

Edgar Filing: MEDLEY MANAGEMENT INC. - Form 10-Q

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 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, 2017 was 5,476,225. The number of shares of the registrant's Class B common stock, par value \$0.01 per share, outstanding as of November 9, 2017 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 the 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 fiscal year ended December 31, 2016 (the "Annual Report on Form 10-K") 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; and

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

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, 2016 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.

Medley Management Inc. was incorporated as a Delaware corporation on June 13, 2014, and its sole asset is a controlling equity interest in Medley LLC. Pursuant to a reorganization into a holding corporation structure (the "Reorganization") consummated in connection with Medley Management Inc.'s initial public offering ("IPO"), Medley Management Inc. became a holding corporation and the sole managing member of Medley LLC, operating and controlling all of the business and affairs of Medley LLC and, through Medley LLC and its subsidiaries, conducts its business.

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;

"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;

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

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“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;

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• “long-dated private funds” refers to MOF II, MOF III, MOF III Offshore, MCOF, Aspect 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, 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) (“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”). 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; and

• “SMA” refers to a separately managed account.

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, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$40,135	\$49,666
Cash and cash equivalents of consolidated fund	346	—
Restricted cash equivalents	—	4,897
Investments, at fair value	62,866	31,904
Management fees receivable	13,415	12,630
Performance fees receivable	3,119	4,961
Other assets	15,605	18,311
Total Assets	\$135,486	\$122,369
Liabilities, Redeemable Non-controlling Interests and Equity		
Liabilities		
Senior unsecured debt	\$116,698	\$49,793
Loans payable	9,066	52,178
Accounts payable, accrued expenses and other liabilities	21,286	37,255
Total Liabilities	147,050	139,226
Commitments and Contingencies (Note 9)		
Redeemable Non-controlling Interests	53,936	30,805
Equity		
Class A common stock, \$0.01 par value, 3,000,000,000 shares authorized; 6,230,489 and 6,042,050 issued as of September 30, 2017 and December 31, 2016, respectively; 5,476,225 and 5,809,130 outstanding as of September 30, 2017 and December 31, 2016, respectively	55	58
Class B common stock, \$0.01 par value, 1,000,000 shares authorized; 100 shares issued and outstanding	—	—
Additional paid in capital	2,107	3,310
Accumulated other comprehensive income (loss)	(625)) 33
Accumulated deficit	(7,847)) (5,254)
Total stockholders' deficit, Medley Management Inc.	(6,310)) (1,853)
Non-controlling interests in consolidated subsidiaries	(1,708)) (1,717)
Non-controlling interests in Medley LLC	(57,482)) (44,092)
Total deficit	(65,500)) (47,662)
Total Liabilities, Redeemable Non-controlling Interests and Equity	\$135,486	\$122,369

See accompanying notes to unaudited 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, 2017		For the Nine Months Ended September 30, 2017	
	2016		2016	
Revenues				
Management fees (includes Part I incentive fees of \$1,393, \$2,372, \$1,937 and \$11,947, respectively)	\$ 14,838	\$ 15,262	\$ 41,934	\$ 50,220
Performance fees	(202)	1,446	(1,846)	1,706
Other revenues and fees	2,016	2,172	7,004	5,851
Total Revenues	16,652	18,880	47,092	57,777
Expenses				
Compensation and benefits	6,382	6,964	17,881	21,396
Performance fee compensation	(14)	(212)	(845)	(238)
General, administrative and other expenses	3,510	8,801	8,932	25,679
Total Expenses	9,878	15,553	25,968	46,837
Other Income (Expense)				
Dividend income	1,428	312	2,896	755
Interest expense	(2,718)	(2,403)	(9,131)	(6,593)
Other income (expense), net	(282)	55	1,299	(1,559)
Total Other Expense, Net	(1,572)	(2,036)	(4,936)	(7,397)
Income before income taxes	5,202	1,291	16,188	3,543
Provision for income taxes	652	77	1,493	291
Net Income	4,550	1,214	14,695	3,252
Net income attributable to redeemable non-controlling interests and non-controlling interests in consolidated subsidiaries	1,917	438	4,709	1,106
Net income attributable to non-controlling interests in Medley LLC	2,172	556	8,557	1,774
Net Income Attributable to Medley Management Inc.	\$461	\$220	\$1,429	\$372
Dividends declared per share of Class A common stock	\$0.20	\$0.20	\$0.60	\$0.60
Net Income (Loss) Per Share of Class A Common Stock:				
Basic (Note 11)	\$0.03	\$—	\$0.18	\$(0.05)
Diluted (Note 11)	\$0.03	\$—	\$0.18	\$(0.05)
Weighted average shares outstanding - Basic and Diluted	5,342,939	5,778,409	5,578,003	5,802,334

See accompanying notes to unaudited condensed consolidated financial statements

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Medley Management Inc.

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(Amounts in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Income	\$4,550	\$1,214	\$14,695	\$3,252
Other Comprehensive Income:				
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, and \$0.1 million and \$0.2 million for Non-controlling interests in Medley LLC for the three and nine months ended September 30, 2016, respectively)	(2,915)	268	(5,081)	268
Total Comprehensive Income	1,635	1,482	9,614	3,520
Comprehensive income attributable to redeemable non-controlling interests and non-controlling interests in consolidated subsidiaries	1,917	469	4,680	1,137
Comprehensive income (loss) attributable to non- controlling interests in Medley LLC	(381)	746	4,164	1,964
Comprehensive Income Attributable to Medley Management Inc.	\$99	\$267	\$770	\$419

See accompanying notes to unaudited 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		Class B Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non- controlling Interests in Consolidated Subsidiaries	Non- controlling Interests in Medley LLC	Total Deficit
	Shares	Dollars	Shares	Dollars						
Balance at December 31, 2016	5,809,130	\$ 58	100	\$ —	\$ 3,310	\$ 33	\$ (5,254)	\$ (1,717)	\$ (44,092)	\$ (47,662)
Cumulative effect of accounting change due to the adoption of ASU 2016-09	—	—	—	—	1,039	—	(120)	—	(801)	118
Net income	—	—	—	—	—	—	1,429	10	8,557	9,996
Change in fair value of available-for-sale securities, net of taxes	—	—	—	—	—	(658)	—	—	(4,395)	(5,053)
Stock-based compensation	—	—	—	—	2,027	—	—	—	—	2,027
Dividends on Class A common stock (\$0.20 per share)	—	—	—	—	—	—	(4,419)	—	—	(4,419)
Reclass of cumulative dividends on forfeited RSUs	—	—	—	—	—	—	517	—	—	517
Issuance of Class A common stock related to vesting of restricted stock units, net of shares withheld for employee taxes	188,439	2	—	—	(685)	—	—	—	—	(683)
Repurchases of Class A common stock	(521,344)	(5)	—	—	(3,584)	—	—	—	—	(3,589)
Distributions	—	—	—	—	—	—	—	(1)	(16,751)	(16,752)
Balance at September 30, 2017	5,476,225	\$ 55	100	\$ —	\$ 2,107	\$ (625)	\$ (7,847)	\$ (1,708)	\$ (57,482)	\$ (65,500)

See accompanying notes to unaudited 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,	
	2017	2016
Cash flows from operating activities		
Net income	\$ 14,695	\$ 3,252
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	2,027	2,735
Amortization of debt issuance costs	1,393	555
Accretion of debt discount	934	633
Provision for (benefit from) deferred taxes	326	(576)
Depreciation and amortization	689	678
Net change in unrealized depreciation (appreciation) on investments	252	(8)
(Income) loss from equity method investments	(155)	264
Reclassification of cumulative dividends paid on forfeited restricted stock units to compensation expense	517	—
Other non-cash amounts	(9)	27
Changes in operating assets and liabilities:		
Management fees receivable	(785)	3,559
Performance fees receivable	1,842	(1,727)
Distributions of income received from equity method investments	296	—
Other assets	3,307	(1,006)
Accounts payable, accrued expenses and other liabilities	(16,206)	(495)
Cash and cash equivalents of consolidated fund	(346)	—
Investments of consolidated fund	(1,850)	—
Other assets of consolidated fund	(943)	—
Other liabilities of consolidated fund	270	—
Net cash provided by operating activities	6,254	7,891
Cash flows from investing activities		
Purchases of fixed assets	(39)	(1,924)
Distributions received from equity method investment	42	1,152
Purchases of investments	(34,980)	(8,846)
Net cash used in investing activities	(34,977)	(9,618)
Cash flows from financing activities		
Repayments of loans payable	(44,800)	(23,812)
Proceeds from issuance of senior unsecured debt	69,108	24,212
Capital contributions from redeemable non-controlling interests	23,000	12,002
Distributions to members and redeemable non-controlling interests	(21,290)	(18,670)
Debt issuance costs	(2,783)	(842)
Dividends paid	(4,419)	(4,115)
Repurchases of Class A common stock	(3,589)	(1,198)
Payments for taxes related to net share settlement of equity awards	(685)	—
Capital contributions to equity method investments	(247)	(207)
Net cash provided by (used in) financing activities	14,295	(12,630)
Net decrease in cash, cash equivalents and restricted cash equivalents	(14,428)	(14,357)

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Cash, cash equivalents and restricted cash equivalents, beginning of period	54,563	71,688
Cash, cash equivalents and restricted cash equivalents, end of period	\$40,135	\$57,331
Supplemental disclosure of non-cash investing and financing activities		
Deferred tax asset impact on cumulative effect of accounting change due to the adoption of ASU 2016-09 (Note 2)	\$ 118	\$—
Reclassification of redeemable non-controlling interest (Note 14)	—	12,155
Fixed assets	—	2,293
Issuance of non-controlling interest, at fair value	—	192

See accompanying notes to unaudited 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 U.S. 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 and has an office in San Francisco.

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 therefor, without the Company's consent.

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

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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, 2016. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the full year ending December 31, 2017.

