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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March, 31, 2018

or

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

For the transition period from to
Commission File Number: 001-16073

Great Elm Capital Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
800 South Street, Suite 230, Waltham MA
(Address of principal executive offices)

94-3219054
(I.R.S. Employer Identification No.)
02453
(Zip Code)

(617) 375-3006

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|--|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

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

As of May 14, 2018, there were 25,467,732 shares of the registrant's common stock outstanding.

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Unless the context otherwise requires, “we”, “us”, “our”, “GEC”, the “Company” and terms of similar import refer to Great Elm Capital Group, Inc. and/or its subsidiaries. Our corporate website address is www.greatelmcap.com. The information contained in, or accessible through, our corporate website does not constitute part of this report.

Cautionary Statement Regarding Forward-Looking Information

This report and certain information incorporated herein by reference, contains forward-looking statements under the Private Securities Litigation Reform Act of 1995. Such statements often include words such as “may,” “will,” “should,” “believe,” “expect,” “seek,” “anticipate,” “intend,” “estimate,” “plan,” “could”, “continue”, and other similar phrases. Although we believe the assumptions and expectations reflected in these forward-looking statements are reasonable, these assumptions and expectations may not prove to be correct and we may not achieve the financial results or benefits anticipated. These forward-looking statements are not guarantees of actual results. Our actual results may differ materially from those suggested in the forward-looking statements. These forward-looking statements involve risks and uncertainties, some of which are beyond our control, including, without limitation:

- our ability to profitably manage Great Elm Capital Corp. (**GECC**);
- the dividend rate that GECC will pay;
- our ability to build and grow our real estate business;
- our ability to grow our investment management business;
- our ability to raise capital to fund our business plan;
- our ability to make acquisitions and manage any businesses we may acquire;
- conditions in the equity capital markets and debt capital markets as well as the economy generally;
- our ability to maintain the security of electronic and other confidential information;
- serious disruptions and catastrophic events;
- competition, mostly from larger, well financed organizations (both domestic and foreign), including operating companies, global asset managers, investment banks, commercial banks, and private equity funds;
- outcomes of litigation and proceedings and the availability of insurance, indemnification and other third-party coverage of any losses suffered in connection therewith;
- our ability to attract, assimilate and retain key personnel;
- compliance with laws, regulations and orders;
- changes in laws and regulations; and
- other factors described in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 under “Risk Factors” or as set forth from time to time in our Securities and Exchange Commission (**SEC**) filings.

These forward-looking statements speak only as of the time of filing of this report and we do not undertake to update or revise them as more information becomes available. You are cautioned not to place undue reliance on these forward-looking statements. We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Great Elm Capital Group, Inc.

Condensed Consolidated Balance Sheets (Unaudited)

Dollar amounts in thousands (except per share data)

| | <u>March 31,</u> <u>2018</u> | <u>June 30,</u> <u>2017</u> |
|---|---------------------------------|--------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 44,282 | \$ 45,894 |
| Restricted cash | 622 | — |
| Management fees receivable - related party | 692 | 549 |
| Related party dividend receivable | 163 | 163 |
| Related party receivable | 300 | 348 |
| Investments, at fair value (cost \$30,000) | 18,133 | 20,886 |
| Prepaid and other current assets | 354 | 174 |
| Total current assets | <u>64,546</u> | <u>68,014</u> |
| Rent receivable, net of current portion (restricted) | 46 | — |
| Incentive fees receivable | 3,491 | 2,757 |
| Real estate assets, net | 55,868 | — |
| Property and equipment, net | 42 | 41 |
| Identifiable intangible assets, net | 9,659 | 4,102 |
| Right to use assets, net | 1,564 | 1,688 |
| Other assets, net | 92 | 92 |
| Total assets | <u>\$ 135,308</u> | <u>\$ 76,694</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 221 | \$ 52 |
| Accrued liabilities | 1,611 | 1,019 |
| Accrued legal expense | 317 | 164 |
| Accrued compensation | 60 | 214 |
| Lease liability | 174 | 421 |
| Liabilities related to discontinued operations | 3,608 | 3,608 |
| Senior note payable, current portion | 1,960 | — |
| Related party note payable, current portion | 76 | 250 |
| Total current liabilities | <u>8,027</u> | <u>5,728</u> |
| Lease liability, net of current portion | 1,507 | 1,640 |
| Warrant liability | — | 186 |
| Senior note payable | 50,130 | — |
| Subordinated note payable | 5,829 | — |
| Related party note payable | 3,224 | 2,924 |
| Other liabilities | 296 | — |
| Total liabilities | <u>69,013</u> | <u>10,478</u> |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, par value \$0.001 per share; 5,000 authorized and zero outstanding | — | — |
| Common stock, par value \$0.001 per share; 350,000,000 shares authorized; and 25,467,732 shares issued and 24,706,115 shares outstanding at March 31, 2018; and 24,258,847 shares issued and 23,200,153 shares outstanding at June 30, 2017 | 25 | 23 |
| Additional paid-in-capital | 3,302,063 | 3,293,683 |
| Accumulated deficit | (3,236,039) | (3,227,480) |
| Total Great Elm Capital Group, Inc.'s stockholders' equity | <u>66,049</u> | <u>66,226</u> |
| Non-controlling interest | 246 | (10) |
| Total stockholders' equity | <u>66,295</u> | <u>66,216</u> |
| Total liabilities and stockholders' equity | <u>\$ 135,308</u> | <u>\$ 76,694</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Great Elm Capital Group, Inc.
Condensed Consolidated Statements of Operations (Unaudited)
Dollar amounts in thousands (except per share data)

| | For the Three Months Ended March 31, | | For the Nine Months Ended March 31, | |
|---|--------------------------------------|------------|-------------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Management and administration fees | \$ 975 | \$ 966 | \$ 2,766 | \$ 1,428 |
| Incentive fees | (1,766) | 1,000 | 735 | 1,880 |
| Rental income | 343 | — | 343 | — |
| Total revenue | (448) | 1,966 | 3,844 | 3,308 |
| Operating costs and expenses: | | | | |
| Investment management expenses | 1,090 | 1,658 | 6,423 | 2,747 |
| Real estate expenses | 21 | — | 21 | — |
| Amortization and depreciation | 249 | 1,546 | 562 | 2,564 |
| General and administrative | 1,728 | 1,436 | 4,745 | 2,677 |
| Total operating costs and expenses | 3,088 | 4,640 | 11,751 | 7,988 |
| Operating income (loss) | (3,536) | (2,674) | (7,907) | (4,680) |
| Dividends and interest income | 564 | 490 | 2,014 | 816 |
| Unrealized loss on investment in GECC | (1,219) | (570) | (2,753) | (7,619) |
| Interest expense, net | (225) | (108) | (360) | (6,211) |
| Other income, net | — | (20) | 5 | (9) |
| Loss from continuing operations, before income taxes | (4,416) | (2,882) | (9,001) | (17,703) |
| Benefit from income taxes | (182) | (85) | (182) | (1,049) |
| Loss from continuing operations | (4,234) | (2,797) | (8,819) | (16,654) |
| Discontinued operations: | | | | |
| Income (loss) from discontinued operations, net of tax | (155) | — | (155) | 2,308 |
| Income (loss) from discontinued operations, net of tax | (155) | — | (155) | 2,308 |
| Net loss | \$ (4,389) | \$ (2,797) | \$ (8,974) | \$ (14,346) |
| Less: Net income (loss) attributable to non-controlling interest | (28) | (278) | (415) | (444) |
| Net loss attributable to Great Elm Capital Group, Inc. | \$ (4,361) | \$ (2,519) | \$ (8,559) | \$ (13,902) |
| Basic and diluted earnings (loss) per share attributable to Great Elm Capital Group, Inc. from: | | | | |
| Continuing operations | \$ (0.17) | \$ (0.11) | \$ (0.35) | \$ (1.14) |
| Discontinued operations | (0.01) | — | (0.01) | 0.16 |
| Net loss per share | \$ (0.18) | \$ (0.11) | \$ (0.36) | \$ (0.98) |
| Weighted average shares outstanding: | | | | |
| Basic and diluted | 24,612 | 23,187 | 24,132 | 14,177 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Great Elm Capital Group, Inc.
Condensed Consolidated Statements of Comprehensive Loss (Unaudited)
Dollar amounts in thousands

| | <u>For the Three Months Ended March 31,</u> | | <u>For the Nine Months Ended March 31,</u> | |
|--|---|-------------------|--|--------------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Net loss | \$ (4,389) | \$ (2,797) | \$ (8,974) | \$ (14,346) |
| Loss on foreign currency translation adjustment | — | — | — | — |
| Total comprehensive loss | (4,389) | (2,797) | (8,974) | (14,346) |
| Comprehensive income (loss) attributable to non-controlling interest | 8 | (278) | (379) | (444) |
| Total comprehensive loss attributable to Great Elm Capital Group | <u>\$ (4,397)</u> | <u>\$ (2,519)</u> | <u>\$ (8,595)</u> | <u>\$ (13,902)</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Great Elm Capital Group, Inc.
Condensed Consolidated Statements of Cash Flow (Unaudited)
Dollar amounts in thousands

| | For the Nine Months Ended March 31, | |
|--|--|-------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net loss | \$ (8,974) | \$ (14,346) |
| Loss (income) from discontinued operations | 155 | (2,308) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 562 | 2,564 |
| Stock-based compensation | 3,602 | 1,219 |
| Unrealized loss on investments at fair value | 2,753 | 7,619 |
| Other non-cash (income) expense, net | 55 | (36) |
| Amortization of debt discount, premium and issuance costs | 58 | 2,802 |
| Changes in operating assets and liabilities: | | |
| Related party receivables, net | (877) | (3,494) |
| Prepaid assets, deposits, and other assets | (145) | (121) |
| Accounts payable and accrued liabilities | (74) | (2,684) |
| Net cash used in operating activities - continuing operations | (2,885) | (8,785) |
| Net cash used in operating activities - discontinued operations | (155) | (961) |
| Net cash used in operating activities | (3,040) | (9,746) |
| Cash flows from investing activities: | | |
| Acquisition of subsidiary | (2,353) | (80) |
| Deconsolidation of GECC into equity method investment | — | (30,000) |
| Purchases of property and equipment | (13) | — |
| Net cash used in investing activities | (2,366) | (30,080) |
| Cash flows from financing activities: | | |
| Principal payment on related party note payable | — | (36,838) |
| Principal payment on senior note payable | (156) | — |
| Proceeds from issuance of common stock, gross | 4,572 | 45,000 |
| Payment of equity issuance costs | — | (2,344) |
| Net cash provided by financing activities | 4,416 | 5,818 |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | (990) | (34,008) |
| Cash, cash equivalents, and restricted cash at beginning of period | 45,894 | 80,711 |
| Cash, cash equivalents, and restricted cash at end of period | \$ 44,904 | \$ 46,703 |
| Cash paid for income taxes | \$ — | \$ — |
| Cash paid for interest | \$ 240 | \$ 3,319 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Issuance of related party note payable in acquisition | \$ — | \$ 3,424 |
| Warrant liability settled with common stock issuance | \$ 194 | \$ — |
| Assumption of senior and subordinated notes payable in real estate acquisition | \$ 58,016 | \$ — |
| Issuance of equity-linked instruments classified as warrant liability | \$ — | \$ 216 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Great Elm Capital Group, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2018

1. Nature of Operations

Great Elm Capital Group, Inc. (the **Company**) is a holding company incorporated in Delaware. The Company currently has three operating segments: investment management, real estate and general corporate. The Company is pursuing business development opportunities in investment management, real estate, and other industries.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and footnotes which are normally included in the Company's Form 10-K. These financial statements reflect all adjustments (consisting of normal recurring items or items discussed herein) that management believes are necessary to fairly state results for the interim periods presented. Results of operations for interim periods are not necessarily indicative of annual results of operations.

Use of Estimates

The preparation of these financial statements in accordance with accounting principles generally accepted in the United States of America (**US GAAP**) requires the Company to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingent assets and liabilities. On an on-going basis, the Company evaluates all of these estimates and assumptions. The most important of these estimates and assumptions relate to fair value measurements, compensation and benefits, asset impairment, and the ability to realize deferred tax assets. Although these and other estimates and assumptions are based on the best available information, actual results could be different from these estimates.

Principles of Consolidation

The Company consolidates the assets, liabilities, and operating results of its wholly-owned subsidiaries; majority-owned subsidiaries; and subsidiaries in which we hold a controlling financial interest as of the financial statement date. In most cases, a controlling financial interest reflects ownership of a majority of the voting interests. We consolidate a variable interest entity (**VIE**) when we possess both the power to direct the activities of the VIE that most significantly impact its economic performance and we are either obligated to absorb the losses that could potentially be significant to the VIE or we hold the right to receive benefits from the VIE that could potentially be significant to the VIE. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Great Elm Capital Management, Inc. (**GECM**) and Great Elm FM Acquisition Inc.; and its majority-owned subsidiaries, Great Elm FM Holdings, Inc., GECC GP Corp. (**GP Corp**), and CRIC IT Fort Myers LLC. All intercompany accounts and transactions have been eliminated in consolidation.

Non-controlling interests in the Company's subsidiaries are reported as a component of equity, separate from the Company's equity. Results of operations attributable to the non-controlling interests are included in the Company's consolidated statements of operations.

Segments

The Company has three segments: investment management, real estate, and general corporate. The Company regularly reviews each segment for purposes of allocating resources and assessing performance.

Cash, Cash Equivalents, and Restricted Cash

Cash and cash equivalents are comprised of cash and highly liquid investments with original maturities of 90 days or less at the date of purchase. Cash equivalents consist primarily of money market funds. The Company is exposed to credit risk in the event of default by the financial institutions or the issuers of these investments to the extent the amounts on deposit or invested are in excess of amounts that are insured.

The Company's restricted cash consists of rental income received in advance and a portion of prior period rental income that is reserved for capital and certain operating expenses in connection with the Company's real estate assets.

Revenue Recognition

The Company recognizes revenue on services at the time when services are performed, and the following conditions are met: persuasive evidence of an arrangement exists, the service is complete, the price is fixed and determinable, and collection of the proceeds is reasonably assured. If the conditions for revenue recognition are not met, the Company defers the revenue until all conditions are met.

