 2017, between Medley LLC and U.S. Bank National Association, as trustee, including the form of note attached as an exhibit thereto (incorporated by reference to Exhibit 4.1 of Medley LLC's Current Report on Form 8-K filed on January 20, 2017).</u>
4.5	<u>Fourth Supplemental Indenture, dated February 22, 2017, between Medley LLC and U.S. Bank National Association, as trustee, including the form of note attached as an exhibit thereto (incorporated by reference to Exhibit 4.1 of Medley LLC's Current Report on Form 8-K filed on February 22, 2017).</u>
31.1*	<u>Certification by Co-Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification by Co-Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.3*	<u>Certification by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1**	<u>Certification of Co-Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2**	<u>Certification of Co-Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

32.3** Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema Document

101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB* XBRL Taxonomy Extension Label Linkbase Document

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Furnished herewith

† Management contract or compensatory plan in which directors and/or executive officers are eligible to participate
The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made

solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

SIGNATURES

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

MEDLEY MANAGEMENT INC.

(Registrant)

Date: November 14, 2018 By: /s/ Richard T. Allorto, Jr.

Richard T. Allorto, Jr.

Chief Financial Officer

(Principal Financial Officer and Authorized Signatory)