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

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 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 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. Medley Management Inc.’s and the non-managing members’ economic interests in Medley LLC are 18.7% and 81.3%, respectively, as of September 30, 2017 and 19.9% and 80.1%, respectively, as of December 31, 2016. Net income

attributable to the non-controlling interests in Medley LLC on the consolidated statements of operations represents the portion of earnings 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, 2017 and December 31, 2016, Medley LLC had four majority owned subsidiaries, SIC Advisors LLC, 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, 2017, total assets and total liabilities, after eliminating entries, of these VIEs reflected in the condensed consolidated balance sheets were \$68.0 million and \$13.1 million, respectively. As of December 31, 2016, total assets and total liabilities, after eliminating entries, of these VIEs reflected in the condensed consolidated

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

balance sheets were \$51.7 million and \$22.8 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, 2017, the Company owned 100% of the equity of STRF and, as such, consolidated STRF in its condensed consolidated financial statements.

The condensed balance sheet of STRF as of September 30, 2017 is presented in the table below (in thousands).

	As of September 30, 2017
Assets	
Cash and cash equivalents	\$ 346
Investments, at fair value	1,850
Other assets	1,651
Total assets	\$ 3,847
Liabilities and Equity	
Accrued expenses and other liabilities	\$ 1,750
Equity	2,097
Total liabilities and equity	\$ 3,847

The Company's condensed consolidated balance sheet reflects the elimination of \$0.7 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, 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, 2017, the Company recorded investments, at fair value, attributed to these non-consolidated VIEs of \$5.2 million, receivables of \$2.5 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 condensed 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, 2016, the Company recorded investments, at fair value of \$5.1 million, receivables of \$1.9 million included as a component of other assets and a clawback obligation of \$7.1 million included as a component of accounts payable, accrued expenses and other liabilities on the Company's condensed consolidated balance sheets. As of September 30, 2017, the Company's maximum exposure to losses from these entities is \$7.7 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.

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

Indemnification

In the normal course of business, the Company enters into contractual agreements that provide general indemnifications against losses, costs, claims and liabilities arising from the performance of individual obligations under such agreements. The Company has not experienced any prior claims or payments pursuant to such agreements. The Company's individual maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on management's experience, the Company expects the risk of loss to be remote.

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 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 issuer. These interests are classified in the mezzanine section of the Company's condensed consolidated balance sheets.

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 dividends or dividend equivalents, whether paid or unpaid, in the number of shares outstanding in its basic and diluted calculations.

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 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 other income (expense), net in the condensed consolidated statements of operations. 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 statements of financial condition. 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.

Investments also include available-for-sale securities which consist of an investment in publicly traded common stock. The Company measures the carrying value of its publicly traded investment in available-for-sale securities at the

quoted market price on the primary market or exchange on which they trade. Unrealized appreciation (depreciation) resulting from changes in fair value of available-for-sale securities is recorded in accumulated other comprehensive income, redeemable non-controlling interests and non-controlling interests in Medley LLC. Realized gains (losses) and declines in value determined to be other than temporary, if any, are reported in other income (expenses), net. The Company evaluates its investment in available-for-sale securities for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investment may not be recoverable.

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

Debt Issuance Costs

Debt issuance costs represent direct costs incurred in obtaining financing and are amortized over the term of the underlying debt using the effective interest method. Debt issuance costs, and the related amortization expense, are adjusted when any prepayments of principal are made to the related outstanding debt. Amortization of debt issuance costs is included as a component of interest expense in the Company's consolidated statement of operations.

Revenues

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 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 Medley becomes entitled to such fees.

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

Performance Fees

Performance fees consist principally of the allocation of profits from certain funds and separately managed accounts, to which Medley provides management services. Medley is generally entitled to an allocation of income as a performance fee after returning the invested capital plus a specified preferred return as set forth in each respective agreement. Medley recognizes revenues attributable to performance fees based upon the amount that would be due pursuant to the respective agreement at each period end as if the funds were terminated as of that date. Accordingly, the amount recognized in the Company's condensed consolidated financial statements reflects Medley's share of the gains and losses of the associated funds' underlying investments measured at their current fair values. Performance fee revenue may include reversals of previously recognized performance fees due to a decrease in the investment performance of a particular fund that results in a decrease of cumulative performance fees earned to date. Since fund return hurdles are cumulative, previously recognized performance fees also may be reversed in a period of appreciation that is lower than the particular fund's hurdle rate. For the three months ended September 30, 2017 the company recorded reversals of \$0.4 million of previously recognized performance fees. For the three months ended September 30, 2016, there were no reversals of previously recognized performance fees. For the nine months ended September 30, 2017 and 2016 the Company recorded reversals of \$2.7 million and \$0.4 million, respectively, of previously recognized performance fees. As of September 30, 2017, the Company recognized cumulative performance fees of \$5.2 million.

Performance fees received in prior periods may be required to be returned by Medley 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, performance fees 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 performance fees would be required to be returned, a liability is established for the potential clawback obligation. As of September 30, 2017, the Company had not received any performance fee distributions, except for tax distributions related to the Company's allocation of net income, which included an allocation of performance fees. Pursuant to the organizational documents of each respective fund, a portion of these tax distributions may be subject to clawback. As of September 30, 2017, the

Company had 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. The Company's actual obligation, however, would not become payable or realized until the end of a fund's life.

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.

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

Performance Fee Compensation

Medley has issued profit interests in certain subsidiaries to select employees. These profit-sharing arrangements are accounted for under ASC 710, Compensation — General, which requires compensation expense to be measured at fair value at the grant date and expensed over the vesting period, which is usually the period over which the service is provided. The fair value of the profit interests are re-measured at each balance sheet date and adjusted for changes in estimates of cash flows and vesting percentages. The impact of such changes is recorded in the condensed consolidated statements of operations as an increase or decrease to performance fee compensation.

Stock-based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, Compensation — Stock Compensation. Stock-based compensation cost is measured as of the grant date based on the fair value of the award and is recognized as expense over the requisite service period.

Prior to January 1, 2017, the fair value of the awards were amortized on a straight line basis over the requisite service period as stock based compensation expenses and was reduced for the impact of estimated forfeitures. The Company estimated forfeitures based on its historical experience and revised its estimate if actual forfeitures differed from its initial estimates. Effective January 1, 2017, the Company adopted a change in accounting policy as a result of the adoption of ASU 2016-09 to account for forfeitures as they occur. As such, 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 condensed 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 income tax expense. 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.

Recently Issued Accounting Pronouncements Adopted as of January 1, 2017

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies and improves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The Company adopted ASU 2016-09 effective January 1, 2017.

Under the new guidance, all excess tax benefits and tax deficiencies related to employee stock compensation will be recognized within income tax expense. Under prior guidance, excess tax benefits were recognized in additional paid-in capital and tax deficiencies were recognized in the provision for income taxes only to the extent they exceeded the pool of excess tax benefits. In addition, under the new guidance, excess tax benefits are classified as cash flows from operating activities, and cash withheld by the Company for employees' withholding taxes will be classified as

cash flows from financing activities on the Company's consolidated statements of cash flows. In connection with the adoption of ASU 2016-09, the Company elected to account for forfeitures as they occur, instead of utilizing an estimated forfeiture rate assumption. The change in accounting for forfeitures was applied on a modified retrospective basis by means of a cumulative-effect adjustment to equity. As of January 1, 2017, retained earnings and non-controlling interests in Medley LLC decreased by \$0.1 million and \$0.8 million, respectively, additional paid in capital increased by \$1.0 million and a deferred tax asset was recorded in the amount of \$0.1 million to reflect the change in accounting principle.

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which provides 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 core principle, an entity should apply the following steps: (1) identify the contracts with a customer, (2) identify the performance obligations in the contracts, (3) determine the transaction prices, (4) allocate the transaction prices to the performance obligations in the contracts, and (5) recognize revenue when, or as, the entity satisfies a performance obligation. 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. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarified the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarified the implementation guidance regarding performance obligations and licensing arrangements. The new standard will become effective for the Company on January 1, 2018.

Upon adoption of this new guidance, the Company's current policy of recognizing performance fees with its separately managed accounts is expected to change. The Company expects that it will not be able to recognize such performance fees until such time that it is probable that a significant reversal in the amount of cumulative performance fees will not occur. The Company is continuing to assess the potential additional impacts of ASU 2014-09 on its financial statements for those arrangements within the scope of ASU 2014-09, including its accounting for expense reimbursements and performance fees earned under other types of contracts whereby the Company is the general partner and has an equity interest in the underlying fund. The Company has not yet selected a transition method. 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 equity investments (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. This new guidance will become effective for the Company on 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 condensed consolidated statements of comprehensive income but rather as a component of other income in its condensed consolidated statements of operations.

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. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements. However, 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 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. This new guidance will become effective for the Company on January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements, but is not expected to have a significant impact on the Company's consolidated financial statements.

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.

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

3. INVESTMENTS

The components of investments are as follows:

	As of September 30, 2017	December 31, 2016
	(Amounts in thousands)	
Equity method investments, at fair value	\$ 14,707	\$ 14,895
Investment in shares of MCC	46,309	17,009
Investments of consolidated fund	1,850	—
Total investments, at fair value	\$62,866	\$ 31,904

Equity Method Investments

Medley measures the carrying value of its public non-traded equity method investments at NAV per share. Unrealized appreciation (depreciation) resulting from changes in NAV per share is reflected as a component of other income (expense) in the condensed 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, 2017. During the nine months ended September 30, 2016, the Company recorded a \$0.5 million loss on its investment in CK Pearl Fund which is included as a component of other income (expense), net on the condensed consolidated statement of operations. There were no losses recorded during the three months ended September 30, 2016.

As of September 30, 2017 and December 31, 2016, the Company's carrying value of its equity method investments was \$14.7 million and \$14.9 million, respectively. The Company's equity method investment in shares of Sierra Income Corporation ("SIC"), a related party, were \$8.8 million and \$9.0 million as of September 30, 2017 and December 31, 2016, respectively. The remaining balance as of September 30, 2017 and December 31, 2016 relates primarily to the Company's investments in Medley Opportunity Fund II, LP ("MOF II"), Medley Opportunity Fund III LP ("MOF III") and CK Pearl Fund, LP.