Investment Management Revenue

The Company recognizes revenue from its investment management business at amounts that reflect the consideration to which it expects to be entitled in exchange for providing services to its customer. Investment management revenue primarily consists of fees based on a percentage of assets under management; fees based on the performance of managed assets; and administrative fees; as follows:

Management Fees

Under GECC's investment management agreement with GECM, the base management fee from GECC is calculated at an annual rate of 1.50% of GECC's average adjusted gross assets. The base management fee is calculated based on the average value of GECC's gross assets, excluding cash and cash equivalents, at the end of the two most recently completed calendar quarters.

Incentive Fees

Incentive fees earned from GECC and the separate accounts managed by GECM are recognized based on investment performance during the period, subject to the achievement of minimum return levels or high-water marks, in accordance with the terms of the respective investment management agreements. Incentive fees range from 5.0% to 20.0%.

Incentive fees are recorded based upon an assumed liquidation of net assets on the reporting date and the distribution of the net proceeds in accordance with the respective investment management agreements. Incentive fees recorded may be subject to reversal to the extent the amount recorded exceeds the amount due to GECM based on negative investment performance after the reporting date. Accrued but unpaid incentive fees and deferred incentive fees due from GECC as of the reporting date are recorded in related party investment management fees receivable in the accompanying consolidated balance sheet. Incentive fees realized and collected are not subject to reversal. As of March 31, 2018 and June 30, 2017, approximately \$2.0 million and \$1.7 million, respectively, of incentive fees recognized in revenue were subject to reversal. In March 2018, the Company reversed approximately \$2.1 million of incentive fees earned by GECM under the investment management agreement and recognized in revenue in prior periods. Generally speaking, GECM earns 20% of GECC's pre incentive fee net investment income (**NII**) in excess of a 7% hurdle under its investment management agreement with GECC. Payment of this fee is also subject to a total return hurdle as set forth in the investment management agreement. To the extent that any of such NII is composed of non-cash income, then payment of the incentive fees owed to GECM in respect of such NII is deferred until received by GECC in cash. GECC's largest investment, Avanti Communications Group plc (Avanti), has generated significant non-cash income in the form of payment-in-kind (PIK) interest. In connection with the recent restructuring of Avanti completed on April 26, 2018, GECC's investment in Avanti's third lien notes was converted into Avanti common equity. As a result of this debt-for-equity conversion, we have determined that the accrued incentives fees associated with the portion of such PIK interest generated by the third lien notes cannot at this time be recognized in revenue and must be reversed for prior periods. Notwithstanding this reversal, such incentives fees remain payable under the investment management agreement (subject to achievement of return hurdles) and will be recognized in revenue to the extent a hypothetical sale of the new common equity at the market price would result in gross proceeds to GECC in excess of its initial cost basis in the third lien notes. We can make no assurances that such incentive fees will ultimately be recognized in revenue or as to the timing of any such recognition.

Real Estate Revenue

Rental income from operating leases is recognized on a straight-line basis, based on contractual lease terms with fixed and determinable increases over the non-cancellable term of the related lease when collectability is reasonably assured. Under the terms of the lease, the Company may recover from the tenant certain expenses, including: real estate taxes, insurance and other operating expenses. The recovery of these expenses is recognized in rental income in the accompanying consolidated statements of operations, in the same periods as the expenses are incurred. These expenses recognized in both revenue and expense may fluctuate from period to period based on actual expense amounts.

Investment Management Expenses

The Company classifies all direct expenses of its investment management segment including: payroll, stock-compensation, and related taxes and benefits; facilities costs; and professional fees; in investment management expenses in the accompanying consolidated statements of operations. GECC has a three-year contractual consulting arrangement with a third party to provide services in exchange for 26% of the base management fee paid by GECC.

Real Estate Expenses

The Company classifies all direct expenses of its real estate segment, including: real estate taxes, insurance, property management fees and other operating expenses in real estate expenses in the accompanying consolidated statements of operations. Under the terms of the lease, the Company may recover from the tenant certain expenses including; real estate taxes, insurance and other operating expenses; the recovery of these expenses is recognized in rental income in the accompanying consolidated statements of operations, in the same periods as the expense are incurred.

Property, Equipment, and Real Estate Assets

The Company records property and equipment at historical cost and its real estate assets at the estimated fair value on the date of acquisition. The Company recognizes depreciation in amounts sufficient to match the cost of depreciable assets to operations over their estimated service lives, lease length, or productive value. The Company capitalizes expenditures for improvements that significantly extend the useful life of an asset. The Company charges expenditures for maintenance and repairs to operations in the periods incurred. Depreciation is recognized using the straight-line method over their estimated useful lives as follows:

| Description | Life in Years |
|------------------------|---------------|
| Buildings | 55 |
| Tenant improvements | 12 |
| Site improvements | 16 |
| Leasehold improvements | 7 |
| Furniture and fixtures | 1 to 3 |

Concentration of Risk and Related Parties

The Company has placed substantially all of its cash with two well established financial institutions, and its cash equivalents consist primarily of money market funds with the same institutions. The Company is exposed to credit risk related to the potential inability to access liquidity in the financial institution where its cash and cash equivalents are concentrated.

The Company's net investment revenue and receivables from continuing operations for the periods presented were attributable to the management of one investment vehicle, GECC. GECC is a related party, based on the Company owning approximately 18% of the outstanding common stock of GECC.

The Company's rental revenue from continuing operations is derived from one tenant.

A portion of the Company's outstanding debt, the GP Corp. Note, is held by MAST Capital Management LLC (**MAST Capital**). Funds affiliated with MAST Capital reported ownership of approximately 7.9% of the outstanding shares of the Company as of March 31, 2018.

Identifiable Intangible Assets

The Company amortizes its identifiable intangible assets over their estimated useful lives using applicable discounted cash flow attribution and straight-line methods. The Company currently amortizes its identifiable intangible assets over periods ranging from twelve to fifteen years.

Reclassifications

The Company reclassified the prior period presentation by increasing its administrative fee income and expense by \$0.4 million and \$0.4 million, respectively, for the three and nine months ended March 31, 2017, to conform to the current period presentation adopted for the consolidated statement of operations for the year ended June 30, 2017 and the current periods. These reclassifications did not have an impact on the Company's previously presented net results of operations.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (**FASB**) issued a new revenue recognition standard. In August 2015, the FASB issued new guidance deferring the effective date of the new revenue recognition standard by one year. The new guidance should be applied for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The objective of the revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The new revenue standard contains principles that an entity will apply to determine the measurement of revenue and the timing of revenue recognition. The core principles include:

1. Identifying the contract(s) with a customer.
2. Identifying the performance obligations in the contract.
3. Determining the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The new standard permits for two alternative implementation methods, the use of either (1) full retrospective application to each prior reporting period presented or (2) modified retrospective application in which the cumulative effect of initially applying the revenue standard is recognized as an adjustment to the opening balance of retained earnings in the period of adoption. The Company plans to adopt the new standard in the first quarter of its 2019 fiscal year using the modified retrospective transition method.

The Company has evaluated the potential impacts of the new revenue recognition standard and has determined that the recognition of a portion of its investment management incentive fees are to be deferred upon implementation. As of March 31, 2018, the Company preliminarily estimated approximately \$0.4 million of the total incentive fees receivable that if not collected prior to the first quarter of its 2019 fiscal year, will be retroactively adjusted upon adoption of the new revenue standard. The Company is continuing to evaluate the new guidance for any other impacts adoption may have on the Company's consolidated financial position, results of operations, and cash flows.

In January 2016, the FASB issued amended guidance on the classification and measurement of financial instruments. The new guidance will impact the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified the need for a valuation allowance on deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new guidance should be applied for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period using a modified retrospective application to all outstanding instruments, with a cumulative effect adjustment recorded to opening retained earnings as of the beginning of the first period in which the guidance becomes effective. However, changes to the accounting for equity securities without a readily determinable fair value will be applied prospectively. Early application is permitted. This amended guidance is not expected to have a material impact on the Company's financial statements.

In November 2016, the FASB issued amended guidance on classification and presentation of restricted cash on the statement of cash flows. Under the new guidance, reporting entities are required to explain the changes in the combined total of restricted and unrestricted balances in the statement of cash flows. Therefore, amounts generally described as

restricted cash or restricted cash equivalents (hereinafter referred to as “restricted cash”) should be combined with unrestricted cash and cash equivalents when reconciling the beginning and end of period balances on the statement of cash flows. Reporting entities will also be required to disclose how the statement of cash flows reconciles to the balance sheet in any situation in which the balance sheet includes more than one line item of cash, cash equivalents, and restricted cash. The new guidance should be applied for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period using a retrospective transition method to each period presented. Early application is permitted. The Company began to apply this guidance in March 2018.

3. Investments, at Fair Value

The Company owns approximately 18% (or 1,966,667 shares) of the outstanding shares of GECC and values its ownership based on the NASDAQ-listed market price of GECC common stock (a Level 1 input in accordance with the US GAAP fair value hierarchy).

During the three and nine months ended March 31, 2018, the Company recorded an unrealized loss of \$1.2 million and \$2.8 million, respectively, on the fair value of its investment in GECC. For the three and nine months ended March 31, 2017, the Company recognized a net unrealized loss on its investment in GECC of \$0.6 million and \$7.6 million, respectively.

4. Separation Agreement

As part of the entry into the investment management business in November 2016, the Company acquired assets, assumed liabilities; and entered into cost and profit sharing agreements with MAST Capital, a related party. In consideration for the assets acquired, the Company’s majority-owned subsidiary, GP Corp. issued a senior secured note payable (**GP Corp. Note**) with an original maximum amount due of approximately \$10.8 million. The note allowed for offsets equal to the amount of the annual investment management expenses in excess of \$1.4 million, after applying cost allocations under GECCM’s cost sharing agreement with MAST Capital (**Cost Sharing Agreement**). In addition, the Company issued MAST Capital a warrant (**MAST Warrant**) to purchase 54,733 shares of Company common stock with an exercise price of \$0.01 per share and an estimated grant date fair value of \$0.2 million.

In September 2017, the Company entered into a Separation Agreement with MAST Capital. The Separation Agreement, contemplated, among other things, an amendment of the GP Corp. Note to be in an aggregate principal amount of \$3.3 million, the issuance of a warrant to MAST Capital to purchase 420,000 shares of common stock with an exercise price based on the average of the quoted market prices for the ten days preceding notice of exercise, the termination of the Cost Sharing Agreement, and the exchange of the MAST Warrant for 54,733 shares of common stock of the Company.

5. Real Estate Asset Acquisition

In March 2018, through its majority-owned subsidiary, Great Elm FM Holdings, the Company acquired an 80.1% interest in CRIC IT Fort Myers LLC (**Property Owner**) and a 19.9% interest was issued to the prior owner. The Property Owner owns a fee simple interest in two Class A office buildings, Gartner I and Gartner II, situated on 17 acres of land in Fort Myers, FL (collectively, **Property**). The Property Owner’s business activities are limited to the leases associated with the Property and under the terms of its borrowing arrangements the Property Owner has significant limitations on its business operations that essentially limit its activities to holding and leasing the Property.

To acquire its interest in the Property Owner, the Company paid a cash purchase price of approximately \$2.7 million, incurred transaction costs of approximately \$0.3 million, and issued a 19.9% non-controlling interest in the Property Owner valued at \$0.7 million. The transaction was an asset acquisition as substantially all of the value of the acquired assets related to the Property. The Property Owner had two notes issued with a fair value of approximately \$58 million. See Note 11 – Borrowings.

The following table summarizes the acquisition cost and the allocation to the assets acquired and liabilities assumed based on the relative fair values on the date of acquisition (in thousands):

| | <u>Amount</u> |
|---|-----------------|
| Cash consideration | \$ 2,700 |
| Cash and restricted cash acquired | (606) |
| Transaction costs | 261 |
| Non-controlling interests | 671 |
| Total consideration, net of cash and restricted cash acquired | <u>\$ 3,026</u> |
| Buildings | \$ 43,276 |
| Land and site improvements | 9,170 |
| In-place lease intangible asset | 6,028 |
| Tenant improvements | 3,500 |
| Other assets | 35 |
| Senior note payable assumed | (52,227) |
| Subordinated note payable assumed | (5,789) |
| Deferred tax liability | (478) |
| Other liabilities assumed | (489) |
| Non-controlling interests | (671) |
| Net assets acquired | <u>\$ 2,355</u> |

The assigned values were based on the relative fair value of the net acquired assets. The valuation of the Property considered both an income and cost approach to determine the fair value of the buildings, leasehold improvements, land, and site improvements. The value of the in-place lease intangible was based on an income approach that considered the value of the lease to the Company. These valuations included significant non observable inputs to the valuation model and therefore were level 3 fair value measurement in the fair value hierarchy. The assumed debt obligations were valued using an income method considering market interest rates for similar instruments, which is a level 2 fair value measurement.

In connection with the acquisition, the acquired tax basis differed from the assigned book basis and the simultaneous equation method was used to assign the value of the asset and the related deferred tax liability. The reduction of the valuation allowance of the Company of \$0.2 million directly attributable to the transaction was recognized as a benefit to the income tax provision in the three months ended March 31, 2018.

Lease Information

The Property is fully leased, on a triple net basis, to Gartner, Inc. (**Gartner**) until March 31, 2030, which may be extended in accordance with the terms of the lease. The Gartner I lease contains two five-year extensions and the Gartner II lease contains three five-year extensions (the **Leases**). Under the terms of the Leases, the renewal rates are equal to 95% of the then fair market rent, and the tenant does not have a purchase option at the end of the lease term. The lease requires Gartner to make a base monthly lease payment of approximately \$0.4 million as calculated on a straight line basis over the remaining expected lease term plus additional rent payments for additional costs. The Property is subject to mortgage, security agreement, and assignment of leases and rents with the senior and subordinated lenders, which is further described in Note 11. The Property Owner has assigned all rights, title, and interest in and to the Property and the Leases to the senior and subordinated lenders and all amounts received are paid to a trust which funds the operating costs associated with the Property. The Company does not have rights to these rent payments while the borrowings remain outstanding.