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

Investment in shares of MCC

As of September 30, 2017 and December 31, 2016, the Company's carrying value of its investment in shares of MCC, a related party, was \$46.3 million and \$17.0 million, respectively, and consisted of 7,756,938 and 2,264,892 shares, respectively. The Company measures the carrying value of its investment in MCC at fair value based on the quoted market price on the exchange on which its shares trade. As of September 30, 2017, cumulative unrealized losses in non-controlling interests in Medley LLC and accumulated other comprehensive income (loss) on the Company's consolidated balance sheets was \$4.3 million, and \$0.6 million respectively. As of September 30, 2017, there were no cumulative unrealized gains or losses included in the balance of redeemable non-controlling interests.

Investments of consolidated fund

Medley measures the carrying value of its investments held by its consolidated fund at fair value. As of September 30, 2017, investments of consolidated fund consisted of equity investments of \$0.4 million, debt investments of \$0.1 million and \$1.4 million of investments in senior secured loans. See Note 4 "Fair Value Measurements" for more information.

4. FAIR VALUE MEASUREMENTS

The Company follows the guidance set forth in ASC 820 for measuring the fair value of investments in available-for-sale securities. 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. Financial instruments 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.

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

The three levels are defined as follows:

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 non-active markets including 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 is 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 that 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 table summarizes the fair value hierarchy of the Company's financial assets measured at fair value as of September 30, 2017 (in thousands):

As of September 30, 2017				
	Level I	Level II	Level III	Total
Assets				
Investments of consolidated fund	\$485	\$ 50	\$1,315	\$1,850
Investment in shares of MCC	46,309	—	—	46,309
Total Assets	\$46,794	\$ 50	\$1,315	\$48,159

The Company's investment in shares of MCC are classified as available-for-sale securities. Included in investments of consolidated fund as of September 30, 2017 are Level I assets of \$0.5 million in equity investments, Level II assets of \$0.1 million, which consists of a debt investment, and Level III assets of \$1.3 million, which consists of senior secured loans. 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 other financial instruments classified as Level II or Level III as of September 30, 2017 and December 31, 2016. There were no significant unrealized gains or losses related to the investments of consolidated fund for the three and nine months ended September 30, 2017.

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 at September 30, 2017 (in thousands):

Level III Financial Assets as of			
September 30, 2017			
Balance at	Transfers In or Out of Level III	Balance at	
September 30, 2016	September 30, 2017	September 30, 2017	
Investments of consolidated fund	\$—	\$ 1,315	\$—

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, 2017.

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Medley Management Inc.

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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.

5. OTHER ASSETS

The components of other assets are as follows:

	As of September 30, 2017	December 31, 2016
	(Amounts in thousands)	
Fixed assets, net of accumulated depreciation and amortization of \$2,507 and \$1,816, respectively	\$4,348	\$ 4,998
Security deposits	1,975	1,975
Administrative fees receivable (Note 10)	1,911	2,068
Deferred tax assets (Note 12)	2,359	2,001
Due from affiliates (Note 10)	1,783	2,133
Prepaid expenses and taxes	1,074	3,078
Other assets, excluding assets of consolidated fund	1,212	2,058
Assets of consolidated fund	943	—
Total other assets	\$15,605	\$ 18,311

6. LOANS PAYABLE

The Company's loans payable consist of the following:

	As of September 30, 2017	December 31, 2016
	(Amounts in thousands)	
Term loans under the Credit Suisse Term Loan Facility, net of unamortized discount and debt issuance costs of \$1,207 at December 31, 2016	\$—	\$ 43,593
Non-recourse promissory notes, net of unamortized discount of \$934 and \$1,415, respectively	9,066	8,585
Total loans payable	\$9,066	\$ 52,178

CNB Credit Agreement

On August 19, 2014, the Company entered into a \$15.0 million senior secured revolving credit facility with City National Bank, which was amended in August 2015, May 2016 and September 2017 (as amended, the "Revolving Credit Facility"). Pursuant to the terms of Amendment Number Three to Credit Agreement dated September 22, 2017 to the Revolving Credit Facility ("the Amendment"), the maturity date was extended to March 31, 2020. The Amendment also 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 months ended September 30, 2017, there were no amounts drawn under the Revolving Credit Facility. The capitalized terms below are defined in the Revolving Credit Facility or the Amendment, 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 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. 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,

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Medley Management Inc.

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change in control and material inaccuracy of representations and warranties. There were no events of default under the Revolving Credit Facility as of September 30, 2017.

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.

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 below, for the nine months ending September 30, 2017 and 2016 was \$1.5 million and \$5.3 million, respectively. There was no interest expense under the Term Loan Facility for the three months ending September 30, 2017 and interest expense for the three months ended September 30, 2016, was \$1.8 million.

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 the three months ended September 30, 2017 and 2016, respectively, and \$1.0 million for each of the nine months ended September 30, 2017 and 2016. The fair value of the outstanding balance of the notes was \$10.2 million as of September 30, 2017 and December 31, 2016.

Contractual Maturities of Loans Payable

As of September 30, 2017, \$10.0 million of future principal payments will be due, relating to loans payable, during the year ended December 31, 2019.

7. SENIOR UNSECURED DEBT

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

	As of September 30, 2017	December 31, 2016
	(Amounts in thousands)	
2026 Notes, net of unamortized discount and debt issuance costs of \$3,360 and \$3,802, respectively	\$50,235	\$ 49,793
2024 Notes, net of unamortized premium and debt issuance costs of \$2,537 at September 30, 2017	66,463	—
Total senior unsecured debt	\$116,698	\$ 49,793

2026 Notes
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 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 \$52.6 million as of September 30, 2017.

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Interest expense on the 2026 Notes, including accretion of note discount and amortization of debt issuance costs, was \$1.0 million and \$3.0 million for the three and nine months ended September 30, 2017, respectively, and \$0.3 million for the three and nine months ended September 30, 2016.

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 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 notes using the effective interest rate method. The 2024 Notes are listed on the 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 \$70.1 million as of September 30, 2017.

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

8. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

The components of accounts payable, accrued expenses and other liabilities are as follows:

	As of September 30, 2017	December 31, 2016
	(Amounts in thousands)	
Accrued compensation and benefits	\$2,655	\$ 7,978
Due to affiliates (Note 10)	7,330	15,043
Revenue share payable (Note 9)	4,133	6,472
Accrued interest	1,294	558
Professional fees	678	858
Deferred rent	2,592	2,833
Deferred tax liabilities (Note 12)	170	202
Performance fee compensation	142	985
Accounts payable and other accrued expenses	2,022	2,326
Liabilities of consolidated fund	270	—
Total accounts payable, accrued expenses and other liabilities	\$21,286	\$ 37,255

9. 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 ended September 30, 2017 and 2016, and \$1.8 million and \$1.9 million for the nine months ended September 30, 2017 and 2016, respectively.

Future minimum rental payments under non-cancelable leases are as follows as of September 30, 2017 (in thousands):

Remaining in 2017	\$675
2018	2,704

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2019	2,710
2020	2,833
2021	2,430
Thereafter	4,254
Total future minimum lease payments	\$ 15,606

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

Capital Commitments to Funds

As of September 30, 2017 and December 31, 2016, the Company had aggregate unfunded commitments of \$0.3 million and \$0.5 million, respectively, to certain long-dated private funds.

Other Commitments

In April 2012, the Company entered into an obligation to pay 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 6). 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, 2017 and December 31, 2016, this obligation amounted to \$4.1 million and \$6.5 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) 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. Following a separate lawsuit by Mr. Barkat against MVF's D&O insurance carrier, the carrier, Charles Sweet and MVF have settled the claims against them. On June 6, 2016, the court granted the defendants' demurrers on several counts and dismissed Mr. Barkat's claims with prejudice except with respect to his claim for intentional interference with contract. MCC and the other defendants continue to dispute the remaining allegations and are vigorously defending the lawsuit while pursuing affirmative counterclaims against Mr. Barkat and MVF Holdings. 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 outstanding claims for alleged interference with Mr. Barkat's employment contract, and the other causes of action asserted in the Derivative Action are without merit and all defendants intend to continue to assert a vigorous defense.

On May 4, 2017, Medley Capital LLC entered into a Settlement Agreement with CK Pearl Fund, Ltd. and CK Pearl Fund, LP (the "CK Pearl Funds"), pursuant to which the CK Pearl Funds granted Medley Capital LLC and its affiliates, managers, officers, directors, employees (the "Medley Parties") a full release of claims and further agreed to indemnify the Medley Parties from any liabilities and to reimburse Medley Capital LLC for its reasonable legal fees and expenses in connection with the following lawsuit: CK Pearl Fund, Ltd. and CK Pearl Fund, LP v. Rothstein Kass & Company, P.C., Rothstein-Kass P.A., Rothstein Kass & Co. LLC and Rothstein, Kass & Company (Cayman); Rothstein Kass & Company, P.C., Rothstein-Kass P.A., Rothstein Kass & Co. LLC and Rothstein, Kass & Company

(Cayman) v. Medley Capital LLC, filed on September 19, 2016, in the Superior Court of New Jersey Law Division: Essex County, as Docket No. L-5196-15 (the “Rothstein Lawsuit”). Pursuant to the settlement, Medley Capital LLC will be filing a motion seeking dismissal as a defendant in the Rothstein Litigation. While Medley Capital LLC will remain as a named defendant until it is dismissed or the action is resolved, in light of the CK Pearl Funds’ agreement to indemnify the Medley Parties and to advance expenses on their behalf, we believe the Rothstein litigation no longer constitutes a material pending legal proceeding. The settlement also resolves our affirmative lawsuit against the CK Pearl Funds, Medley Capital LLC v. CK Pearl Fund, Ltd., filed on November 28, 2016, in the Grand Court of the Cayman Islands in the Financial Services Division, as Cause No. FSD 196 of 2016.

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Medley Management Inc.

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10. 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 investment and management services.

From June 2012 through December 2016, Medley was party to an Expense Support and Reimbursement Agreement ("ESA") with SIC. During the term of the ESA, which expired on December 31, 2016, Medley agreed to pay up to 100% of SIC's operating expenses in order for SIC to achieve a reasonable level of expenses relative to its investment income. Pursuant to the ESA, SIC had a conditional obligation to reimburse Medley for any amounts they funded under the ESA if, within three years of the date on which Medley funded such amounts, SIC met certain financial levels. ESA expenses are recorded within general, administrative, and other expense in the consolidated statements of operations. As of September 30, 2017 there was no outstanding balance due to SIC under the ESA agreement. As of December 31, 2016 there was \$7.9 million due to SIC under the ESA agreement. This amount was included in accounts payable, accrued expenses and other liabilities as due to affiliates on the consolidated balance sheets. During the three and nine months ended September 30, 2016, Medley recorded \$5.3 million and \$16.1 million, respectively, of ESA expenses under this agreement.

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 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 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 services are provided and are included in other revenues and fees on the 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 from these agreements for the three and nine months ended September 30, 2017 and 2016 are reflected in the table below:

	For the Three Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(Amounts in thousands)			
MCC Admin Agreement	\$860	\$991	\$2,932	\$3,019
SIC Admin Agreement	746	780	2,335	1,997
Funds Admin Agreements	305	252	924	630
Total administrative fees from related parties	\$1,911	\$2,023	\$6,191	\$5,646

Amounts due from related parties under these agreements as of September 30, 2017 and December 31, 2016 are reflected in the table below:

	As of September 30, 2017	December 31, 2016
	(Amounts in thousands)	

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Amounts due from MCC under the MCC Admin Agreement	\$860	\$ 916
Amounts due from SIC under the SIC Admin Agreement	746	851
Amounts due from entities under the Funds Admin Agreements	305	301
Total administrative fees receivable	\$1,911	\$ 2,068

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Medley Management Inc.

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Investments

Refer to Note 3 "Investments" for more information related to the Company's investments in related parties.

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. Through September 30, 2017, there have been no transactions under this agreement to date.

11. EARNINGS (LOSS) PER CLASS A SHARE

The table below presents basic and diluted net income (loss) per share of Class A common stock using the two-class method for the three and nine months ended September 30, 2017 and 2016, respectively:

	For the Three Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
(Amounts in thousands, except share and per share amounts)				

Basic and diluted net income per share:

Numerator

Net income attributable to Medley Management Inc.	\$461	\$ 220	\$1,429	\$ 372
Less: Allocation to participating securities	(296)	(245)	(451)	(648)
Net income (loss) available to Class A common stockholders	\$165	\$ (25)	\$978	\$ (276)

Denominator

Weighted average shares of Class A common stock outstanding	5,342,937	5,778,409	5,578,003	5,802,334
Net income (loss) per Class A share	\$0.03	\$ —	\$0.18	\$ (0.05)

The Company declared a \$0.20 dividend per share of Class A common stock on February 6, 2016, May 10, 2016, August 9, 2016, February 9, 2017, May 10, 2017 and August 8, 2017, which were paid on March 4, 2016, June 2, 2016, September 6, 2016, March 6, 2017, May 31, 2017 and September 6, 2017, respectively. The allocation to participating securities represents dividends paid to holders of unvested restricted stock units, which reduces net income available to Class A 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 23,653,333 and 23,333,333 LLC Units in 2017 and 2016,

respectively, to shares of Class A common stock, the impact of which would be antidilutive.

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12. 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 in the Company's consolidated balance sheets. These temporary differences result in taxable or deductible amounts in future years. As of September 30, 2017 and December 31, 2016, the Company had total deferred tax assets of \$2.4 million and \$2.0 million, respectively, which consists primarily of temporary differences relating to certain accrued expenses, stock compensation and a tax benefit relating to tax goodwill. Total deferred tax liabilities were \$0.2 million as of September 30, 2017 and December 31, 2016 and consists primarily of temporary differences relating to accrued fee income and accumulated net unrealized losses. The tax provision for deferred income taxes results from temporary differences arising principally from certain accrued expenses, deferred rent, fee income accruals and depreciation.

The Company's effective tax rate was 12.5% and 6.0% for the three months ended September 30, 2017 and 2016, respectively, and 9.2% and 8.2% for the nine months ended September 30, 2017 and 2016, 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. During the three and nine months ended September 30, 2017, there was a \$0.3 million and \$0.5 million impact to the Company's income tax provision for discrete items associated with the vesting of restricted LLC units and forfeiture of RSUs, respectively. 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. For the nine months ended September 30, 2017 and 2016, the Company was only subject to federal, state and city corporate income taxes on its pre-tax income attributable to Medley Management Inc.

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, 2017 and 2016. As of September 30, 2017 and December 31, 2016 and during the three and nine months ended September 30, 2017 and 2016, there were no uncertain tax positions taken that were not more likely than not to be sustained. Certain subsidiaries of the Company are no longer subject to tax examinations by taxing authorities for tax years prior to 2012.

13. 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 \$0.6 million for each of the Co-Chief Executive Officers during each of the three months ended September 30, 2017 and 2016, and \$1.9 million during each of the nine months ended September 30, 2017 and 2016. During the nine months ended September 30, 2017 and 2016, 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, 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 performance fees 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.

For each of the three months ended September 30, 2017 and 2016, there was a reversal of performance fee compensation of less than \$0.1 million and \$0.2 million, respectively. For the nine months ended September 30, 2017, the Company recorded a reversal of performance fee compensation expense of \$0.8 million. For the nine months ended September 30, 2016, the Company recorded a reversal of performance fee compensation of \$0.2 million. As of September 30, 2017 and December 31, 2016, the total

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performance fee compensation payable for these awards was \$0.1 million and \$1.0 million, respectively, and is included as a component of accounts payable, accrued expenses and other liabilities on the Company's condensed consolidated balance sheets.

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. The Company's accrued contributions to the plan were \$0.4 million each for the nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017 and December 31, 2016 the Company's outstanding liability to the plan was \$0.4 million and \$0.5 million, respectively.

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, 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, 2017, there were 2.4 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.

Stock-based compensation was \$1.2 million and \$0.9 million for the three months ended September 30, 2017 and 2016, respectively, and \$2.0 million and \$2.7 million during the nine months ended September 30, 2017 and 2016, respectively.

A summary of RSU and restricted LLC units activity for the nine months ended September 30, 2017 is as follows:

	Number of RSUs	Weighted Average Grant Date Fair Value	Number of Restricted LLC Units	Weighted Average Grant Date Fair Value
Balance at December 31, 2016	1,652,483	\$ 12.88	—	\$ —
Granted	513,838	9.17	320,000	11.67
Forfeited	(309,024)	13.72	—	—
Vested	(300,472)	17.34	—	—
Balance at September 30, 2017	1,556,825	\$ 10.63	320,000	\$ 11.67

The fair value of RSUs vested during the nine months ended September 30, 2017, was \$1.7 million. The vesting of 300,472 restricted stock units resulted in the issuance of 188,439 Class A common shares, as the restricted stock units were net-share settled such that the Company withheld awards with the aggregate value equivalent to the employees' minimum statutory tax obligations in accordance with the terms of the Plan. Total tax obligations amounted to \$0.7 million and payments to the appropriate taxing authorities are reflected as a financing activity on the Company's condensed consolidated statements of cash flows.

During the three and nine months ended September 30, 2017, \$0.1 million and \$2.3 million of previously recognized compensation was reversed relating to forfeited RSUs. In addition, during the three and nine months ended September 30, 2017, the Company reclassified cumulative dividends of less than \$0.1 million and \$0.5 million, respectively, from retained earnings to other compensation expense as a result of such forfeited RSUs. Unamortized compensation cost related to unvested RSUs and restricted LLC units as of September 30, 2017 was \$14.5 million and is expected to be recognized over a weighted average period of 3.4 years.

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

14. REDEEMABLE NON-CONTROLLING INTERESTS

Changes in redeemable non-controlling interests during the nine months ended September 30, 2017 and 2016 are reflected in the table below:

	For the Nine Months Ended September 30, 2017 2016 (Amounts in thousands)	
Beginning balance	\$30,805	\$—
Net income attributable to redeemable non-controlling interests in consolidated subsidiaries	4,699	1,116
Contributions	23,000	12,000
Distributions	(4,540)	(675)
Change in fair value of available-for-sale securities	(28)	31
Reclassification of redeemable non-controlling interest	—	12,196
Ending balance	\$53,936	\$24,668

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, 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 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. During the three and nine months ended September 30, 2017, net income 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, 2017, the balance of the redeemable non-controlling interest in SIC Advisors LLC was \$13.4 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 June 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 \$40.8 million as of September 30, 2017. Total contributions to the Joint Venture amounted to \$53.8 million through September 30, 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 and nine months ended September 30, 2017, net income allocated to this non-controlling interest was \$0.9 million and \$1.8 million, respectively. For the nine months ended September 30, 2017, there was no other comprehensive income as a result of

changes in the fair value of MCC shares allocated to this non-controlling interest. Distributions paid during the three and nine months ended September 30, 2017 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, 2017, net losses allocated to this redeemable non-controlling interest was \$0.1 million and \$0.2 million, respectively. As of September 30, 2017, the balance of the redeemable non-controlling interest in STRF Advisors LLC was \$(0.2) million.

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Medley Management Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

15. 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 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.

16. 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 nine months ended September 30, 2017, except as disclosed below.

On November 8, 2017, the Company's Board of Directors declared a dividend of \$0.20 per share of Class A common stock for the third quarter of 2017. The dividend will be paid on December 6, 2017 to stockholders of record as of November 24, 2017.

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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, with over 85 people, provides capital to the middle market in the U.S. Over the past 15 years, we have provided capital to over 380 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.