The following table summarizes the base monthly rents for the remaining lease term (in thousands):

| Year | Base Rent Payments |
|-------------------------|--------------------|
| 2018 (Q4 payments only) | \$ 999 |
| 2019 | 4,030 |
| 2020 | 4,120 |
| 2021 | 4,213 |
| 2022 | 4,312 |
| 2023 | 4,420 |
| Thereafter | 33,203 |
| Total base rent | \$ 55,297 |

6. Fixed Assets

The Company's fixed assets consist of its revenue-producing real estate assets and furniture, fixtures, and leasehold improvements used in its corporate operations. The following table details the Company's fixed assets (in thousands, except useful lives):

| | As of March 31, 2018 | As of June 30, 2017 | Weighted Average Useful Life (in years) |
|--------------------------|----------------------|---------------------|--|
| Buildings | \$ 43,276 | \$ — | 55 |
| Tenant improvements | 3,500 | — | 12 |
| Land | 7,121 | — | n/a |
| Site improvements | 2,049 | — | 16 |
| Leasehold improvements | 45 | 31 | 7 |
| Furniture and fixtures | 26 | 26 | 2 |
| Fixed assets, gross | 56,017 | 57 | |
| Accumulated depreciation | (107) | (16) | |
| Fixed assets, net | \$ 55,910 | \$ 41 | |

The Company recognized total depreciation expense of \$0.08 million and \$0.09 million for the three and nine months ended March 31, 2018, respectively. The Company incurred immaterial depreciation expense for the three and nine months ended March 31, 2017.

7. Related Party Transactions (not disclosed elsewhere)

The Company's wholly-owned subsidiary, GECM, manages GECC's investment portfolio. The Company owns approximately 18% of the outstanding shares of GECC, and the Company's Chief Executive Officer is also the Chief Executive Officer of GECC and Chief Investment Officer of GECM, in addition to being a member of the board of directors of the Company and chairman of the board of GECC. The Company's President and Chief Operating Officer is also the Chief Operating Officer, Chief Compliance Officer and General Counsel of GECM and the Chief Compliance Officer of GECC. All of the Company's investment management and administrative fee revenue for the periods presented was generated from the management and administration of GECC.

| In Thousands | As of and for the three months ended March 31, | |
|---|--|------------|
| | 2018 | 2017 |
| Investment in GECC | | |
| Unrealized loss on investment in GECC recorded in the period | \$ (1,219) | \$ (570) |
| GECC dividends recorded in the period | \$ 490 | \$ 490 |
| Management of GECC | | |
| Investment management fees earned in the period | \$ (1,074) | \$ 1,582 |
| GECC administration fees earned in the period | \$ 283 | \$ 384 |
| GECC administration expenses incurred in the period | \$ (283) | \$ (384) |
| Net receivable due from GECC at the end of the period | \$ 4,646 | \$ 3,436 |
| Profit Sharing with GP Corp. | | |
| GP Corp. Note balance at the end of the period | \$ 3,300 | \$ 3,424 |
| GP Corp. Note interest incurred in the period | \$ (39) | \$ (108) |
| GP Corp. net loss attributable to Great Elm Capital Group, Inc. | \$ (139) | \$ (1,298) |

| In Thousands | As of and for the nine months ended March 31, | |
|---|---|------------|
| | 2018 | 2017 |
| Investment in GECC | | |
| Unrealized loss on investment in GECC recorded in the period | \$ (2,753) | \$ (7,619) |
| GECC dividends recorded in the period | \$ 1,862 | \$ 816 |
| Management of GECC | | |
| Reimbursement of GECC formation expenses for the period | \$ — | \$ 2,989 |
| Investment management fees for the period | \$ 2,585 | \$ 2,862 |
| GECC administrative fees earned in the period | \$ 916 | \$ 446 |
| GECC administrative expenses incurred during the period | \$ (916) | \$ (446) |
| Net receivable due from GECC at the end of the period | \$ 4,646 | \$ 3,436 |
| Profit Sharing with GP Corp. | | |
| GP Corp. Note balance at the end of the period | \$ 3,300 | \$ 3,424 |
| GP Corp. Note interest incurred in the period | \$ (173) | \$ (175) |
| GP Corp. net loss attributable to Great Elm Capital Group, Inc. | \$ (1,690) | \$ (1,964) |

For the nine months ended March 31, 2018, the Company received cash proceeds totaling \$4.6 million from the exercise of 1,266,000 warrants by a designee of Northern Right Capital. Matthew A. Drapkin, a member of the Company's board of directors, is the Chief Executive Officer of Northern Right Capital.

8. Stockholders' Equity

Stock Compensation

Performance Shares (Restricted Stock Awards)

During the nine months ended March 31, 2018, the Company granted 57,416 restricted stock awards that carry both performance and service conditions to vest with an estimated grant date fair value of approximately \$0.2 million. As of March 31, 2018, the Company had 761,617 restricted stock awards that carry both performance and service conditions to vest. The awards vest over a five-year service period, with the first twenty percent of the award vesting on the first anniversary of the grant, and the remaining award vesting quarterly through November 3, 2021. In addition, the restricted stock awards are subject to pro-rated forfeiture based on the collection of cumulative fees under the GECC investment management agreement of at least \$40 million for the five-year period ended November 3, 2021.

The Company estimates the performance condition is probable of being achieved. The Company accounts for forfeitures of the restricted stock awards in the period incurred. During the nine months ended March 31, 2018, 256,808 restricted stock awards were forfeited. All previously recognized compensation cost associated with the forfeiture during the period, totaling \$0.5 million, was reversed.

Additionally, in September 2017, the Company modified all of the outstanding restricted stock awards to include a change in control acceleration event. This modification did not result in the recognition of an additional compensation cost.

For the three and nine months ended March 31, 2018, the Company recognized compensation cost totaling \$0.4 million and \$0.8 million, respectively, associated with the performance-based awards. For the three and nine-month periods ended March 31, 2017, the Company recognized compensation cost totaling \$0.5 million and \$0.8 million, respectively.

The following table summarizes the Company's restricted stock award activity as of and through March 31, 2018 (in thousands, except per share amounts):

| Restricted Stock Awards and Units | Restricted Stock | Weighted Average Grant Date Fair Value |
|--|-------------------------|---|
| Outstanding at June 30, 2017 | 1,147 | \$ 3.88 |
| Granted | 75 | 3.57 |
| Vested | (185) | 3.55 |
| Forfeited | (257) | 3.95 |
| Outstanding at March 31, 2018 | 780 | \$ 3.91 |

Stock Options

During the nine months ended March 31, 2018, the Company issued 2,082,736 stock options with an estimated grant date fair value of \$4.1 million. The Company utilizes a Black-Scholes option pricing model to estimate the fair value of its option awards. The assumptions used to value the stock options granted during the nine-months ended March 31, 2018 consisted of: expected volatilities between 60.8 to 63.4%; no expected dividend yields; risk-free rates between 1.5 and 2.5%; and expected terms between 3 and 6.5 years.

The following table summarizes the Company's option award activity as of and through March 31, 2018 (in thousands, except per share amounts):

| Options | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|--|----------------|--|--|--------------------------------------|
| Outstanding at June 30, 2017 | 722 | \$ 7.46 | | |
| Options granted | 2,083 | 3.60 | | |
| Exercised | — | — | | |
| Forfeited, cancelled or expired | (128) | 10.45 | | |
| Outstanding at March 31, 2018 | 2,677 | \$ 4.31 | 7.69 | \$ 958 |
| Exercisable at March 31, 2018 | 864 | 5.83 | 6.30 | 213 |
| Vested and expected to vest as of March 31, 2018 | 2,677 | \$ 4.31 | 7.69 | \$ 958 |

During the three months and nine months ended March 31, 2018, the Company recognized total stock-based compensation associated with all restricted stock and stock options of \$0.9 million and \$3.6 million, respectively. During the three months and nine months ended March 31, 2017, the Company recognized total stock based compensation associated with all restricted stock and stock options of \$0.6 million and \$1.3 million, respectively.

As of March 31, 2018, unrecognized compensation costs associated with outstanding stock and stock-linked awards totaled approximately \$4.5 million.

GP Corp. Stock - Non-Controlling Interest

In September 2017, the Company eliminated the vesting provisions and removed the call rights for the GP Corp. stock owned by employees of the Company. As a result of the elimination, the Company recognized stock-based compensation expense of \$1.5 million for the nine months ended March 31, 2018, equal to the estimated fair value of the non-controlling interest held by our employees in GP Corp.

Other Equity Transactions

Warrants

During the nine months ended March 31, 2018, the Company issued warrants to purchase 1,686,000 shares of common stock with an estimated grant date fair value of \$0.05 million. The exercise price of the warrants is variable and based on the average of quoted market prices for the ten days preceding notice of exercise. The Company utilized a Monte-Carlo simulation model to estimate the fair value of its equity-classified warrant issuances.

The following table illustrates the Company's warrant activity as of and through March 31, 2018 (in thousands, except per share amounts):

| Warrants | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|--|---------------|--|--|--------------------------------------|
| Outstanding at June 30, 2017 | 55 | \$ 0.01 | | |
| Granted | 1,686 | 3.60 | | |
| Exercised | (1,266) | 3.60 | | |
| Forfeited, cancelled or expired | (55) | 0.01 | | |
| Outstanding at March 31, 2018 | 420 | \$ 4.00 | 1.47 | \$ — |
| Exercisable and vested at March 31, 2018 | 420 | \$ 4.00 | 1.47 | \$ — |

During the nine months ended March 31, 2018, the Company received cash proceeds totaling \$4.6 million from the exercise of 1,266,000 warrants by a designee of Northern Right Capital. Matthew A. Drapkin, a member of the Company's board of directors, is the Chief Executive Officer of Northern Right Capital.

The Company had classified the MAST Warrant as a liability and valued, on a recurring basis, using a Black-Scholes-Merton option pricing model and Level 3 inputs within the fair value hierarchy. In September 2017, the Company exchanged the MAST Warrant for 54,733 shares of common stock. The following table sets forth a summary of the changes in the fair value of the Company's warrant liability that was measured at fair value on a recurring basis (in thousands):

| | <u>March 31, 2018</u> | <u>June 30, 2017</u> |
|---|-----------------------|----------------------|
| Beginning of period | \$ 186 | \$ — |
| Aggregate fair value of warrant issued | — | 216 |
| Re-measurement of warrant liability loss (gain) | 8 | (30) |
| Settlement | (194) | — |
| End of period | <u>\$ —</u> | <u>\$ 186</u> |

9. Lessee Operating Leases

The Company entered into a lease for office space located in Waltham, MA. On the commencement date of the lease, the non-cancellable term was for eighty-eight months from the occupancy date of June 1, 2017 and contains an option to extend for an additional sixty-month period.

The lease payments commenced on October 1, 2017, four months after the Company began to occupy the space. On an annual basis, the lease payments increase at an average rate of approximately 2.4% from \$28 to \$32 thousand per month.

As of March 31, 2018, the Company had a remaining right lease liability of approximately \$1.7 million related to its current office space.

10. Segment Information

The Company allocates resources based on three operating segments: investment management, real estate and general corporate. Prior to the acquisition of the investment management business in November 2016, the Company viewed all of its operations as a single integrated business.

The following table illustrates the segment information (in thousands):

| | For the Three Months Ended March 31, 2018 | | | | For the Three Months Ended March 31, 2017 | | | |
|--|---|-------------|-------------------|------------|---|-------------|-------------------|-------------|
| | Investment Management | Real Estate | General Corporate | Total | Investment Management | Real Estate | General Corporate | Total |
| Revenue: | | | | | | | | |
| Total revenue | \$ (791) | \$ 343 | \$ — | \$ (448) | \$ 1,966 | \$ — | \$ — | \$ 1,966 |
| Operating costs and expenses: | | | | | | | | |
| General and administrative | \$ 1,090 | \$ 21 | \$ 1,728 | \$ 2,839 | \$ 1,658 | \$ — | \$ 1,436 | \$ 3,094 |
| Amortization and depreciation | 136 | 113 | — | 249 | 1,546 | — | — | 1,546 |
| Total operating expenses | \$ 1,226 | \$ 134 | \$ 1,728 | \$ 3,088 | \$ 3,204 | \$ — | \$ 1,436 | \$ 4,640 |
| Other income (expense): | | | | | | | | |
| Total other expense, net | \$ (39) | \$ (186) | \$ (655) | \$ (880) | \$ (108) | \$ — | \$ (100) | \$ (208) |
| Operating income (loss): | | | | | | | | |
| Total pre-tax income (loss) from continuing operations | \$ (2,056) | \$ 23 | \$ (2,383) | \$ (4,416) | \$ (1,346) | \$ — | \$ (1,536) | \$ (2,882) |
| | | | | | | | | |
| | For the Nine Months Ended March 31, 2018 | | | | For the Nine Months Ended March 31, 2017 | | | |
| | Investment Management | Real Estate | General Corporate | Total | Investment Management | Real Estate | General Corporate | Total |
| Revenue: | | | | | | | | |
| Total revenue | \$ 3,501 | \$ 343 | \$ — | \$ 3,844 | \$ 3,308 | \$ — | \$ — | \$ 3,308 |
| Operating costs and expenses: | | | | | | | | |
| General and administrative | \$ 6,423 | \$ 21 | \$ 4,745 | \$ 11,189 | \$ 2,747 | \$ — | \$ 2,677 | \$ 5,424 |
| Amortization and depreciation | 449 | 113 | — | 562 | 2,564 | — | — | 2,564 |
| Total operating expenses | \$ 6,872 | \$ 134 | \$ 4,745 | \$ 11,751 | \$ 5,311 | \$ — | \$ 2,677 | \$ 7,988 |
| Other expense: | | | | | | | | |
| Total other expense, net | \$ (161) | \$ (186) | \$ (747) | \$ (1,094) | \$ (175) | \$ — | \$ (12,848) | \$ (13,023) |
| Operating loss: | | | | | | | | |
| Total pre-tax income (loss) from continuing operations | \$ (3,532) | \$ 23 | \$ (5,492) | \$ (9,001) | \$ (2,178) | \$ — | \$ (15,525) | \$ (17,703) |

The Company's investment management and real estate segments include identifiable intangible assets. The following tables provide detail associated with the Company's identifiable intangible assets (dollar amounts in thousands):

| | As of March 31, 2018 | | | Weighted Average Useful Life (in years) |
|-------------------------------------|--------------------------|-----------------------------|------------------------|--|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | |
| Amortized intangible assets: | | | | |
| Investment management agreement | \$ 3,900 | \$ (671) | \$ 3,229 | 15 |
| Assembled workforce | 526 | (90) | 436 | 15 |
| In-place lease | 6,028 | (34) | 5,994 | 12 |
| Total | \$ 10,454 | \$ (795) | \$ 9,659 | |

| Aggregate Amortization Expense: | 2018 | | 2017 | |
|--------------------------------------|------|-----|------|-------|
| For the three months ended March 31, | \$ | 169 | \$ | 1,522 |
| For the nine months ended March 31, | \$ | 472 | \$ | 2,536 |

| Estimated Amortization Expense: | |
|-------------------------------------|--------|
| For the quarter ended June 30, 2018 | \$ 259 |
| For the year ended June 30, 2019 | 1,120 |
| For the year ended June 30, 2020 | 1,098 |
| For the year ended June 30, 2021 | 955 |
| For the year ended June 30, 2022 | 881 |

11. Borrowings

GP Corp. Note

The GP Corp. Note was issued in November 2016 with a maximum principal balance of \$10.8 million and a carrying value of approximately \$3.2 million which approximated its fair value. In September 2017, in conjunction with the Separation Agreement, the GP Corp. Note was amended and restated to reduce the maximum principal balance payable under the note from \$10.8 million to \$3.3 million.