As of September 30, 2017, we had \$5.3 billion of AUM, \$2.4 billion in permanent capital vehicles and \$2.9 billion in long-dated private funds and SMAs. Our year over year AUM growth as of September 30, 2017 was 6% and was driven in large part by the growth of our long-dated private funds and SMAs. Our compounded annual AUM growth rate from December 31, 2010 through September 30, 2017 was 28% and our compounded annual Fee Earning AUM growth rate was 20%, both of which have been driven in large part by the growth in our permanent capital vehicles. As of September 30, 2017, we had \$3.2 billion of Fee Earning AUM, \$2.2 billion in permanent capital vehicles and \$1.0 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, such as the turmoil in the global capital markets from 2007 to 2009. 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.

Our senior management team has, on average, over 20 years of experience in credit, including originating, underwriting, principal investing and loan structuring. We have made significant investments in our corporate infrastructure and have over 85 employees, including over 45 investment, origination and credit management professionals, and over 40 operations, accounting, legal, compliance and marketing professionals, each with extensive experience in their respective disciplines.

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 performance fees from our long-dated private funds and SMAs. Typically, these performance fees are 15.0% to 20.0% of the total return above a hurdle rate. These performance fees 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, 2017, 87.9%, and 85.1%, respectively, of our revenues were generated from management fees and performance fees 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, other general operating items, and, in 2016, expense support agreement expenses related to SIC.

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 October 31, 2017:

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 81.3% 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.

Strategic Capital Advisory Services, LLC owns 20% of SIC Advisors LLC and is entitled to receive distributions of up to 20% of the gross cash proceeds received by SIC Advisors LLC from the management and incentive fees (3) payable by Sierra Income Corporation to SIC Advisors LLC, net of certain expenses, as well as 20% of the returns of the investments held at SIC Advisors LLC.

Medley LLC holds 96.5% of the Class B economic interests in each of MCOF Management LLC, and Medley (4) (Aspect) Management LLC.

Medley LLC holds 100% of the outstanding Common Interest, and DB Med Investor I LLC holds 100% of the (5) 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, (6) LLC holds 100% of the Junior Preferred Interest and Medley LLC holds 100% of the Common Interest in STRF Advisors 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 96.5% of the Class B economic interests in each of MCOF GP LLC, and Medley (Aspect) GP LLC.

Certain employees, former employees and former members of Medley LLC hold approximately 40% of the limited (9) 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.

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 first nine months of 2017, 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

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. Our long-dated private funds and SMAs may have industry standard carried interest performance fee structures and are typically 15% to 20% of the total return over a 6.0% to 8.0% annualized preferred return. We record these fees on an accrual basis, to the extent such amounts are contractually due but not paid, and we present this revenue as a separate line item on our consolidated statements of operations. These fees are subject to repayment (clawback).

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.

Generally, if at the termination of a fund (and sometimes at interim points in the life of a fund), the fund has not achieved investment returns that (in most cases) exceed the preferred return threshold or (in all cases) the general partner receives net profits over the life of the fund in excess of its allocable share under the applicable partnership agreement, we will be obligated to repay an amount equal to the extent to which carried interest that was previously distributed to us exceeds the amounts to which we are ultimately entitled. Medley has not received any distributions of performance fees through September 30, 2017, other than tax distributions, a portion of which are subject to clawback. As of September 30, 2017, we accrued \$7.2 million for clawback obligations that would need to be paid if the funds were liquidated at fair value at the end of the reporting period. Our actual obligation, however, would not become payable or realized until the end of a fund's life.

For any given period, performance fee revenue on our consolidated statements of operations may include reversals of previously recognized performance fees due to a decrease in the value of a particular fund that results in a decrease of cumulative performance fees 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. During the three months ended September 30, 2017, we reversed \$0.4 million of previously recognized performance fees. During the nine months ended September 30, 2017, we reversed \$2.7 million of previously recognized performance fees. Cumulative performance fee revenue recognized as of September 30, 2017, was \$5.2 million.

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. These fees are reported within total revenues in our unaudited condensed consolidated financial statements included in this Form 10-Q.

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 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. Compensation also includes 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 Offices for each of the three months ended September 30, 2017 and 2016 and \$1.9 million for each of the nine months ended September 30, 2017 and 2016. During the three and nine months ended September 30, 2017 and 2016, neither of our Co-Chief Executive Officers received any guaranteed payments.

Performance Fee Compensation. Performance fee compensation includes compensation related to performance fees, which generally consists of profit interests that we grant to 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 to be received. Payments to profit interest holders are payable when the performance fees 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 revenue or we have a reversal of previously recognized performance fee 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, other general operating items and, in 2016, SIC expenses under an expense support and reimbursement agreement.

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, equity income (loss) and unrealized gains (losses) associated with our equity method investments.

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 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.

Net 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 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 23,333,333 Medley LLC units for 23,333,333 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 and, in 2017, 320,000 restricted LLC units during each of the periods presented and conversion of such restricted LLC units for an equal number of shares of Class A common stock.

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%. 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,	
	2017	2016	2017	2016
(Amounts in thousands, except AUM, share and per share amounts)				
Consolidated Financial Data:				
Net income attributable to Medley Management Inc. and non-controlling interests in Medley LLC	\$2,633	\$ 776	\$9,986	\$2,146
Net income (loss) per Class A common stock	\$0.03	\$ —	\$0.18	\$(0.05)
Net Income Margin ⁽¹⁾	15.8 %	4.1 %	21.2 %	3.7 %
Weighted average shares - Basic and Diluted	5,342,939	5,778,409	5,578,003	5,802,334

Non-GAAP Data:

Core Net Income	\$3,851	\$ 6,552	\$13,171	\$19,080
Core EBITDA	\$7,592	\$ 9,818	\$23,737	\$28,638
Core Net Income Per Share	\$0.09	\$ 0.14	\$0.28	\$0.40
Core Net Income Margin	15.9 %	22.3 %	18.2 %	21.3 %
Pro-Forma Weighted Average Shares Outstanding	30,777,253	30,779,206	30,922,950	30,652,109

Other Data (at period end, in millions):

AUM	\$5,296	\$ 5,011	\$5,296	\$5,011
Fee Earning AUM	\$3,241	\$ 3,111	\$3,241	\$3,111

⁽¹⁾ Net Income 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 ended September 30, 2017.

	Permanent Capital Vehicles			Long-dated Private Funds and SMAs			Total	% of AUM		
Beginning balance, June 30, 2017	\$2,497	\$ 2,941					\$5,438	46 %	54 %	
Commitments ⁽¹⁾	(72)	1					(71)			
Capital reduction ⁽²⁾	—	—					—			
Distributions ⁽³⁾	(24)	(26)					(50)			
Change in fund value ⁽⁴⁾	(8)	(13)					(21)			
Ending balance, September 30, 2017	\$2,393	\$ 2,903					\$5,296	45 %	55 %	

With respect to permanent capital vehicles, represents a decrease in leverage and increases through equity as well as any changes in available undrawn borrowings or capital commitments, subject to restrictions. 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.

(2) Represents the permanent reduction in equity or leverage during the period.

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

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

AUM decreased to \$5.3 billion as of September 30, 2017 compared to \$5.4 billion of AUM as of June 30, 2017. Our permanent capital vehicles decreased \$104.0 million as of September 30, 2017, primarily due to a reduction in commitments, reduction of debt and distributions. Our long-dated private funds and SMAs decreased AUM by \$38.0 million, primarily due to distributions as some of our vehicles are no longer in their investment period.

The table below provides the roll forward of AUM for the nine months ended September 30, 2017.

	% of AUM		
	Permanent Capital Vehicles	Long-dated Private Funds and SMAs	Total
	Permanent Capital Vehicles	Long-dated Private Funds and SMAs	Total
	(Dollars in millions)	(Dollars in millions)	(Dollars in millions)
Beginning balance, December 31, 2016	\$2,527	\$ 2,808	\$5,335
Commitments ⁽¹⁾	(12)	240	228
Capital reduction ⁽²⁾	(44)	—	(44)
Distributions ⁽³⁾	(76)	(133)	(209)
Change in fund value ⁽⁴⁾	(2)	(12)	(14)
Ending balance, September 30, 2017	\$2,393	\$ 2,903	\$5,296

With respect to permanent capital vehicles, represents a decrease in leverage and increases through equity as well as any changes in available undrawn borrowings or capital commitments, subject to restrictions. 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.

(2) Represents the permanent reduction in equity or leverage during the period.

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

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

AUM was \$5.3 billion as of September 30, 2017 compared to \$5.3 billion of AUM as of December 31, 2016. Our permanent capital vehicles decreased by \$134.0 million as of September 30, 2017, primarily due to a reduction of debt and distributions. Our long-dated private funds and SMAs increased AUM by \$95.0 million, or 3%, primarily associated with new debt commitments, partly offset by distributions as some of our vehicles are no longer in the investment period.

Fee Earning AUM

Fee earning AUM refers to assets under management on which we directly earn base management fees. We view fee earning AUM as a metric to measure changes in the assets from which we earn management fees. Our fee earning AUM is the sum of all the individual fee earning assets of our funds that contribute directly to our management fees and generally equals the sum of:

for our permanent capital vehicles, the average or total gross asset value, including assets acquired with the proceeds of leverage (see "Fee earning AUM based on gross asset value" in the "Components of Fee Earning AUM" table below for the amount of this component of fee earning AUM as of each period);

for certain funds within the investment period in the long-dated private funds, the amount of limited partner capital commitments (see “Fee earning AUM based on capital commitments” in the “Components of Fee Earning AUM” table below for the amount of this component of fee earning AUM as of each period); and

for the aforementioned funds beyond the investment period and certain managed accounts within their investment period, the amount of limited partner invested capital or the NAV of the fund (see “Fee earning AUM based on invested capital or NAV” in the “Components of Fee Earning AUM” table below for the amount of this component of fee earning AUM as of each period).

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, 2017	December 31, 2016
	(Amounts in millions)	
Fee earning AUM based on gross asset value	\$2,191	\$ 2,207
Fee earning AUM based on capital commitments	126	113
Fee earning AUM based on invested capital or NAV	924	870
Total fee earning AUM	\$3,241	\$ 3,190

As of September 30, 2017, fee earning AUM based on gross asset value decreased by \$16.0 million, compared to December 31, 2016. The decrease in fee earning AUM based on gross asset value was due primarily to an decrease in equity raised as well as distributions.