Since the amendment resulted in a substantial change to the GP Corp. Note, the Company accounted for the amendment as a debt extinguishment. On the amendment date, the Company recognized, in other income (expense), a loss on debt extinguishment of \$0.05 million. As part of the consideration to effect the principal reduction, the Company issued MAST Capital a warrant to purchase up to 420,000 shares of restricted common stock. On the grant date, the warrants had an estimated fair value of \$0.01 million.

The GP Corp. Note is held by MAST Capital, matures in November 2026, accrues interest at a variable rate of LIBOR plus 3.0% per annum and is secured by a profit sharing agreement related to GECM's management of GECC. The GP Corp. Note requires quarterly interest only payments and annual principal payments of \$0.08 million, based on the Company's fiscal year ending June 30.

The GP Corp. Note is non-recourse to any of the Company's operations or net assets not related to GECM's management services to GECC. The GP Corp. Note may be prepaid at par value at any time with prior written notice to the holders of the GP Corp. Note. Additionally, GP Corp. is required to prepay the GP Corp. Note upon certain material liquidation transactions.

Senior and Subordinated Notes

In March 2018, in conjunction with the acquisition of an 80.1% interest in CRIC IT Fort Myers LLC, the Company assumed a senior secured note (**Senior Note**) with a principal balance of \$54.8 million and a subordinated note (**Subordinated Note**) with a principal balance of \$2.7 million at the date of the acquisition. The Senior Note was recorded at an estimated fair value of \$52.2 million, reflecting a discount of \$2.6 million from the face amount; and the Subordinated Note was recorded at \$5.8 million, reflecting a premium of \$3.1 million. The discount and premium will

amortize over the life of the notes. Both the Senior Note and Subordinated Note are non-recourse to the Company, but are secured by the Property, the rights associated with the Leases, and the stock owned by the Company in the Property Owner.

The note agreements include negative covenants that restrict the Property Owner's business operations to ownership and lease of the Property, limit additional indebtedness, require maintenance of insurance and other customary requirements related to the Property. Events of default include non-payment of amounts when due, inability to pay indebtedness or material change in the business operations or financial condition of the Property Owner or the lease tenant that in the Lender's reasonable determination would reasonably be expected to materially impair the value of the Property, prevent timely repayment of the notes, or performing any material obligations under the note and related agreements. The payments under the notes are also guaranteed on a full and several basis by the non-controlling interest holder of the Property Owner.

The Senior Note matures on March 15, 2030, and accrues interest at a rate of 3.49% per annum, and is secured by a first lien mortgage on the Property and an Assignment of Leases and Rents. The Senior Note requires monthly principal and interest payments through the maturity date, with the last payment of \$18.4 million on March 14, 2030. The principal and interest due on the Senior Note may be prepaid at the option of the Borrower, discounting the remaining principal and interest payments at a rate equal to an applicable premium in excess of a rate corresponding to the specified U.S. Treasury security over the remaining average life of the Senior Note.

The following table summarizes the obligations due under the terms of the Senior Note (in thousands):

| Year | Senior Debt Principal |
|---|--------------------------|
| 2018 (Q4 Payments) | \$ 481 |
| 2019 | 1,999 |
| 2020 | 2,159 |
| 2021 | 2,326 |
| 2022 | 2,507 |
| 2023 | 2,701 |
| Thereafter | 42,469 |
| Total principal | \$ 54,642 |
| Debt discount | (2,552) |
| Total principal, net | 52,090 |
| Less current portion | (1,960) |
| Total principal, net of current portion | \$ 50,130 |

The Subordinated Note matures on March 15, 2030, and accrues interest at a rate 15.0% per annum, and is secured by a second lien mortgage on the Property and an Assignment of Leases and Rents. The Subordinated Note is a capital appreciation note, whereby the monthly interest is capitalized to the principal balance and due at maturity. Accordingly, \$16.3 million payment is due on March 15, 2030. The principal and interest due on the Subordinate Note may be prepaid at the option of the Borrower, discounting the remaining principal and interest payments at a rate equal to an applicable premium in excess of a rate corresponding to the specified U.S. Treasury security over the remaining average life of the Subordinated Note.

The following table summarizes the capital appreciation and obligations due under the terms of the Subordinated Note (in thousands):

| Year | Subordinated Debt Capital Appreciation |
|---|---|
| Future scheduled in-kind interest | \$ 13,550 |
| Balance as of March 31, 2018 | 5,829 |
| Less: Premium | (3,109) |
| Total subordinated debt due at Maturity on March 15, 2030 | \$ 16,270 |

For the three and nine months ended March 31, 2018, the Company incurred interest expense of approximately \$ 0.2 million and \$0.4 million respectively , related to all outstanding debt instruments . During the three and nine months ended March 31, 2017, the Company recognized interest expense of approximately \$0.1 million and \$6.2 million, respectively, associated with its previously outstanding Senior Secured Notes Payable held by affiliates of MAST Capital that were retired in October 2016.

12. Income Tax

As of March 31, 2018, the Company has net operating loss (**NOL**) carryforwards for federal and state income tax purposes of approximately \$1.7 billion and \$217 million, respectively. The federal and state NOL carryforwards will expire from 2018 through 2037.

On December 22, 2017, the Tax Cuts and Jobs Act (**Tax Act**) was signed into law. Among other changes is a reduction in the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. The Company has provisionally revalued its deferred tax assets as a result of the Tax Act. As the Company has not yet finalized its calculation of its deferred tax position as of the enactment date, the impact of the tax law change has not been finalized as of March 31, 2018. Based on the Company's provisional estimate, the effect of the reduction in the corporate income tax rate resulted in a reduction in deferred tax assets of approximately \$248 million and an off-setting adjustment to the valuation allowance. As of March 31, 2018 and June 30, 2017, the Company had provided a full valuation allowance for all of its federal and state deferred tax assets, therefore the reduction in the federal deferred tax assets resulting from the Tax Act had no effect on the Company's consolidated balance sheet or statements of operations as of, and for the three and nine months ended March 31, 2018. The Company did not record any adjustments to its revaluation in the three months ending March 31, 2018. The Company's revaluation of its deferred tax assets is subject to further refinement as additional information becomes available and further analysis is completed.

For the three and nine months ended March 31, 2018, the Company has recorded an income tax benefit of \$0.2 million due to the income tax benefit related to the reversal of our valuation allowance as a result of deferred tax liabilities acquired as part of our March 2018 Real Estate Asset Acquisition that provided sources of taxable income to recover our existing deferred tax assets (see Note 5 for further discussion).

13. Subsequent Events

None.

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

Overview

We are a holding company seeking to acquire assets and businesses, where our people and other assets provide a competitive advantage. In our 2017 fiscal year, we started a new business — investment management. In March 2018, we started our real estate business through the acquisition of an 80.1% interest in two Class A office buildings situated on 17 acres of land in Fort Myers, Florida.

We currently manage Great Elm Capital Corp. (**GECC**), a business development company (**BDC**) as defined under the Investment Company Act of 1940, as amended. Through our management of GECC, we earn management and administrative fees, and have the opportunity to earn incentive fees based upon achieving performance targets. We also own approximately 18% of the outstanding shares of common stock of GECC, which generated approximately \$1.9 million in dividends and approximately \$2.8 million of mark-to-market losses for the nine months ended March 31, 2018. In addition to GECC, we also manage three separate accounts for an institutional investor totaling approximately \$33 million (par value).

In March 2018, through its majority-owned subsidiary, Great Elm FM Holdings Inc., the Company acquired an 80.1% interest in CRIC IT Fort Myers LLC (**Property Owner**). The Property Owner owns a fee simple interest in two Class A office buildings (Gartner I and Gartner II) totaling 257,000 square feet and situated on 17 acres of land in Fort Myers, Florida (collectively, **Property**). The Property is fully leased, on a triple net basis, to Gartner, Inc. (**Gartner**) until March 31, 2030, which may be extended in accordance with the terms of the lease. The Gartner I lease contains two five-year extensions and the Gartner II lease contains three five-year extensions. The lease term calls for Gartner to make base monthly lease payments of approximately \$0.4 million as calculated on a straight line basis over the remaining expected lease term. We estimate that such payments will generate \$5.7 million of revenue and \$0.2 million of net income over the first year of the lease and \$70 million of revenue and \$5.4 million of net income over the remaining non-cancellable lease term. Including the tax benefit recognized in connection with the transaction, we estimate that net income generated over the first year of the lease and over the remaining non-cancellable lease term to be \$0.4 million and \$5.5 million respectively.

We continue to explore other opportunities in the investment management and real estate sectors, as well as opportunities in other areas that we believe provide attractive risk-adjusted returns on invested capital. As of the date of this report, we have not entered into any firm commitments to make additional acquisitions or investments in any of these areas.

As of March 31, 2018, we had \$1.7 billion of net operating loss (**NOL**) carryforwards for Federal income tax purposes.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (**GAAP**). The preparation of these financial statements requires our management to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These items are monitored and analyzed by our management for changes in facts and circumstances, and material changes in these estimates could occur in the future. During the period ended March 31, 2018, we did not make material changes in our critical accounting policies or underlying assumptions as disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 as it relates to recurring transactions.

The non-recurring transactions in the period ended March 31, 2018 requiring management judgment and estimation are as follows:

Debt Modification . As of June 30, 2017, our subsidiary GECC GP Corp. (**GP Corp.**) had issued a note payable that carried a maximum payout obligation of approximately \$10.8 million, exclusive of interest (**GP Corp. Note**). The parties agreed to restate the GP Corp. Note payable to have a principal obligation of \$3.3 million, bearing interest at LIBOR plus 3.0%. As a result of the transaction, we recorded the fair value of the note on our balance sheet, which approximated the aggregate carrying amount.

GP Corp. Stock Subscription Agreement Modification. In September 2017, we eliminated the vesting provisions and removed the call rights for the GP Corp. stock owned by employees of the Company. As a result of the elimination, we recognized stock-based compensation expense of \$1.5 million in the period ended March 31, 2018 equal to the estimated fair value of the non-controlling interest held by our employees in GP Corp.

Real Estate Acquisition. In March 2018, through its majority-owned subsidiary, Great Elm FM Holdings, the Company acquired an 80.1% interest in CRIC IT Fort Myers LLC (**Property Owner**) and a 19.9% interest was issued to the prior owner.

Results of Operations

The following discussion is reflective of our investment management and real estate businesses that commenced operations in November 2016 and March 2018, respectively. Correspondingly, our results of operations for the three and nine month periods ended March 31, 2018 are not comparable to the same periods ended March 31, 2017.

Investment Management Business

The key metrics of our investment management business are:

- Assets under management — which provides the basis on which our management fees and performance milestones for vesting of certain equity awards are based
- Investment performance — on which our incentive fees (if any) are based and on which we are measured against our competition
- Earnings before interest, taxes, depreciation and amortization (**EBITDA**) and adjusted EBITDA – which are (non-GAAP) measurements of our investment management operations
- Dividends and GECC share price — which determine the return on our investment in GECC shares

The following table provides the results of our investment management business for the periods ended March 31 2018 and 2017. We began to operate the investment management business in November 2016:

| Dollar amounts in thousands | For the Three Months ended March 31, | | |
|---|--------------------------------------|-----------------|----------------|
| | 2018 | 2017 | Percent Change |
| Revenue: | | | |
| Management and administration fees | \$ 975 | \$ 966 | 1% |
| Incentive fees (1) | (1,766) | 1,000 | -277% |
| Total revenue | \$ (791) | \$ 1,966 | — |
| Operating costs and expenses: | | | |
| General and administrative | 313 | 1,006 | -69% |
| Payroll and related | 777 | 652 | 19% |
| Depreciation and amortization | 136 | 1,546 | -91% |
| Total investment management operating expenses | \$ 1,226 | \$ 3,204 | — |

(1) March 31, 2018 amount includes the reversal of prior period incentive fees of approximately \$2.1 million.

| Dollar amounts in thousands | For the Nine Months ended March 31, | | |
|--|-------------------------------------|-----------------|----------------|
| | 2018 | 2017 | Percent Change |
| Revenue: | | | |
| Management and administration fees | \$ 2,766 | \$ 1,428 | 94% |
| Incentive fees (1) | 735 | 1,880 | -61% |
| Total revenue | \$ 3,501 | \$ 3,308 | — |
| Operating costs and expenses: | | | |
| General and administrative (2) | 1,122 | 1,403 | -20% |
| GP Corp. modified and accelerated stock-based compensation costs | 1,465 | — | 100% |
| Payroll and related (3) | 3,836 | 1,344 | 185% |
| Depreciation and amortization | 449 | 2,564 | -82% |
| Total investment management operating expenses | \$ 6,872 | \$ 5,311 | — |

- (1) March 31, 2018 amount includes approximately \$0.7 million of non-current incentive fees, net of the reversal of approximately \$2.1 million of incentive fees
- (2) March 31, 2018 amount includes approximately \$0.2 million of MAST Capital non-reimbursable related general and administrative expenses.
- (3) March 31, 2018 amount includes MAST Capital net payroll related cost reductions, primarily associated with stock-based compensation forfeitures, of approximately \$0.4 million.

See “Non-GAAP Measurements” below.