As of September 30, 2017, fee earning AUM based on capital commitments increased \$13.0 million compared to December 31, 2016. The increase in fee earning AUM based on capital commitments was due to additional capital raised in one of our funds.

As of September 30, 2017, fee earning AUM based on invested capital or NAV increased by \$54.0 million, or 6%, compared to December 31, 2016. The increase in fee earning AUM based on invested capital or NAV was due primarily to capital deployment from our long-dated private funds and SMAs, partially offset by distributions of income and return of capital by our long-dated private funds and SMAs as some of our vehicles are no longer in the investment period.

The table below presents the roll forward of fee earning AUM for the three months ended September 30, 2017.

				% 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)					
Beginning balance, June 30, 2017	\$2,259	\$ 1,020	\$3,279	69 %	31	%
Commitments ⁽¹⁾	(37)	74	37			
Capital reduction ⁽²⁾	—	—	—			
Distributions ⁽³⁾	(23)	(36)	(59)			
Change in fund value ⁽⁴⁾	(8)	(8)	(16)			
Ending balance, September 30, 2017	\$2,191	\$ 1,050	\$3,241	68 %	32	%

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 the permanent reduction in equity or leverage during the period.

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

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

Total fee earning AUM decreased by \$38.0 million, or 1% to \$3.2 billion as of September 30, 2017 compared to total fee earning AUM of \$3.3 billion as of June 30, 2017, due primarily to distributions from permanent capital vehicles and private funds and SMAs partly offset by capital deployment by our private funds and SMAs.

The table below presents the roll forward of fee earning AUM for the nine months ended September 30, 2017.

				% 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)					
Beginning balance, December 31, 2016	\$2,207	\$ 983	\$3,190	69%	31%	
Commitments ⁽¹⁾	60	231	291			
Capital reduction ⁽²⁾	—	—	—			
Distributions ⁽³⁾	(74)	(147)	(221)			
Change in fund value ⁽⁴⁾	(2)	(17)	(19)			
Ending balance, September 30, 2017	\$2,191	\$ 1,050	\$3,241	68%	32%	

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 the permanent reduction in equity or leverage during the period.

⁽³⁾ Represents distributions of income, return of capital and return of portfolio investment capital to the fund.

⁽⁴⁾ Includes interest income, realized and unrealized gains (losses), fees and/or expenses.

Total fee earning AUM increased by \$51.0 million, or 2%, to \$3.2 billion as of September 30, 2017 compared to total fee earning AUM of \$3.2 billion as of December 31, 2016, due primarily to capital deployment by our private funds and SMAs, partly offset by distributions from all permanent capital vehicles and private funds and SMAs.

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 U.S. Since inception, we have provided capital for a total of 332 investments and have invested a total of \$2.0 billion. As of September 30, 2017, fee earning AUM was \$1.2 billion. The performance for SIC as of September 30, 2017 is summarized below:

Annualized Net Total Return ⁽¹⁾ :	6.2 %
Annualized Realized Losses on Invested Capital:	0.8 %
Average Recovery ⁽³⁾ :	74.1 %

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 U.S. Since inception, we have provided capital for a total of 200 investments and have invested a total of \$2.1 billion. As of September 30, 2017, excluding Medley SBIC LP, fee earning AUM was \$720 million. The performance for MCC as of September 30, 2017 is summarized below:

Annualized Net Total Return ⁽²⁾ :	6.9 %
Annualized Realized Losses on Invested Capital:	2.0 %
Average Recovery ⁽³⁾ :	45.0%

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, due primarily to size. Since inception, we have provided capital for a total of 41 investments and have invested a total of \$407 million. As of September 30, 2017, fee earning AUM was \$240 million. The performance for Medley SBIC fund as of September 30, 2017 is summarized below:

Gross Portfolio Internal Rate of Return ⁽⁴⁾ :	12.9	%
Net Investor Internal Rate of Return ⁽⁵⁾ :	15.5	%
Annualized Realized Losses on Invested Capital:	—	%
Average Recovery:	N/A	

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 73 investments and have invested a total of \$911 million. As of September 30, 2017, fee earning AUM was \$366 million. MOF II is currently fully invested and actively managing its assets. The performance for MOF II as of September 30, 2017, is summarized below:

Gross Portfolio Internal Rate of Return ⁽⁴⁾ :	12.0 %
Net Investor Internal Rate of Return ⁽⁶⁾ :	6.4 %
Annualized Realized Losses on Invested Capital:	1.7 %
Average Recovery ⁽³⁾ :	NM

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 35 investments and have invested a total of \$156 million. As of September 30, 2017, fee earning AUM was \$113 million. The performance for MOF III as of September 30, 2017 is summarized below:

Gross Portfolio Internal Rate of Return ⁽⁴⁾ :	11.7	%
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 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 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 in November 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.

We launched 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, 2017 is not meaningful given the funds' limited operations and capital invested to date.

Separately Managed Accounts (SMAs)

In the case of our SMAs, 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 159 investments and have invested a total of \$900 million. As of September 30, 2017, fee earning AUM in our SMAs was \$499 million. The aggregate performance of our SMAs as of September 30, 2017, is summarized below:

Gross Portfolio Internal Rate of Return ⁽⁴⁾ :	9.9 %
Net Investor Internal Rate of Return ⁽⁷⁾ :	7.9 %
Annualized Realized Losses on Invested Capital:	0.7 %
Average Recovery ⁽³⁾ :	49.5 %

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.

Annualized 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 MOF II, we have presented the Average Recovery as "NM" or "Not Meaningful" because we believe the number of realized losses for each respective vehicle is not sufficient to provide an accurate representation of the expected Average Recovery for each vehicle.

For Medley SBIC, MOF II, MOF III, and SMAs, the Gross Portfolio Internal Rate of Return represents the cumulative investment performance from inception of each respective fund through September 30, 2017. The Gross Portfolio 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 U.S. 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, 2017, Medley SBIC Net Internal Rate of Return as described above assuming only the inclusion of management fees was 19.3%.

Net Investor 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 Investor Internal Rate of Return for our SMAs was calculated using the Gross Portfolio 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 consolidated results of operations for the three and nine months ended September 30, 2017 and 2016. The unaudited 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, 2017		For the Nine Months Ended September 30, 2017		For the Three Months Ended September 30, 2016		For the Nine Months Ended September 30, 2016	
						</		

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Revenues

Management Fees. Total management fees decreased by \$0.4 million, or 3%, to \$14.8 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016.

Our management fees from permanent capital vehicles decreased by \$0.9 million during the three months ended September 30, 2017 compared to the same period in 2016. The decrease was due to a decline in Part I incentive fees of \$1.1 million from SIC, offset in part by an increase in base management fees from SIC.

Our management fees from long-dated private funds and SMAs increased by \$0.5 million for the three months ended September 30, 2017, compared to the same period in 2016. The increase was primarily due to an increase in base management fees across most funds.

Performance Fees. Performance fees decreased by \$1.6 million to a loss of \$0.2 million during the three months ended September 30, 2017 compared to \$1.4 million for the same period in 2016. The variance was attributed primarily to declines in the underlying fund values of our SMAs.

Other Revenues and Fees. Other revenues and fees decreased by \$0.2 million, or 7%, to \$2.0 million for the three months ended September 30, 2017 compared to the same period in 2016. The decrease was due primarily to a decrease in administrative fees from our permanent capital vehicles.

Expenses

Compensation and Benefits. Compensation and benefits decreased by \$0.6 million, or 8% to \$6.4 million for the three months ended September 30, 2017 compared to the same period in 2016. The decrease was due primarily to lower discretionary compensation accruals.

Performance Fee Compensation. Performance fee compensation increased by \$0.2 million during the three months ended September 30, 2017 as compared same period in 2016. The increase was due primarily to a reversal of performance fee compensation during the three months ended September 30, 2016 due to a decrease in Part I incentive fees recognized from one of our permanent capital vehicles.

General, Administrative and Other Expenses. General, administrative and other expenses decreased by \$5.3 million to \$3.5 million for the three months ended September 30, 2017 compared to the same period in 2016. The decrease was due primarily to a \$5.3 million decrease in expense support agreement expenses related to SIC. The expense support agreement with SIC expired on December 31, 2016, as such, we are no longer responsible for expenses under the expense support agreement relating to SIC.

Other Income (Expense)

Dividend Income. Dividend income increased by \$1.1 million to \$1.4 million for the three months ended September 30, 2017 compared to the same period in 2016. The increase was primarily due to dividend income from our investment in available for sale securities due to additional purchases made during 2017.

Interest Expense. Interest expense increased by \$0.3 million, or 13%, to \$2.7 million for the three months ended September 30, 2017 compared to the same period in 2016. The increase was primarily the result of the refinancing of our indebtedness from the issuance of senior unsecured debt. Average debt outstanding during the three months ended September 30, 2017 and 2016 was \$132.6 million and \$105.8 million, respectively.

Other Income (Expenses), net. Other income (expenses), net was a loss of \$0.3 million for the three months ended September 30, 2017 a decrease of \$0.3 million as compared to the same period in 2016. The decrease was due primarily to lower income from our investments which we account for under the equity method of accounting.

Provision for Income Taxes

Our provision for income taxes in any given interim period is recorded based on an estimated full-year tax rate adjusted for the tax effect of discrete items in the period they occur. Our effective income tax rate was 12.5% and 6.0% for the three months ended September 30, 2017 and 2016, respectively. Our tax rate is affected by recurring items, such as permanent differences and income allocated to non-controlling interests which is not subject to U.S. federal, state and local corporate income taxes. The increase in the effective tax rate during the three months ended September 30, 2017 as compared to the same period in 2016 was primarily attributed to the impact of discrete items associated with the vesting of RSUs partly offset by an increase in taxable income allocable to non-controlling

interests which is not subject to corporate income taxes.