Investment Management Revenue

For the three months ended March 31, 2018, we recognized \$0.7 million of management fees; \$0.3 million in administration fees and a net (\$1.8) million of incentive fees. The (\$1.8) million of incentive fees includes \$0.3 million of incentive fees recognized and the reversal of \$2.1 million of incentive fees earned by GECM under the investment management agreement and recognized in revenue in prior periods. Generally speaking, GECM earns 20% of GECC’s pre incentive fee net investment income (**NII**) in excess of a 7% hurdle under its investment management agreement with GECC. Payment of this fee is also subject to a total return hurdle as set forth in the investment management agreement. To the extent that any of such NII is composed of non-cash income, then payment of the incentive fees owed to GECM in respect of such NII is deferred until received by GECC in cash. GECC’s largest investment, Avanti Communications Group plc (Avanti), has generated significant non-cash income in the form of payment-in-kind (PIK) interest. In connection with the recent restructuring of Avanti completed on April 26, 2018, GECC’s investment in Avanti’s third lien notes was converted into Avanti common equity. As a result of this debt-for-equity conversion, we have determined that the accrued incentives fees associated with such PIK interest generated by the third lien notes cannot at this time be recognized in revenue and must be reversed for prior periods. Notwithstanding this reversal, such incentives fees remain payable under the investment management agreement (subject to achievement of the return hurdles) and will be recognized in revenue to the extent a hypothetical sale of the new common equity at the market price would result in gross proceeds to GECC in excess of its initial cost basis in the third lien notes. We can make no assurances that such incentive fees will ultimately be recognized in revenue or as to the timing of any such recognition.

For the nine months ended March 31, 2018, we recognized \$1.9 million of management fees; \$0.9 million in administrative fees; and a net \$0.7 million of incentive fees. The decrease from the three month period ended March 31, 2017 primarily resulted from the reversal of prior period incentive fees, offset by an increase in assets under management. The increase from the nine months ended March 31, 2017 primarily resulting from an increase in assets under management offset by the reversal of prior period incentive fees. In addition, our investment management business commenced in November 2016.

Our management fees earned fluctuate based on the fair value of the assets that we manage, subject to provisions of the respective investment management agreements. Incentive fees earned on the performance of assets that we manage are recognized based on investment performance during the period, subject to the achievement of minimum return levels or high water marks, in accordance with the terms of the respective investment management agreements. We have estimated that our incentive fees earned and due from GECC as of March 31, 2018 are fully collectible. The investment management agreement with GECC defers our right to collect these fees until certain milestones are achieved and these incentive fees are not expected to be collected within the next 12 months and are classified as non-current in the accompanying consolidated balance sheet.

Investment Management Costs and Expenses

During the three months ended March 31, 2018, our investment management business’ costs primarily consisted of payroll and related costs of \$0.8 million; professional fees of approximately \$0.2 million; facilities and other administrative costs of \$0.1 million; and the amortization of intangible assets totaling \$0.1 million. During the nine months ended March 31, 2018, our investment management business’ costs primarily consisted of payroll and related costs of \$5.3 million, of which approximately \$1.5 million related to modified and accelerated GP Corp. stock-based compensation charges; professional fees of approximately \$0.7 million; facilities and other administrative costs of \$0.4 million; and the amortization of intangible assets totaling \$0.4 million.

In addition to the operating costs, we recognized interest expense of \$0.04 million and \$0.2 million for the three and nine months ended March 31, 2018, respectively, related to the GP Corp. Note.

Real Estate Business

The following table provides the results of our real estate business for the periods ended March 31, 2017 and 2018. We began to operate the real estate business in March 2018:

| Dollar amounts in thousands | For the Three and Nine Months ended March 31, 2018 | |
|--|---|------------|
| Revenue: | | |
| Rental income | \$ | 343 |
| Operating costs and expenses: | | |
| Management fees and other real estate expenses | | 21 |
| Depreciation and amortization | | 113 |
| Total real estate operating expenses | \$ | 134 |

Real Estate Revenue

For the three and nine months ended March 31, 2018, we recognized \$0.4 million of rental income in connection with our newly acquired Class A office buildings in Fort Myers, Florida. We commenced our real estate business in March 2018.

Real Estate Costs and Expenses

During the three and nine months ended March 31, 2018, our real estate business' costs primarily consisted of management fees and state sales tax expense of \$0.02 million; depreciation of \$0.08 million and the amortization of intangible assets totaling \$0.03 million

In addition to the operating costs, we recognized interest expense of \$0.16 million and \$0.02 million in net amortization of discount and premium for the three months ended March 31, 2018 related to the Senior Note and Subordinated Note (each as defined herein; see "Note 11-Borrowings" in the "Notes to Condensed and Consolidated Financial Statements (Unaudited)").

Operating Costs – General Corporate

| | For the Three Months Ended March 31, | |
|--------------------------------------|---|-------------|
| | 2018 | 2017 |
| Operating costs and expenses: | | |
| General and administrative | \$ 1,728 | \$ 1,436 |
| | | |
| | For the Nine Months Ended March 31, | |
| | 2018 | 2017 |
| Operating costs and expenses: | | |
| General and administrative | \$ 4,745 | \$ 2,677 |

For the three and nine months ended March 31, 2018, we recognized total general and administrative expenses of approximately \$1.7 million and \$4.7 million, respectively. Our general corporate operating costs for each quarter primarily consist of professional fees and payroll costs as we continue to diligence asset and business acquisition opportunities. For the three and nine months ended March 31, 2018, professional fees in relation to the diligence of opportunities were \$0.7 million and \$0.7 million, respectively.

In the nine months ended March 31, 2017, GECC reimbursed us \$3.0 million for costs incurred in connection with the formation of GECC, its merger with Full Circle Capital Corporation and related matters. The \$3.0 million was expensed during the 12 months ended June 30, 2016. The formation cost reimbursement is reflected as a reduction of our corporate expenses. The formation cost reimbursement is the primary difference between general and administrative expenses incurred in the respective comparable periods.

Interest Expense

We incurred interest expense during the three and nine months ended March 31, 2018 of approximately \$0.2 million and \$0.4 million, respectively, from our outstanding Senior Note, Subordinated Note, and GP Corp. Note. For the three months ended March 31, 2017 we incurred interest of approximately \$0.1 million from the GP Corp. Note. During the nine months ended March 31, 2017, we incurred significant non-recurring interest expenses associated with the retirement of our previously outstanding senior secured notes in October 2016.

Dividends

For the three and nine months ended March 31, 2018, we received \$0.5 million and \$1.9 million of dividends, respectively, on our investment in GECC. We record our pro rata share of such distributions if, as and when declared by GECC's board of directors. GECC did not begin distributing its income until December 2016.

Unrealized Loss

We mark-to-market our investment in GECC by reference to the closing price of GECC common stock on Nasdaq (an observable Level 1 valuation input). For the three and nine months ended March 31, 2018, we recognized \$1.2 million and \$2.8 million of unrealized loss, respectively. We deconsolidated GECC in November 2016 and recognized a net unrealized loss for the period ended March 31, 2017 of approximately \$7.6 million.

Discontinued Operations

On April 6, 2016, we entered into a purchase and sale agreement with Optis providing for the sale of the entities that conducted our patent licensing business (the **Divestiture**). The Divestiture was completed on June 30, 2016.

In the Divestiture, we received \$34.2 million in gross cash proceeds, inclusive of reimbursement of \$4.2 million of agreed upon expenses, and may be entitled to up to an additional \$10 million cash payment on June 30, 2018. Optis has claimed that it has losses indemnifiable under the purchase and sale agreement in excess of the \$10 million contractual payment due on June 30, 2018. As a result, we have not recognized any portion of the \$10 million in the accompanying consolidated financial statements for the periods presented. Activity related to our legacy patent business is reflected in our financial statements as discontinued operations.

We incurred discontinued operating costs of approximately \$0.2 million through the nine month period ended March 31, 2018 related to the representations and warranties associated with the disposal of our legacy patent licensing business. For the nine months ended March 31, 2017, we recognized a net gain from discontinued operations of approximately \$2.3 million associated with a one-time litigation settlement.

Income Taxes

As of March 31, 2018, we had approximately \$1.7 billion of NOL carryforwards, with the corresponding deferred tax asset fully reserved for financial reporting purposes, applicable to future Federal income tax, if incurred. On October 17, 2017, our stockholders extended the transfer restriction in our certificate of incorporation to help preserve tax benefits associated with our NOLs. In January 2018, upon expiration of our current rights plan, a new rights plan went into effect that will expire on January 29, 2028.

On December 22, 2017, the Tax Cuts and Jobs Act (**Tax Act**) was signed into law. Among other changes resulting from the Tax Act is a reduction in the Federal corporate income tax rate from 35% to 21%, effective January 1, 2018. The Company has provisionally revalued its deferred tax assets as a result of the Tax Act. As the Company has not yet finalized its calculation of its deferred tax position as of the enactment date, the impact of the tax law change has not been finalized as of March 31, 2018. Based on the Company's provisional estimate, the effect of the reduction in the corporate income tax rate was a reduction in deferred tax assets of approximately \$248 million with an off-setting adjustment to the valuation allowance. As of March 31, 2018 and June 30, 2017, the Company had provided a full valuation allowance for all of its Federal and state deferred tax assets, therefore the reduction in the Federal deferred tax assets resulting from the Tax Act will have no effect on the Company's consolidated balance sheet or statement of operations as of, and for the three and nine months ended March 31, 2018. The Company did not record any adjustments to its revaluation in the three months ending March 31, 2018. The Company's revaluation of its deferred tax asset is subject to further refinement as additional information becomes available and further analysis is completed.

The Company does not believe the other changes resulting from the Tax Act will have a material effect on its current financial position or operations.

For the three and nine months ended March 31, 2018, the Company has recorded an income tax benefit of \$0.2 million due to the income tax benefit related to the reversal of our valuation allowance as a result of deferred tax liabilities acquired as part of our March 2018 Real Estate Asset Acquisition that provided additional sources of taxable income to recover our existing deferred tax assets (see Note 5 for further discussion).

Non-GAAP Measurements

The SEC has adopted rules to regulate the use in filings with the SEC, and in public disclosures, of financial measures that are not in accordance with US GAAP, such as EBITDA and adjusted EBITDA, omission of non-recurring or infrequent items, and other omissions of non-cash items whether recurring or non-recurring. These measures are derived from methodologies other than in accordance with US GAAP.

We believe that **EBITDA**, the non-cash adjustments listed below and adjusted EBITDA, are important measures in addition to US GAAP segment results to be used in evaluating our businesses. In addition, our management reviews EBITDA and adjusted EBITDA as they evaluate acquisition opportunities.

These Non-GAAP measurements have limitations as an analytical tool, and you should not consider these omissions either in isolation or as a substitute for analyzing our results as reported under US GAAP. Some of these limitations are:

- this measure does not reflect changes in, or cash requirements for, our working capital needs;
- this measure does not reflect the further issuance of equity and equity-linked instruments based on grant date fair values with continuing performance and service requirements;
- this measure does not reflect historical cash expenditures or future requirements for expenditures or contractual commitments; and
- the recognition of impairment and similar non-cash charges.

For the periods presented, the following tables present our EBITDA and adjusted EBITDA used in evaluating the results of our operations and for the allocation of resources.

| Dollar amounts in thousands | For the Three Months Ended March 31, 2018 | | | | For the Three Months Ended March 31, 2017 | | | |
|---|--|----------------|----------------------|-------------------|--|----------------|----------------------|-------------------|
| | Investment Management | Real Estate | General Corporate | Total | Investment Management | Real Estate | General Corporate | Total |
| Net income (loss) - US GAAP | \$ (2,056) | \$ 23 | \$ (2,356) | \$ (4,389) | \$ (1,346) | \$ — | \$ (1,451) | \$ (2,797) |
| EBITDA: | | | | | | | | |
| Net income (loss) - US GAAP | \$ (2,056) | \$ 23 | \$ (2,356) | \$ (4,389) | \$ (1,346) | \$ — | \$ (1,451) | \$ (2,797) |
| Interest | 39 | 186 | — | 225 | 108 | — | — | 108 |
| Taxes | — | — | (182) | (182) | — | — | — | — |
| Depreciation and amortization | 136 | 113 | — | 249 | 1,546 | — | — | 1,546 |
| EBITDA: | \$ (1,881) | \$ 322 | \$ (2,538) | \$ (4,097) | \$ 308 | \$ — | \$ (1,451) | \$ (1,143) |
| Adjusted EBITDA: | | | | | | | | |
| EBITDA | \$ (1,881) | \$ 322 | \$ (2,538) | \$ (4,097) | \$ 308 | \$ — | \$ (1,451) | \$ (1,143) |
| Stock based compensation | 618 | — | 300 | 918 | 488 | — | 85 | 573 |
| Unrealized loss on investment in GECC | — | — | 1,219 | 1,219 | — | — | 570 | 570 |
| Unrecognized incentive fees earned, net of related cost adjustments (1) | 1,879 | — | — | 1,879 | — | — | — | — |
| Non-reimbursable MAST Capital expenses | — | — | — | — | — | — | — | — |
| Re-measurement of warrant liability | — | — | — | — | — | — | (25) | (25) |
| Adjusted EBITDA | \$ 616 | \$ 322 | \$ (1,019) | \$ (81) | \$ 796 | \$ — | \$ (821) | \$ (25) |

(1) Amount represents \$2.7 million of unrecognized incentive fees earned, net of \$0.8 million of unrecognized related bonus compensation expense.

| Dollar amounts in thousands | For the Nine Months Ended March 31, 2018 | | | | For the Nine Months Ended March 31, 2017 | | | |
|--|---|----------------|----------------------|-------------------|---|----------------|----------------------|--------------------|
| | Investment Management | Real Estate | General Corporate | Total | Investment Management | Real Estate | General Corporate | Total |
| Net income (loss) - US GAAP | \$ (3,532) | \$ 23 | \$ (5,465) | \$ (8,974) | \$ (2,178) | \$ — | \$ (12,168) | \$ (14,346) |
| EBITDA: | | | | | | | | |
| Net income (loss) - US GAAP | \$ (3,532) | \$ 23 | \$ (5,465) | \$ (8,974) | \$ (2,178) | \$ — | \$ (12,168) | \$ (14,346) |
| Interest | 174 | 186 | — | 360 | 175 | — | 6,036 | 6,211 |
| Taxes | — | — | (182) | (182) | — | — | — | — |
| Depreciation and amortization | 449 | 113 | — | 562 | 2,564 | — | — | 2,564 |
| EBITDA: | \$ (2,909) | \$ 322 | \$ (5,647) | \$ (8,234) | \$ 561 | \$ — | \$ (6,132) | \$ (5,571) |
| Adjusted EBITDA: | | | | | | | | |
| EBITDA | \$ (2,909) | \$ 322 | \$ (5,647) | \$ (8,234) | \$ 561 | \$ — | \$ (6,132) | \$ (5,571) |
| Stock based compensation | 2,889 | — | 713 | 3,602 | 805 | — | 414 | 1,219 |
| Unrealized loss on investment in GECC | — | — | 2,753 | 2,753 | — | — | 7,619 | 7,619 |
| Unrecognized incentive fees earned, net of related cost adjustments (1) | 1,879 | — | — | 1,879 | — | — | — | — |
| Non-reimbursable MAST Capital expenses | 281 | — | 128 | 409 | — | — | — | — |
| Re-measurement of warrant liability | 8 | — | — | 8 | — | — | (36) | (36) |
| Adjusted EBITDA | \$ 2,148 | \$ 322 | \$ (2,053) | \$ 417 | \$ 1,366 | \$ — | \$ 1,865 | \$ 3,231 |

(1) Amount represents \$2.7 million of unrecognized incentive fees earned, net of \$0.8 million of unrecognized related bonus compensation expense.