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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 \$1.5 million to \$1.9 million for the three months ended September 30, 2017 compared to the same period in 2016. The increase was due primarily to an increase in dividend income earned and allocated 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, 2017 Compared to Nine Months Ended September 30, 2016

Revenues

Management Fees. Total management fees decreased by \$8.3 million, or 16%, to \$41.9 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

Our management fees from permanent capital vehicles decreased by \$9.6 million during the nine months ended September 30, 2017 compared to the same period in 2016. The decrease was due to a decline in Part I incentive fees of \$6.0 million from SIC and \$4.1 million from MCC, offset in part, by an increase in base management fees from SIC.

Our management fees from long-dated private funds and SMAs increased by \$1.3 million for the nine months ended September 30, 2017, compared to the same period in 2016. The increase was primarily due to an increase in base management fees from our SMAs.

Performance Fees. There was a reversal of performance fees of \$1.8 million during the nine months ended September 30, 2017 compared to an accrual performance fees revenue of \$1.7 million for the same period in 2016. The variance was attributed primarily to declines in the underlying fund values of our SMAs.

Other Revenues and Fees. Other revenues and fees increased by \$1.2 million, or 20%, to \$7.0 million for the nine months ended September 30, 2017 compared to the same period in 2016. The increase was due primarily to an increase in administrative fees from our permanent capital vehicles and other private funds.

Expenses

Compensation and Benefits. Compensation and benefits decreased by \$3.5 million, or 16% to \$17.9 million for the nine months ended September 30, 2017 compared to the same period in 2016. The variance was due primarily to a decrease in stock compensation expense as a result of forfeited RSUs as well as lower discretionary compensation accruals, partly offset by an increase in severance charges.

Performance Fee Compensation. There was a reversal in performance fee compensation of \$0.8 million during the nine months ended September 30, 2017 as compared to a reversal of performance fee compensation of \$0.2 million for the same period in 2016. The variance in performance fee compensation was due primarily to changes in projected future payments.

General, Administrative and Other Expenses. General, administrative and other expenses decreased by \$16.7 million to \$8.9 million for the nine months ended September 30, 2017 compared to the same period in 2016. The decrease was due primarily to a \$16.1 million decrease in expense support agreement expenses related to SIC. The expense support agreement with SIC expired on December 31, 2016, as such, we are no longer responsible for expenses under the expense support agreement relating to SIC. The remaining variance was due primarily to a decrease in professional fees, employee recruitment and other office related expenses.

Other Income (Expense)

Dividend Income. Dividend income increased by \$2.1 million to \$2.9 million for the nine months ended September 30, 2017 compared to the same period in 2016. The increase was primarily due to dividend income from our investment in available for sale securities due to additional purchases made during 2017.

Interest Expense. Interest expense increased by \$2.5 million, or 38%, to \$9.1 million for the nine months ended September 30, 2017 compared to the same period in 2016. The increase 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, 2017 and 2016 was \$126.5 million and \$105.5 million, respectively.

Other Income (Expenses), net. Other income (expenses), net increased by \$2.9 million to \$1.3 million for the nine months ended September 30, 2017 compared to the same period in 2016. The increase was due primarily to the revaluation of our revenue share payable and an impairment charge taken during the nine months ended September 30, 2016 on our investment in CK Pearl Fund LLC offset, in part, by unrealized losses on our investments.

Provision for Income Taxes

Our provision for income taxes in any given interim period is recorded based on an estimated full-year tax rate adjusted for discrete items in the period they occur. Our effective income tax rate was 9.2% and 8.2% for the nine months ended September 30, 2017 and 2016, respectively. Our tax rate is affected by recurring items, such as permanent differences and income allocated to non-controlling interests which is not subject to U.S. federal, state and local corporate income taxes. The increase in the effective tax rate during the nine months ended September 30, 2017 as compared to the same period in 2016 was primarily attributed to the impact of discrete items associated with the vesting and forfeiture of RSUs partly offset by an increase in taxable income allocable to non-controlling interests which is not subject to corporate income taxes.

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 \$3.6 million to \$4.7 million for the nine months ended September 30, 2017 compared to the same period in 2016. The increase was due primarily to an increase in dividend income earned and allocated 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,	
	2017	2016	2017	2016
	(Amounts in thousands, except share and per share amounts)			
Net income attributable to Medley Management Inc.	\$461	\$ 220	\$1,429	\$ 372
Net income attributable to non-controlling interests in Medley LLC	2,172	556	8,557	1,774
Net income attributable to Medley Management Inc. and non-controlling interests in Medley LLC	\$2,633	\$ 776	\$9,986	\$ 2,146
Reimbursable fund startup expenses	596	5,647	847	16,391
IPO date award stock-based compensation	532	672	189	2,018
Other non-core items ⁽¹⁾	238	211	2,550	732
Income tax expense on adjustments	(148)	(754)	(401)	(2,207)
Core Net Income	\$3,851	\$ 6,552	\$13,171	\$ 19,080
Interest expense	2,718	2,192	7,982	6,382
Income taxes	800	831	1,894	2,498
Depreciation and amortization	223	243	690	678
Core EBITDA	\$7,592	\$ 9,818	\$23,737	\$ 28,638
Core Net Income Per Share	\$0.09	\$ 0.14	\$0.28	\$ 0.40

Pro-Forma Weighted Average Shares Outstanding ⁽²⁾ 30,777,250 30,779,206 30,922,950 30,652,109

For the three months ended September 30, 2017, other non-core items consist of severance costs to former employees as well as other nonrecurring items. For the nine months ended September 30, 2017, other non-core items also consists of \$1.2 million in 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 and \$1.2 million in severance costs to former employees. For the three and nine months ended September 30, 2016, other non-core items consists of a \$0.2 million acceleration of debt issuance costs relating to prepayments made on our Term Loan Facility as a result of refinancing of our indebtedness from the issuance of Senior Unsecured Debt. For the nine months ended September 30, 2016, other non-core items also includes a \$0.5 million impairment loss on our investment in CK Pearl Fund.

Assumes the conversion by the pre-IPO holders of 23,333,333 Medley LLC units for 23,333,333 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 and, in 2017, 320,000 restricted LLC units during each of the periods presented and conversion of such restricted LLC units for an equal number of shares of Class A common stock.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Amounts in thousands, except share and per share amounts)			
Numerator				
Core Net Income	\$3,851	\$ 6,552	\$13,171	\$ 19,080
Add: Income taxes	800	831	1,894	2,498
Pre-Tax Core Net Income	\$4,651	\$ 7,383	\$15,065	\$ 21,578
Denominator				
Class A common stock	5,342,935	5,778,409	5,578,003	5,802,334
Conversion of LLC Units and restricted LLC Units to Class A common stock	23,653,333	23,333,333	23,592,382	23,333,333
Restricted stock units	1,780,980	1,667,464	1,752,566	1,516,442
Pro-Forma Weighted Average Shares Outstanding	30,777,250	30,779,206	30,922,950	30,652,109
Pre-Tax Core Net Income Per Share	\$0.15	\$ 0.24	\$0.49	\$ 0.70
Less: corporate income taxes per share ⁽¹⁾	(0.06)	(0.10)	(0.21)	(0.30)
Core Net Income Per Share	\$0.09	\$ 0.14	\$0.28	\$ 0.40

(1) Assumes that all of our pre-tax earnings are subject to federal, state and local corporate income taxes. In determining corporate income taxes, we used a combined effective corporate tax rate of 43.0%.

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,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Income Margin	15.8 %	4.1 %	21.2 %	3.7 %
Reimbursable fund startup expenses ⁽¹⁾	3.6 %	29.9 %	1.8 %	28.4 %
IPO date award stock-based compensation ⁽¹⁾	3.2 %	3.6 %	0.4 %	3.5 %
Other non-core items ⁽¹⁾⁽²⁾	1.4 %	1.1 %	5.4 %	1.3 %
Provision for income taxes ⁽¹⁾	3.9 %	0.4 %	3.2 %	0.5 %
Corporate income taxes ⁽³⁾	(12.0)%	(16.8)%	(13.8)%	(16.1)%
Core Net Income Margin	15.9 %	22.3 %	18.2 %	21.3 %

(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.

(2) For the three months ended September 30, 2017, other non-core items consist of severance costs to former employees as well as other nonrecurring items. For the nine months ended September 30, 2017, other non-core items also consists of \$1.2 million in 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 and \$1.2 million in severance costs to former employees. For the three and nine months ended September 30, 2016, other non-core items consists of a \$0.2 million acceleration of debt issuance costs relating to prepayments made on our Term Loan Facility as a result of refinancing of our indebtedness from the issuance of Senior Unsecured Debt. For the nine months ended September 30, 2016, other non-core items also includes a \$0.5 million impairment loss on our investment in CK

Pearl Fund.

Assumes that all our pre-tax earnings, including adjustments above, are subject to federal, state and local corporate
(3) income taxes. In determining corporate income taxes, we used a combined effective corporate tax rate of 43.0%
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, 2017, our cash and cash equivalents were \$40.1 million.

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 available for sale 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, 2017, the outstanding senior unsecured debt balance was \$116.7 million, and is reflected net of unamortized discount, unamortized premium and debt issuance costs of \$5.9 million.

See Note 7 “Senior Unsecured Debt” to our unaudited 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, 2017. As of September 30, 2017, we were in compliance with the financial covenants under our Revolving Credit Facility.

Interest Rate and Fees

Borrowings under the Revolving Credit Facility bear interest, at the option of the Company, 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 requires 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 financial results and include adjustments made to calculate Core EBITDA. 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. The notes are scheduled to mature in March 2019.

See Note 6 "Loans Payable" for additional information regarding the promissory notes.