Liquidity and Capital Resources

Cash Flows

Operating cash flows used in continuing operations for the period ended March 31, 2018 totaled approximately \$3.1 million. The cash used in our continuing operations was primarily the result of increases in receivables from our investment management fees and other related party receivables of \$0.9 million and the funding of our operating expenses.

Our investing activities primarily consisted of the \$2.1 million cash payment (net of cash and restricted cash acquired of \$0.6 million) used in acquiring our initial real estate assets.

During the nine months ended March 31, 2018, outstanding warrants were exercised resulting in the receipt of cash proceeds of approximately \$4.6 million and the issuance of 1,266,000 shares of our common stock. Additionally, we made the first payment due on our Senior Note payable related to our real estate business of approximately \$0.2 million.

Financial Condition

As of March 31, 2018, we had an unrestricted cash balance of \$44.3 million. We also own 1,966,667 shares of GECC common stock with an estimated fair value of \$18.1 million as of March 31, 2018.

We intend to make acquisitions or investments that will likely result in the investment of all of our liquid financial resources, issuance of equity securities and incurring indebtedness. If we are unsuccessful at raising additional capital resources, through either debt or equity, it is unlikely we will be able execute our strategic growth plan. See "Risk Factors".

Also, through March 31, 2018:

- we issued 54,733 shares of our common stock in exchange for a warrant that was held by MAST Capital LLC (**MAST Capital**). We had been marking-to-market such warrant, and as of September 18, 2017, such warrant was cancelled, and the shares issued in settlement thereof are reflected as outstanding shares of our common stock;
- we reduced the principal amount of the GP Corp.'s Note payable to MAST Capital;
- we cancelled GECCM's cost sharing agreement with MAST Capital. The cancellation did not result in an accounting charge because we had not accrued expense reimbursements due from MAST Capital after March 31, 2017;
- we issued a warrant to purchase 420,000 shares of our common stock at fair market value to MAST Capital;
- we issued a warrant to purchase 1,266,000 shares of our common stock at fair market value to Northern Right Capital; the warrant was exercised in October 2017 resulting in approximately \$4.6 million in proceeds;
- MAST Capital entered into a two-year voting and standstill agreement;
- we modified our employment arrangements with most of GECCM's employees; and
- we invested \$2.7 million (exclusive of cash and restricted cash acquired of \$0.6 million) to acquire an 80.1% interest in the Property to launch our real estate business segment.

As of March 31, 2018, we had a related party GP Corp. Note due to MAST Capital totaling \$3.3 million that accrues interest at a variable rate of LIBOR plus 3.0%, as adjusted for each 90-day period (at March 31, 2018 the effective rate was 5.3%) through maturity on November 3, 2026. The GP Corp. Note requires minimum annual principal payments of \$0.08 million and quarterly interest-only payments. The GP Corp. Note is secured by the profit sharing agreement between GECCM and GP Corp. that transfers profits generated by our management of GECC, with no recourse to any of our other assets, entities or operations.

As of March 31, 2018, we had a Senior Note due to Wells Fargo Bank Northwest, National totaling \$54.6 million that accrues interest at a rate of 3.49% through maturity on March 15, 2030. The Senior Note requires monthly principal and interest payments. The Senior Note is secured by a first lien mortgage on the Property and an Assignment of Leases and Rents, with no recourse to any of our assets, entities or operations.

As of March 31, 2018, we had a Subordinated Note due to Wells Fargo Bank Northwest, National totaling \$2.7 million that accrues interest at a rate of 15.0% through maturity on March 15, 2030. The Subordinated Note is a capital appreciation note, whereby the monthly interest is capitalized to the principal balance and due at maturity. The Subordinated Note is secured by a second lien mortgage on the Property, and an Assignment of Leases and Rents, with no recourse to any of our assets, entities or operations.

Contractual Obligations

Our contractual obligations as of March 31, 2018 are as follows (in thousands):

| | Payments due by period | | | | |
|--------------------------------------|------------------------|---------------------|-----------------|-----------------|----------------------|
| | Total | Less than 1 Year | 1-3 years | 3-5 years | More than 5 years |
| Senior note payable | \$ 71,022 | \$ 3,836 | \$ 7,935 | \$ 8,315 | \$ 50,936 |
| Subordinated note payable | 16,270 | | | | 16,270 |
| Related party note payable (1) | 4,617 | 247 | 483 | 467 | 3,420 |
| Operating lease obligations | 2,322 | 334 | 694 | 727 | 567 |
| Total Contractual Obligations | \$ 94,231 | \$ 4,417 | \$ 9,112 | \$ 9,509 | \$ 71,193 |

(1) Includes interest based on the average 90-day LIBOR rate of approximately 2.3% plus 3.0% as of March 31, 2018.

Inflation

Inflation has not had a significant effect on our results of operations in any of the reporting periods presented in our financial statements.

Off-Balance Sheet Arrangements

As of March 31, 2018, we did not have any off-balance sheet arrangements that were not reflected in our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the market risks discussed in Item 7A. of our Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

Item 4. Controls and Procedures

We evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2018. Disclosure controls and procedures are designed to ensure that the information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the **Exchange Act**), is recorded, processed, summarized and reported within the time period specified in the SEC's rule and forms. Disclosure controls and procedures include, without limitation, controls and procedures accumulated and communicated to our management, including our Chief Executive Officer (**CEO**) and Chief Financial Officer (**CFO**), to allow timely decisions regarding required disclosure. Our CEO and CFO participated in this evaluation and concluded that, as of March 31, 2018, our disclosure controls and procedures were not effective.

As disclosed in our Annual Report on Form 10-K, Item 9A., for the fiscal year ended June 30, 2017, our management concluded that our internal controls over financial reporting were not effective at June 30, 2017. As of that date, our management identified material weaknesses in internal controls over financial reporting relating to personnel, the design and operating effectiveness of certain controls and the monitoring of our controls.

We have taken numerous actions to remediate the control deficiencies which contributed to the material weaknesses, including engaging an outside consultant to assist us in our remediation efforts, redesign of existing controls, the implementation of new controls and the development of an ongoing control testing plan. Our management will continue to take steps towards having these and other remediation efforts completed by the time we issue our Annual Report on Form 10-K for the fiscal year ended June 30, 2018. The material weaknesses will not be considered remediated until our controls are operational for a period of time, tested and management concludes that these controls are operating effectively.

We and our board of directors believe that these remediation efforts will result in significant improvements in our control environment. Notwithstanding the identified material weaknesses and the conclusion that our controls were not effective as of June 30, 2017, management believes that the consolidated financial statements contained in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with GAAP.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

No changes required to be disclosed.

Item 1A. Risk Factors.

In addition to the risk factors set forth below and the other information set forth in this report, you should carefully consider the “Risk Factors” discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, which could materially affect our business, financial condition and/or operating results.

Risks Associated with Launch of Real Estate Business and Acquisition of the Property

The Property is leased pursuant to a long-term triple net lease and the failure of the tenant, Gartner, to satisfy its obligations under the lease may adversely affect the condition of the Property or the results of our real estate business segment.

Because the Property is leased pursuant to a long-term triple net lease, we depend on the tenant, Gartner, to pay all insurance, taxes, utilities, common area maintenance charges, maintenance and repair expenses and to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with its business, including any environmental liabilities resulting from Gartner’s failure to comply with applicable environmental laws. There are no assurances that Gartner will have sufficient assets and income to enable it to satisfy its payment obligations to us under the lease. The inability or unwillingness of Gartner to meet its rent obligations could materially adversely affect the business, financial position or results of operations of our real estate business segment. Furthermore, the inability or unwillingness of Gartner to satisfy its other obligations under the lease, such as the payment of insurance, taxes and utilities, could materially and adversely affect the condition of the Property. Our triple net lease agreement requires that Gartner maintain comprehensive liability and all risk property insurance. However, there are certain types of losses (including losses arising from environmental conditions or of a catastrophic nature, such as earthquakes, hurricanes and floods) that may be uninsurable or not economically insurable. Insurance coverage may not be sufficient to pay the full current market value or current replacement cost of a loss. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it infeasible to use insurance proceeds to replace the Property after such Property has been damaged or destroyed. In addition, if we experience a loss that is uninsured or that exceeds policy coverage limits, we could lose the capital invested in the Property as well as the anticipated future cash flows from the Property.

We are subject to risks inherent in ownership of real estate.

Cash flows from our real estate business segment and real estate values are affected by a number of factors, including competition from other available properties and the ability to provide adequate property maintenance and insurance and to control operating costs. Cash flows from our real estate business segment and real estate values are also affected by such factors as governmental regulations (including zoning, usage and tax laws), property tax rates, utility expenses, potential liability under environmental and other laws and changes in environmental and other laws.

Natural disasters, terrorist attacks or other unforeseen events could cause damage to the Property we currently own, or may in the future own, resulting in increased expenses and reduced revenues.

Natural disasters, such as earthquakes, hurricanes and floods, or terrorist attacks could cause significant damage and require significant repair costs, and make the Property we currently own, or may in the future own, temporarily uninhabitable, reducing our revenues. Damage and business interruption losses could exceed the aggregate limits of any insurance coverage we may have. We may not have sufficient insurance coverage for losses caused by a terrorist attack, or such insurance may not be maintained, available or cost-effective.

We may incur significant liabilities from environmental contamination.

Existing or future laws impose or may impose liability on us to clean up environmental contamination on or around the property that we currently own, or may in the future own, even if we were not responsible for or aware of the environmental contamination or even if such environmental contamination occurred prior to our involvement with such property. An environmental assessment, commonly referred to as a “Phase I Environmental Report,” was conducted, revealing no recognized environmental conditions of concern. These assessments typically include an investigation (excluding soil or groundwater sampling or analysis) and a review of publicly available information regarding the site and other nearby properties. However, such environmental assessments may not identify all potential environmental liabilities.

We may face potential difficulties or delays renewing leases or re-letting space.

We currently derive all of our real estate business income from rent received from Gartner in connection with our newly acquired Class A office buildings. If Gartner experiences a downturn in its business or other types of financial distress, it may be unable to make timely rental payments. Also, in the event that Gartner does not renew the lease, we may not be able to re-let the space or there could be a substantial delay in re-letting the space. Even if Gartner decides to renew or lease new space, the terms of renewals or new leases, including the cost of required renovations or concessions, may be less favorable to us than the current lease term.

We face potential adverse effects from major tenants' bankruptcies or insolvencies.

The bankruptcy or insolvency of a tenant may adversely affect the income produced by our Property, or by any properties we may own in the future. Our tenants could file for bankruptcy protection or become insolvent in the future. A bankrupt tenant may reject and terminate its lease with us. In such case, our claim against the bankrupt tenant for unpaid and future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. This shortfall could adversely affect our cash flow and results of operations.

We face possible risks associated with the physical effects of climate change.

The physical effects of climate change could have a material adverse effect on the Property, and consequently on our operations and business. For example, the Property is located in southern Florida; to the extent climate change causes changes in weather patterns, that geographic area could experience increases in storm intensity and rising sea-levels. Over time, these conditions could result in declining demand for office space in our office buildings or our inability to operate the buildings at all. Climate change may also have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable, increasing the cost of energy at the Property. There can be no assurance that climate change will not have a material adverse effect on our Property, operations or business.

We depend upon personnel of our property manager.

We do not have any internal real estate management capacity. We depend on our property manager and its personnel to efficiently manage the day-to-day operations at the Property; any difficulties our property manager encounters in hiring, training and retaining skilled personnel may adversely affect the income produced by our Property.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.**EXHIBIT INDEX**

All references are to filings by Great Elm Capital Group, Inc., formerly known as Unwired Planet, Inc. (the **Registrant**) with the Securities and Exchange Commission under File No. 001-16073.

| Exhibit Number | Description |
|-----------------------|--|
| 2.1 | Purchase and Sale Agreement, dated as of April 6, 2016, by and between the Registrant and Optis UP Holdings, LLC (incorporated by reference to Exhibit 2.1 to the Form 8-K filed on April 7, 2016) |
| 2.2 | First Amendment to the Purchase and Sale Agreement, dated as of May 25, 2016, by and between the Registrant and Optis UP Holdings, LLC (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on May 25, 2016) |
| 2.3 | Asset Purchase Agreement, dated as of November 3, 2016, by and between GECC GP Corp. and MAST Capital Management, LLC (incorporated by reference to Exhibit 10.4 to the Form 8-K filed on November 9, 2016) |
| 3.1 | Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on November 15, 2013) |
| 3.2 | Certificate of Ownership and Merger merging Unwired Planet, Inc. with and into Openwave Systems Inc. (incorporated by reference to Exhibit 3.3 to the Form 10-Q filed on May 10, 2012) |
| 3.3 | Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on January 5, 2016) |
| 3.4 | Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on June 16, 2016) |
| 3.5 | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Form 8-K filed on November 15, 2015) |
| 4.1* | Amended and restated form of the Registrant's common stock certificate |
| 4.2 | Tax Benefits Preservation Agreement, dated as of January 20, 2015, between the Registrant and Computershare Trust Company, N.A., as Rights Agent (incorporated by reference to Exhibit 4.1 to the Form 8-A filed on January 21, 2015) |
| 10.1* | Separation Agreement between the Registrant and Richard S. Chernicoff, dated as of March 21, 2018 |
| 10.2 | Contract of Purchase and Sale, dated as of March 6, 2018, by and between IT Fort Myers Holdings LLC and Great Elm FM Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Form 8-K filed on March 6, 2018) |
| 31.1* | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2* | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1* | Certification of Chief Executive Officer and 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 | Materials from the Great Elm Capital Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) related Notes to the Condensed Consolidated Financial Statements, tagged in detail (furnished herewith). |

*Filed herewith.

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.

GREAT ELM CAPITAL GROUP, INC.

Date: May 15, 2018

/s/ Peter A. Reed

Peter A. Reed

Chief Executive Officer

Date: May 15, 2018

/s/ John J. Woods

John J. Woods

Chief Financial Officer

ZQ|CERT#|COY|CLS|RGSTRY|ACCT#|TRANSTYPE|RUN#|TRANS#

COMMON STOCK
PAR VALUE \$0.001

Certificate Number
ZQ00000000

Shares
*****00000*****
*****00000*****
*****00000*****
*****00000*****

GREAT ELM CAPITAL

GREAT ELM CAPITAL GROUP, INC.
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

THIS CERTIFIES THAT

MR. SAMPLE & MRS. SAMPLE & MR. SAMPLE & MRS. SAMPLE

is the owner of

*****ZERO HUNDRED THOUSAND ZERO HUNDRED AND ZERO*****

FULLY-PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK OF

GREAT ELM CAPITAL GROUP, INC. (hereinafter called the "Company"), transferable on the books of the Company in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby, are issued and shall be held subject to all of the provisions, including, but not limited to, restrictions on transfer, of the Articles of Incorporation, as amended, and the By-Laws, as amended, of the Company (copies of which are on file with the Company and with the Transfer Agent), to all of which each holder, by acceptance hereof, assents. This Certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

Witness the facsimile seal of the Company and the facsimile signatures of its duly authorized officers.

Peter A. Reed

Chief Executive Officer

DATED **00-MMM-YYYY**

COUNTERSIGNED AND REGISTERED:
COMPUTERSHARE INC.
TRANSFER AGENT AND REGISTRAR.

By _____
AUTHORIZED SIGNATURE

SEE REVERSE FOR CERTAIN DEFINITIONS
CUSIP 39036P 20 9

THIS CERTIFICATE IS TRANSFERABLE IN CITIES DESIGNATED BY THE TRANSFER AGENT. AVAILABLE ONLINE AT www.computershare.com

SECURITY INSTRUCTIONS ON REVERSE

1234567

GREAT ELM CAPITAL
PO BOX 43044, Providence, RI 02940-3044

MR. A. SAMPLE
DESIGNATION (IF ANY)
ADD 1
ADD 2
ADD 3
ADD 4

| CUSIP | Holder ID | Insurance Value | Number of Shares | OTC |
|--------------------------|------------|-----------------|------------------|----------|
| 1234567890 | XXXXXXXXXX | 1,000,000.00 | 1 | 12345678 |
| 1234567890 | XXXXXXXXXX | 1,000,000.00 | 2 | 12345678 |
| 1234567890 | XXXXXXXXXX | 1,000,000.00 | 3 | 12345678 |
| 1234567890 | XXXXXXXXXX | 1,000,000.00 | 4 | 12345678 |
| 1234567890 | XXXXXXXXXX | 1,000,000.00 | 5 | 12345678 |
| 1234567890 | XXXXXXXXXX | 1,000,000.00 | 6 | 12345678 |
| 1234567890 | XXXXXXXXXX | 1,000,000.00 | 7 | 12345678 |
| Total Transaction | | | | |

GREAT ELM CAPITAL GROUP, INC.

This certificate also evidences and entitles the holder hereof to certain Rights as set forth in a Tax Benefits Preservation Agreement between the company and Computershare Trust Company, N.A. (or any successor thereto), as Rights Agent, dated as of January 25, 2010 as amended, restated, renewed, supplemented or extended from time to time (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal offices of the company and the stock transfer administration office of the Rights Agent. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. The company may redeem the Rights at a redemption price of \$0.001 per Right, subject to adjustment, under the terms of the Rights Agreement. The company will mail to the holder of this certificate a copy of the Rights Agreement, as in effect on the date of mailing, without charge promptly after receipt of a written request therefor. Under certain circumstances, Rights issued to or held by Acquiring Persons or any Affiliates or Associates thereof (as defined in the Rights Agreement), and any subsequent holder of such Rights, may become null and void. The Rights shall not be exercisable, and shall be void so long as held, by a holder in any jurisdiction where the requisite qualification, if any, to the issuance to such holder, or the exercise by such holder, of the Rights in such jurisdiction shall not have been obtained or be obtainable.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

| | |
|---|---|
| TEN COM - as tenants in common | UNIF-GIFT-MIN-ACT - _____ Custodian _____ (Date) _____ (Date) |
| TEN ENT - as tenants by the entities | under Uniform Gifts to Minors Act |
| JT TEN - as joint tenants with right of survivorship and not as tenants in common | UNIF-TRF-MIN-ACT - _____ Custodian (until age) _____ (Date) |
| | under Uniform Transfers to Minors Act _____ (Date) _____ (Date) |

Additional abbreviations may also be used though not in the above list.

THE COMPANY WILL FURNISH WITHOUT CHARGE TO EACH SHAREHOLDER WHO SO REQUESTS, A SUMMARY OF THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OF THE COMPANY AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND RIGHTS, AND THE VARIATIONS IN RIGHTS, PREFERENCES AND LIMITATIONS DETERMINED FOR EACH SERIES, WHICH ARE FIXED BY THE ARTICLES OF INCORPORATION OF THE COMPANY, AS AMENDED, AND THE RESOLUTIONS OF THE BOARD OF DIRECTORS OF THE COMPANY, AND THE AUTHORITY OF THE BOARD OF DIRECTORS TO DETERMINE VARIATIONS FOR FUTURE SERIES. SUCH REQUEST MAY BE MADE TO THE OFFICE OF THE SECRETARY OF THE COMPANY OR TO THE TRANSFER AGENT. THE BOARD OF DIRECTORS MAY REQUIRE THE OWNER OF A LOST OR DESTROYED STOCK CERTIFICATE, OR HIS LEGAL REPRESENTATIVES, TO GIVE THE COMPANY A BOND TO INDEMNIFY IT AND ITS TRANSFER AGENTS AND REGISTRARS AGAINST ANY CLAIM THAT MAY BE MADE AGAINST THEM ON ACCOUNT OF THE ALLEGED LOSS OR DESTRUCTION OF ANY SUCH CERTIFICATE.

PLEASE PRINT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

For value received, _____ hereby sell, assign and transfer unto _____

PLEASE PRINT OR TYPE WRITE NAME AND ADDRESS, INCLUDING FULL ZIP CODE, OF ASSIGNEE

_____ Shares of the common stock represented by the within Certificate, and do hereby irrevocably constitute and appoint _____ Attorney to transfer the said stock on the books of the within named Company with full power of substitution in the premises.

Date: _____ 20____

Signature: _____

Signature: _____

Signature Guaranteed: Medallion Guarantee Stamp
 THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTEE INSTITUTION (Bank, Trustee, Change and Loan Association and Credit Union) WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM PURSUANT TO SEC 6 REG 174.15.

Notice: The signature to this assignment must correspond with the name as written upon the face of the certificate, in every particular, without alteration or enlargement, or any change whatever.

SECURITY INSTRUCTIONS
 TO U.S. SHAREHOLDERS: PLEASE DO NOT SIGNIFY ANYTHING WITHOUT
 AUTHORIZATION. SEE INSTRUCTIONS TO U.S. SHAREHOLDERS.



The SEC requires that we report the cost basis of certain shares acquired after January 1, 2011. If your shares were covered by the legislation and you have sold or transferred the shares and requested a specific cost basis calculation method, we have processed as requested. If you did not specify a cost basis calculation method, we have defaulted to the FIFO method. If you wish to change your cost basis calculation method, please visit our website or contact your broker. If you need additional information about cost basis, please visit our website. If you do not keep in contact with us or do not have any activity in your account for the time periods specified by state law, your property could become subject to state unclaimed property laws and transferred to the appropriate state.

1534281

21 March 2018

Mr. Richard S. Chernicoff
4309 Forest Avenue SE
Mercer Island, WA 98040

Dear Mr. Chernicoff:

This letter agreement (this "Agreement"), dated as of the date hereof (the "Separation Date"), and, solely with respect to Section 5(b) below, retroactively effective to February 28, 2018 (the "Salary Termination Date"), sets forth terms of your separation from employment with and agreement to provide post-employment consulting services to Great Elm Capital Group, Inc. (the "Company").

In consideration of the promises and undertakings in this Agreement, the parties, intending to be legally bound, agree as follows:

1. **SEPARATION.** Effective as of the Separation Date, you hereby separate from employment with the Company and its subsidiaries. You hereby resign from all officer and director positions with the Company and its subsidiaries, including, without limitation, Great Elm Capital Management, Inc. and GECC GP Corp., in each case, effective as of the Separation Date. You will promptly take all actions and execute all documents, instruments and agreements as may be reasonably requested by the Company to effectuate the foregoing resignations.
 2. **CONSULTING AGREEMENT .** Subject to the supervision of the Company's Board of Directors (the "Board") or its designee as well as the other terms and conditions herein, you will manage the Company's day-to-day efforts to collect disputed amounts owing to the Company under the Purchase and Sale Agreement, dated as of April 6, 2016 (as amended, the "Purchase Agreement"), between Optis UP Holdings, LLC ("Pan Optis") and the Company (the "Pan Optis Matter"). Subject to earlier termination pursuant to clause (f) below, the term of this Agreement (the "Term") shall begin on the Separation Date and continue through final resolution of the Pan Optis Matter. You will provide regular updates to the Board or its designee on the status of the Pan Optis Matter. You will have no authority to bind the Company or its subsidiaries in the Pan Optis Matter or otherwise without the Company's prior express written or electronic mail consent.
 - (a) You will provide all services hereunder as an independent contractor. The Company will classify you as an independent contractor for all purposes. Except as permitted under COBRA, you are not entitled to participate in any benefit plan, policy, or program sponsored or maintained by Company for the benefit of its employees, even if it is later determined that you are a common law employee of Company for any purpose. Payments due to you hereunder shall not be subject to withholding except as required by law.
 - (b) You will not be required to provide a level of service that materially interferes with your future employment. You will not be required to undertake any activity that would, in your sole view, detract from your professional image and reputation. You will perform your services hereunder in accordance with applicable law. You will not hold yourself out as a representative of the Company for any purpose other the Pan Optis Matter.
 - (c) You will disclose to the Company any conflicts of interest now existing or hereinafter developing during the Term, including, without limitation, economic or ownership interests held in, or services provided to, Pan Optis or any of its affiliates, any known competitor of the Company or any company in which the Company is invested (a "Portfolio Company").
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- (d) You acknowledge that you (i) are aware of the restrictions imposed by any applicable securities laws on the purchase or sale of securities, including the securities of any Portfolio Company, or the procurement of the purchase or sale by others of such securities, by any person who has received material, non-public information in relation to such securities and on the communication of such information to any other person when it is reasonably foreseeable that such other person is likely to purchase or sell such securities or procure others to do so in reliance upon such information and (ii) will prevent the use of material, non-public information about the Company or any Portfolio Company in any way that would violate applicable securities laws. In furtherance of the foregoing, you agree to provide the Company with appropriate certifications and/or reasonable documentation evidencing compliance with this Section.
- (e) You will provide the Company with any other information reasonably required for applicable tax, legal or regulatory purposes, including the Internal Revenue Service Form W-9.
- (f) Your engagement with the Company will be terminable as follows: (i) automatically upon your death or disability, (ii) at any time by the Company for any reason upon 30 days' prior written notice to you, (iii) at any time by you for any reason upon 30 days' prior written notice to the Company, (iv) automatically upon expiration of the Term and (v) automatically by the Company (with no prior written notice except as expressly set forth below) for "Cause," if you have (A) engaged in fraud, gross negligence or willful misconduct in your performance of the services contemplated hereby, (B) willfully engaged in conduct that you know or, based on facts known to you, should know, is materially detrimental to the Company's business or reputation, (C) breached any material provision of this Agreement, including, without limitation, Sections 2(d), 3 or 4 hereof, (D) been convicted of, or entered a plea bargain or settlement admitting guilt for, any felony under the laws of the United States or of any state or the District of Columbia or any foreign jurisdiction (other than a traffic violation); (E) been the subject of any order, judicial or administrative, obtained or issued by the Securities and Exchange Commission or any similar securities regulatory agency of any country, for any securities violation including, for example, any such order consented to by you in which findings of facts or any legal conclusions establishing liability are neither admitted nor denied or (F) substantially failed or are unable to perform the level of services contemplated hereby as determined by the Board in good faith, including, without limitation, a good faith determination by the Board that your future employment materially interfered with your ability to provide such level of services; provided, however, that in the case of an event described above in clauses (A) through (C) and (F), only if such Cause has not been corrected or cured by you (to the extent capable of being cured) within thirty days after you have received written notice from the Company of the Company's intent to terminate your engagement for Cause and specifying in reasonable detail the basis for such termination.

3. NONDISCLOSURE OF PROPRIETARY INFORMATION.

- (a) Except as required in the faithful performance of your duties hereunder or pursuant to section (c) below, you will, in perpetuity, maintain in confidence and will not directly, indirectly or otherwise, use, disseminate, disclose or publish, or use for your benefit or the benefit of any person, firm, corporation or other entity any confidential or proprietary information or trade secrets of or relating to the Company or any Portfolio Companies, including, without limitation, information with respect to the Company's or any Portfolio Company's operations, investment performance, processes, products, inventions, business practices, finances, principals, vendors, suppliers, customers, potential customers, marketing methods, costs, prices, contractual relationships, regulatory status, compensation paid to employees or other terms of their engagement, or deliver to any person, firm, corporation or other entity any document, record, notebook, computer program or similar medium containing any such confidential or proprietary information or trade secrets.
 - (b) Upon termination of your engagement for any reason, you will promptly deliver to the Company all correspondence, drawings, manuals, letters, notes, notebooks, reports, programs, plans, proposals, financial documents, or any other documents concerning the customers, business plans, marketing strategies, products and/or processes of the Company which contain proprietary information or trade secrets, and all other materials, keys, equipment and any other Company property or property of the Portfolio Companies.
 - (c) You may respond to a lawful and valid subpoena or other legal process but shall give the Company the earliest
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possible notice thereof as permitted by applicable law. In connection with any such subpoena or other legal process, you will, promptly upon receipt of the subpoena or other process, make available to the Company and its counsel the documents and other information sought and will assist such counsel in resisting or otherwise responding to such process.