Cash Flows

The significant captions and amounts from our condensed 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,	
	2017	2016
	(Amounts in thousands)	
Statements of cash flows data		
Net cash provided by operating activities	\$6,254	\$7,891
Net cash used in investing activities	(34,977)	(9,618)
Net cash provided by (used in) financing activities	14,295	(12,630)
Net increase (decrease) in cash and cash equivalents	\$(14,428)	\$(14,357)

Operating Activities

Our net cash flow provided by operating activities was \$6.3 million and \$7.9 million during the nine months ended September 30, 2017 and 2016, respectively. During the nine months ended September 30, 2017 and 2016, net cash flow provided by operating activities was attributed to net income of \$14.7 million and \$3.3 million, respectively, non-cash adjustments of \$6.0 million and \$4.3 million, respectively, and changes in operating assets and liabilities of \$(14.4) million and \$0.3 million, respectively.

Investing Activities

Our investing activities generally reflect cash used for acquisitions of fixed assets, distributions received from our equity method investments and purchases of available for sale securities. Purchases of fixed assets were less than \$0.1 million for the nine months ended September 30, 2017 and \$1.9 million for the nine months ended September 30, 2016. Distributions received from equity method investments during the nine months ended September 30, 2017 and 2016 were less than \$0.1 million and \$1.2 million, respectively. Excluding the investments held by our consolidated

fund, purchases of available for sale securities were \$35.0 million during the nine months ended September 30, 2017 and \$8.8 million during the nine months ended September 30,

2016.

Financing Activities

Dividends paid were \$4.4 million and \$4.1 million during the nine months ended September 30, 2017 and 2016, respectively. Distributions to members and redeemable non-controlling interests were \$21.3 million for the nine months ended September 30, 2017 and \$18.7 million for the nine months ended September 30, 2016. Capital contributions from non-controlling interests and redeemable non-controlling interests resulted in an inflow of cash of \$23.0 million for the nine months ended September 30, 2017 and \$12.0 million during the nine months ended September 30, 2016. Repurchases of Class A common stock represented a use of cash from financing activities of \$3.6 million and \$1.2 million for the nine months ended September 30, 2017 and 2016, respectively. Capital contributions to equity method investments represented a use of cash from financing activities of \$0.2 million for each of the nine months ended September 30, 2017 and 2016, respectively.

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 payable by us, amounted to \$116.2 million. The net proceeds from the offering were used to pay-down the outstanding indebtedness under the Term Loan Facility with the remaining amount to be used for working capital purposes. Repayments of loans payable resulted in an outflow of cash of \$44.8 million and \$23.8 million for the nine months ended September 30, 2017 and 2016, respectively. Proceeds from the issuance of debt obligations provided an inflow of cash of \$69.1 million for the nine months ended September 30, 2017 and \$24.2 million for the nine months ended September 30, 2016.

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 business 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 condensed 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 based on certain specific hurdle rates as defined in the funds' applicable investment management or partnership agreements. Performance fees are recorded on an accrual basis to the extent such amounts are contractually due.

We have elected to adopt Method 2 of ASC 605, Revenue Recognition, for revenue based on a formula. Under this method, we are entitled to performance-based fees that can amount to as much as 20.0% of a fund's profits, subject to certain hurdles. Performance-based fees are assessed as a percentage of the investment performance of the funds. The performance fee for any period is based upon an assumed liquidation of the fund's net assets on the reporting date, and distribution of the net proceeds in accordance with the fund's income allocation provisions. The performance fees may be subject to reversal to the extent that the performance fees recorded exceeds the amount due to the general partner or investment manager based on a fund's cumulative investment returns.

Performance fees receivable is presented separately in our unaudited condensed consolidated balance sheets included in this Form 10-Q and represents performance fees recognized but not yet collected. The timing of the payment of performance fees due to the general partner or investment manager varies depending on the terms of the applicable fund agreements.

If applicable, we record an accrual for the potential repayment of previously received performance fees which represents amounts that would need to be repaid to the underlying funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. Our actual obligation, however, would not become payable or realized until the end of a fund's life.

Performance Fee Compensation Payable

We have an obligation to pay our professionals a portion of the performance fees earned from certain funds. These amounts are accounted for as compensation expense in conjunction with the recognition of the related performance fee revenue and, until paid, are recognized as performance fee compensation payable. Performance fee compensation is recognized in the same period that the related performance fees are recognized. Performance fee compensation can be reversed during periods when there is a decline in performance fees that were previously recognized.

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 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 taxable income from Medley LLC at prevailing corporate tax rates, which are reflected in our unaudited condensed consolidated financial statements. 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 also 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.

Prior to January 1, 2017, stock-based compensation expense was based on awards ultimately expected to vest and was reduced for estimated forfeitures. We estimated our forfeiture rate based on our historical experience and revised our estimate if actual forfeitures differed from our initial estimates. Effective January 1, 2017, we adopted a change in accounting policy as a result of the adoption of ASU 2016-09 to account for forfeitures as they occur.

Stock-based compensation expense relating to equity based awards are measured at fair value as of the grant date, reduced for actual forfeitures, and expensed over the vesting period on a straight-line basis 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 audited 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 9, "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, 2017.

	Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years	Total
	(Amounts in thousands)				
Medley Obligations					
Operating lease obligations ⁽¹⁾	\$2,703	\$5,494	\$4,978	\$2,431	\$15,606
Loans payable ⁽²⁾	—	10,000	—	—	10,000
Senior unsecured debt ⁽³⁾	—	—	—	122,595	122,595
Revenue share payable	1,379	1,692	1,062	—	4,133
Capital commitments to funds ⁽⁴⁾	330	—	—	—	330
Total	\$4,412	\$17,186	\$6,040	\$125,026	\$152,664

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 6, "Loans Payable," to our 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 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, 2017, 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, performance fee revenue, generally, is subject to reversal in the event that the funds incur future losses. These losses are limited to the extent of the cumulative performance fee revenue recognized in income to date, net of a portion of taxes paid. Due in part to our investment performance and the fact that our performance fee revenue is generally determined on a liquidation basis, as of September 30, 2017, 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 performance fee revenue that have been recognized would be reversed. We believe that the possibility of all of the existing investments becoming worthless is remote. At September 30, 2017, had we assumed all existing investments were valued at \$0, the net amount of performance fee revenue subject to additional reversal would have been approximately \$5.6 million.

Performance fee revenue 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 performance fee revenue 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.

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, 2017, we calculated a \$0.8 million increase in management fees for the three and nine months ended September 30, 2017, 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, 2017, we calculated a \$1.0 million decrease in management fees for the three and nine months ended September 30, 2017, 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. The performance fees for any period are based upon an assumed liquidation of the fund's net assets on the reporting date, and distribution of the net proceeds in accordance with the fund's income allocation provisions, which can result in a performance-based fee to us, subject to certain hurdles and benchmarks. The performance fees may be subject to reversal to the extent that the performance fees recorded exceed the amount due to the general partner or investment manager based on a fund's cumulative investment returns.

Short-term changes in the fair values of funds' investments may materially impact accrued performance fees depending on the respective funds' performance relative to applicable hurdles. 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. However, short-term moves can meaningfully impact our ability to accrue performance fees 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 and SMAs' as of September 30, 2017, we calculated a \$14.5 and \$16.1 million increase in performance fees for the three and nine months ended September 30, 2017, respectively. In the case of a 10% short-term decline in fair value of investments in our long-dated private funds and SMAs' as of September 30, 2017, we calculated a \$0.9 million and \$1.5 million decrease in performance fees for the three and nine months ended September 30, 2017, respectively.

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, 2017, we calculated a \$5.5 million increase in Part I and II incentive fees for the three and nine months ended September 30, 2017, respectively. In the case of a 10% short-term decline in fair value of the investments in our permanent capital vehicles as of September 30, 2017, we calculated a \$0.4 million increase in Part I incentive fees for the three and nine months ended September 30, 2017.

Interest Rate Risk

As of September 30, 2017, we had \$125.8 million of debt outstanding, presented as loans payable and senior unsecured debt in our unaudited condensed consolidated 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, 2017, 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, we are involved in various legal proceedings, lawsuits and claims incidental to the conduct of our business. Our business is also subject to extensive regulation, which may result in regulatory proceedings against us. Except as described below, we are not currently party to any material legal proceedings.

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. Following a separate lawsuit by Mr. Barkat against MVF’s D&O insurance carrier, the carrier, Charles Sweet and MVF have settled the claims against them. On June 6, 2016, the court granted the defendants’ demurrers on several counts and dismissed Mr. Barkat’s claims with prejudice except with respect to his claim for intentional interference with contract. MCC and the other defendants continue to dispute the remaining allegations and are vigorously defending the lawsuit while pursuing affirmative counterclaims against Mr. Barkat and MVF Holdings. 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 outstanding claims for alleged interference with Mr. Barkat’s employment contract, and the other causes of action asserted in the Derivative Action are without merit and all defendants intend to continue to assert a vigorous defense.

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. There were no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

We repurchase shares of Medley Management Inc. common stock pursuant to our \$5.0 million share repurchase program authorized by our Board of Directors on August 10, 2015. On September 9, 2016, the Board of Directors approved an extension of the repurchase program which expired on August 31, 2017. The following table contains information about our purchases of Medley Management Inc.'s Class A Common Stock during the third quarter of 2017 (in thousands, except average price paid per share):

Period	Total number of shares (or units) purchased	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
July 1, 2017 - July 31, 2017				
Common stock repurchases	58		58	
Total	58	\$ 6.55	58	\$ 345
August 1, 2017 - August 31, 2017				
Common stock repurchases	37		37	
Total	37	\$ 6.35	37	\$ —
September 1, 2017 - September 30, 2017				
Common stock repurchases	—		—	
Total	—	\$ —	—	\$ —
Total				
Common stock repurchases	95		95	
Total	95	\$ 6.51	95	\$ —

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

Exhibit No.	Exhibit Description
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>
10.1	<u>Amendment Number Three to Credit Agreement, dated as of September 22, 2017, by and among the lenders identified on the signatures pages thereto, City National Bank and Medley LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 27, 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

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, 2017 By: /s/ Richard T. Allorto, Jr.

Richard T. Allorto, Jr.

Chief Financial Officer

(Principal Financial Officer and Authorized Signatory)