4. **NON-DISPARAGEMENT.** You and the Company each covenant and agree that, during and following termination of your engagement, you shall not disparage the Company and its subsidiaries, and their respective officers and directors, and the Company, its subsidiaries and their respective officers and directors shall not make or authorize disparaging remarks regarding you. The previous sentence shall not apply, however, in the case of any disparagement which is made (i) in testimony pursuant to a court order, subpoena, or legal process, (ii) to a court, mediator or arbitrator in connection with any litigation or dispute between the Company and you, or (iii) exclusively to you in the course of the Company's supervision or review of your performance. The parties further agree that you and the Company shall each be entitled (without posting bond or other security) to injunctive or other equitable or monetary relief, as deemed appropriate by any such court or tribunal, to prevent or as a result of a breach of the other party's obligations in this Section.
 5. **PAYMENTS, ETC.**
 - (a) The Company will reimburse your reasonable accrued expenses incurred prior to the Separation Date upon compliance with Company policy on expense reports, etc.
 - (b) You acknowledge and agree that you shall not be entitled to any payments of base salary under your prior offer letter with the Company or otherwise for any period following the Salary Termination Date.
 - (c) All vesting conditions with respect to your 97,685 performance shares are deemed to have been satisfied.
 - (d) Vesting with respect to the 141,437 options issued to you will continue in accordance with the award agreements in respect of such options until such time as this Agreement has been terminated for any reason. Your separation of employment as contemplated herein will not constitute a break in continuous service.
 - (e) You will not be entitled to any Board compensation for any period following December 31, 2017 but will be entitled to the benefit of any applicable indemnification and exculpation provisions set forth in existing written agreements with the Company as of the date hereof or in the organizational documents of the Company or its subsidiaries.
 - (f) The Company will pay you the Specified Percentage of the cash proceeds collected by the Company in the Pan Optis Matter after the date of this Agreement net of all fees, costs, expenses and other amounts, including, without limitation, attorneys' and experts' fees and expenses, incurred by the Company and its subsidiaries in connection with the Pan Optis Matter ("Net Pan Optis Proceeds") within 30 business days of the Company's receipt thereof (the "Recovery Fee"). For purposes hereof, the "Specified Percentage" shall mean (i) 4.00% of all Net Pan Optis Proceeds up to and including \$2,000,000 plus (ii) 5.00% of all Net Pan Optis Proceeds greater than \$2,000,000 and up to and including \$6,000,000 plus (iii) 7.00% of all Net Pan Optis Proceeds greater than \$6,000,000 and up to and including \$10,000,000. Notwithstanding the foregoing, no Recovery Fee shall be due and payable if (x) Net Pan Optis Proceeds are less than \$2,000,000 or (y) this Agreement is terminated by the Company for Cause or you terminate this Agreement pursuant to Section 2(f)(iii) hereof. You will be responsible for all taxes on any Recovery Fee payable hereunder.
 - (g) The Company will pay you a transaction fee (the "Transaction Fee") upon execution and delivery by PanOptis and the Company of a binding written agreement, in form and substance acceptable to the Company, which finally resolves all claims alleged in the PanOptis Matter (which agreement shall include a full and unconditional release from Pan Optis and its affiliates of each of the Company, its subsidiaries and their respective officers, directors, employees, agents, advisors and affiliates) in the amount of (i) \$80,000 if such agreement has been executed by delivered by the parties on or prior to May 11, 2018, (ii) \$40,000 if such agreement has been executed and delivered by the parties on or prior to September 7, 2018 and (iii) \$0
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thereafter. Notwithstanding the foregoing, no Transaction Fee shall be due and payable if this Agreement is terminated by the Company for Cause or you terminate this Agreement pursuant to Section 2(f)(iii) hereof. You will be responsible for all taxes on any Transaction Fee payable hereunder.

- (h) The Company will pay the cost of providing you and your family COBRA benefits for one year following the Separation Date in an amount not to exceed \$30,000. You will be responsible for all taxes on any amounts payable pursuant to this clause (h).
- (i) Within ten business days of the date of the Separation Date, the Company will pay you \$100,000 (the "Upfront Payment"). You will be responsible for all taxes thereon.
- (j) Subject to applicable IRS guidelines, the Company will reimburse your reasonable and documented out-of-pocket costs in connection with performing services hereunder.

6. INJUNCTIVE RELIEF; SURVIVAL.

- (a) You recognize and acknowledge that a breach of the covenants contained in Sections 3 and 4 will cause irreparable damage to the Company and its goodwill, the exact amount of which will be difficult or impossible to ascertain, and that the remedies at law for any such breach will be inadequate. Accordingly, you agree that in the event of a breach of any of the covenants contained in Section 3 or 4 in addition to any other remedy that may be available at law or in equity, the Company will be entitled to specific performance and injunctive relief.
- (b) The rights and obligations of the parties arising under Sections 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17 and 18 shall survive, and will not be impaired by, the expiration or termination of your engagement hereunder.

7. INDEMNIFICATION.

- (a) The Company will indemnify, defend and hold you harmless for all losses, costs, expenses or liabilities based upon or arising out of acts or omissions made by you in good faith during the Term while performing services on behalf of the Company within the scope of your engagement by the Company, *provided* that such acts or omissions do not constitute fraud, willful misconduct or gross negligence. Your indemnification shall, to the extent not in conflict with any applicable insurance policy, be secondary to any and all payment to which you are entitled from any relevant insurance policy issued to or for the benefit of the Company and its affiliates or you. Your indemnification hereunder shall also be secondary to any payment pursuant to any other indemnification obligation of any Portfolio Company, including under any insurance policy issued to or for the benefit of such Portfolio Company, in all cases, to the extent not in conflict with the applicable other indemnification or insurance contract. In the event of payment by the Company pursuant to its indemnification obligations herein, the Company shall be subrogated to the extent of such payment to all of your rights of recovery, including your rights under any insurance policies. The obligations of the Company under this Section 8 shall survive any termination of this Agreement.
 - (b) For any claims indemnified by the Company under Section 7(a), to the fullest extent permitted by law, the Company shall promptly pay expenses (including reasonable legal fees and expenses) incurred by you in appearing at, participating in or defending any action, suit, claim, demand or proceeding in advance of the final disposition of such action, suit, claim, demand or proceeding, including appeals, within thirty days after receipt by the Company of a written statement or statements from you requesting such advance or advances from time to time as well as a written undertaking from you to repay any amounts advanced (without interest) to the extent that it is ultimately determined that you were not entitled under this Agreement or applicable law to be indemnified by the Company. No other form of undertakings shall be required of you other than the execution of this Agreement and submission by you to the Company of reasonably detailed invoices in respect to such request for advancement. If a claim for indemnification (following the final disposition of such action, suit,
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claim, demand or proceeding) or advancement of expenses under this Section 9 is not paid in full within thirty days after a written claim therefor by you has been received by the Company, you may file proceedings to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the reasonable expense of prosecuting such claim.

8. Company Release

- (a)** Effective as of the Separation Date, you hereby, on your behalf and on behalf of your affiliates, agents, heirs, executors, administrators, successors, personal representatives and/or assigns (collectively, the “Employee Releasers”), unconditionally, fully, and completely release and forever discharge each of the Company’s and its subsidiaries’ respective officers, directors, managers, members, partners, shareholders, lenders, funding sources, investors, employees, vendors, agents, attorneys, accountants, affiliates, predecessors, successors and assigns (collectively, the “Company Released Parties,”) from any claim and all manner of action and actions, including but not limited to claims arising under Title VII, 42 U.S.C. §1981, Title 29 USC §621-634, unemployment, constructive termination and all other causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, costs, expenses (including reasonable attorney’s fees), losses, liabilities, judgments, executions, claims, liens, damages, wages, and demands of whatever nature, whether known or unknown, anticipated or unanticipated, suspected or unsuspected, accrued or to accrue in the future, for or by reason of any matter, cause, or thing whatsoever, in law or in equity, under local, state, or federal statutory or common law or administrative regulation (collectively, “Claims”), which any of the Employee Releasers ever had, now has, or hereafter can, shall or may have against any of the Company Released Parties, from the beginning of the world up to and including the Separation Date. Employee Releasers hereby agree that they (or any them) will not commence, prosecute, file, or permit to be commenced, prosecuted or filed in their name or on their behalf, any lawsuit, claim or action against any of the Company Released Parties based upon or arising out of any act or event which occurred before the Separation Date (whether known or unknown, anticipated or unanticipated, suspected or unsuspected). The release and waiver contained in this Section 8 is a material inducement for the Company in entering into this Agreement.
 - (b)** You further acknowledge and agree that this release and waiver of rights is knowing and voluntary, that you have consulted (or been given the opportunity to consult) with an attorney regarding the terms and conditions of this Agreement, that you have read this Agreement in its entirety, and that you fully understands all of the terms and conditions contained herein. You further acknowledge that you are entering into this Agreement knowingly, voluntarily and of your own free will. Furthermore, you acknowledge that you were permitted a reasonable period of time to consider whether or not to enter into this Agreement and either took the time or opted to return the executed Agreement before that time.
 - (c)** You agree to execute an additional release and undertaking substantially in the form of this Section 8 at the time of, and as a condition to, payment by the Company to you of any Recovery Fee and/or Transaction Fee due and owing hereunder.
 - (d)** For the avoidance of doubt, nothing in this Section 8 shall release any economic rights in any vested equity securities of the Company or its subsidiaries owned by you or your affiliates as of the Separation Date.
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9. Employee Release

(a) Effective as of the Separation Date, , the Company hereby, on its behalf and on behalf of its subsidiaries' respective officers, directors, managers, members, partners, shareholders, lenders, funding sources, investors, employees, vendors, agents, attorneys, accountants, affiliates, predecessors, successors and assigns (collectively, the "Company Releasers"), unconditionally, fully, and completely releases and forever discharges each of you and your agents, heirs, executors, administrators, successors, personal representatives and/or assigns (collectively, the "Employee Released Parties,") from any Claims which any of the Company Releasers ever had, now has, or hereafter can, shall or may have against any of the Employee Released Parties, from the beginning of the world up to and including the Separation Date other than any Claims arising out of any Employee Released Parties' fraud, gross negligence or willful misconduct. Company Releasers hereby agree that they (or any them) will not commence, prosecute, file, or permit to be commenced, prosecuted or filed in their name or on their behalf, any lawsuit, claim or action against any of the Employee Released Parties based upon or arising out of any act or event which occurred before the Separation Date (whether known or unknown, anticipated or unanticipated, suspected or unsuspected) other than with respect to any Claims arising out of any Employee Released Party's fraud, gross negligence or willful misconduct. The release and waiver contained in this Section 9 is a material inducement for you in entering into this Agreement.

(b) The Company further acknowledges and agrees that this release and waiver of rights is knowing and voluntary, that the Company has consulted (or been given the opportunity to consult) with an attorney regarding the terms and conditions of this Agreement, that it has read this Agreement in its entirety, and that it fully understands all of the terms and conditions contained herein. The Company further acknowledges that it is entering into this Agreement knowingly, voluntarily and of its own free will. Furthermore, the Company acknowledges that it was permitted a reasonable period of time to consider whether or not to enter into this Agreement and either took the time or opted to return the executed Agreement before that time.

(c) Upon the Company's receipt of the release and undertaking contemplated by Section 8(c) above duly executed by you, the Company will execute an additional release and undertaking substantially in the form of this Section 9.

10. CIAA . You acknowledge that the employee confidentiality and invention assignment agreement (the "CIAA") you entered into with the Company remains in full force and effect.

11. Track Record . You acknowledge that, as between you and the Company, the Company and its subsidiaries exclusively own all right, title and interest in and to the investment performance history and "track record" of the Company and its subsidiaries, including the funds under their management and any other investment vehicles managed by the Company and/or its subsidiaries for any period.

12. BINDING ON SUCCESSORS. This Agreement will be binding upon and inure to the benefit of the Company, you and each party's respective successors, assigns, personnel and legal representatives, executors, administrators, heirs, distributees, devisees, and legatees, as applicable.

13. COMPLETE AGREEMENT. This Agreement, together with the CIAA, contains the complete agreement and understanding concerning the consulting arrangement between the parties and shall supersede all other agreements, understandings or commitments between the parties as to such subject matter.

14. COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

15. CHOICE OF LAW. This Agreement shall be governed by, and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made in and solely performed in Delaware.

16. Any dispute arising out of or relating to this Agreement or the breach thereof or otherwise arising out of your employment or the termination of that employment (including, without limitation, any claims of unlawful employment discrimination or any other claims based on any statute) shall, to the fullest extent permitted by law, be settled by arbitration before a single arbitrator in Boston pursuant to the JAMS Employment Arbitration Rules and Procedures as then in effect, subject to a direction to the arbitrator to apply such rules in a manner to minimize cost and maximize efficiency and speed of resolution to the maximum reasonable extent permitted under such rules and applicable law consistent with obtaining a fully enforceable resolution of such dispute. The arbitrator must only choose between the position, in total, that you advance or the position, in total, that the Company advances as the closest to the correct resolution of all matters being arbitrated based on the law and the facts. The arbitrator shall award the prevailing party its reasonable attorneys' fees, costs and expenses in connection with such arbitration. This paragraph shall be specifically enforceable. Notwithstanding the foregoing, this paragraph shall not preclude either party from pursuing a court action for the sole purpose of obtaining a temporary restraining order or a preliminary injunction in circumstances in which such relief is appropriate; *provided* that any other relief shall be pursued through an arbitration proceeding pursuant to this paragraph.

17. If any provision of this Agreement is held by an arbitrator or court of competent authority to be unenforceable, the parties intend that (a) the remaining provisions of this Agreement shall be enforced in accordance with their terms and (b) the court shall substitute a replacement provision that is enforceable that, as closely as possible, accomplishes the purposes intended by such original provision.

18. This Agreement may only be amended or modified pursuant to a written agreement executed by the Company and you.

If this Agreement correctly sets forth the terms of your engagement by the Company, please sign and return one copy of this Agreement to me, whereupon it shall become your and our binding agreement.

Very truly yours,

Peter A. Reed
Chief Executive Officer
Great Elm Capital Group, Inc.

Accepted and agreed to as of the date first written above:

/s/ Richard S. Chernicoff
Richard S. Chernicoff

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Peter A. Reed, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Great Elm Capital Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2018

By: /s/ Peter A. Reed
Peter A. Reed
(Principal Executive Officer)

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, John J. Woods, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Great Elm Capital Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2018

By: /s/ John J. Woods
John J. Woods
(Principal Financial Officer)

