UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017.

or

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

For the transition period from ______ to ______

Commission File Number 000-19709

BIOLARGO, INC.

(Exact name of registrant as specified in its charter)

Delaware	**65-0159115**

(State or other jurisdiction of	*(I.R.S. Employer*
incorporation or organization)	*Identification No.)*

14921 Chestnut St.

Westminster, CA 92683

(Address, including zip code, of principal executive offices)

(949) 643-9540

(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, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Emerging growth company
Non-accelerated filer	Smaller reporting company	

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

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

The number of shares of the Registrant's Common Stock outstanding as of November 12, 2017 was 102,364,539 shares.

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BIOLARGO, INC.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2016 AND SEPTEMBER 30, 2017

	DECEMBER 31, 2016	SEPTEMBER 30, 2017 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 1,910,153	$ 1,251,951
Accounts receivable	67,994	113,643
Inventories	34,446	39,284
Prepaid expenses and other current assets	4,089	41,623
Total current assets	2,016,682	1,446,501
Equipment, net of depreciation	59,315	55,219
Other non-current assets, net of amortization	36,729	33,939
Deferred offering costs	—	205,536
Total assets	$ 2,112,726	$ 1,741,195
Liabilities and stockholders'deficit		
Current liabilities:		
Accounts payable and accrued expenses	$ 200,103	$ 455,547
Accrued officer bonus	80,000	—
Convertible notes payable	560,000	4,803,847
Discount on convertible notes payable and line of credit, net of amortization	(398,910)	(1,697,179)
Derivative warrant liability	663,560	—
Line of credit	50,000	50,000
Total current liabilities	1,154,753	3,612,215
Long-term liabilities:		
Convertible notes payable	5,250,668	1,506,771
Discount on convertible notes payable, net of amortization	(3,522,497)	(976,461)
Total liabilities	2,882,924	4,142,525

COMMITMENTS, CONTINGENCIES (Note 11)

STOCKHOLDERS' DEFICIT:		
Convertible Preferred Series A, $.00067 Par Value, 50,000,000 Shares Authorized, -0- Shares Issued and Outstanding, at December 31, 2016 and September 30, 2017.	—	—
Common stock, $.00067 Par Value, 200,000,000 Shares Authorized, 92,975,970 and 101,734,166 Shares Issued, at December 31, 2016 and September 30, 2017.	62,179	68,186
Additional paid-in capital	90,609,774	95,761,931
Accumulated deficit	(91,915,426)	(98,862,024)
Accumulated other comprehensive loss	(81,694)	(57,951)
Total Biolargo stockholders' deficit	(1,325,167)	(3,089,858)
Non-controlling interest (Note 9)	554,969	688,528
Total stockholders' deficit	(770,198)	(2,401,330)
Total liabilities and stockholders' deficit	$ 2,112,726	$ 1,741,195

See accompanying notes to unaudited consolidated financial statements.

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BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2017

(UNAUDITED)

	THREE MONTHS		**NINE MONTHS**	
	SEPTEMBER 30, 2016	**SEPTEMBER 30, 2017**	**SEPTEMBER 30, 2016**	**SEPTEMBER 30, 2017**
Revenues				
Product revenue	$107,321	$172,045	$160,249	$318,040
License revenue	55,000	—	55,000	—
Total revenue	162,321	172,045	215,249	318,040
Cost of revenues	(47,112)	(123,278)	(68,950)	(219,207)
Gross profit:	115,209	48,767	146,299	98,833
Selling, general and administrative expenses	989,223	1,117,790	2,843,694	3,334,863
Research and development	348,619	425,670	1,029,637	1,141,286
Amortization and depreciation	3,005	6,647	8,580	21,086
Total operating expenses:	1,340,847	1,550,107	3,881,911	4,497,235
Operating loss:	(1,225,638)	(1,501,340)	(3,735,612)	(4,398,402)
Other (expense) income:				
Interest expense	(1,087,578)	(848,735)	(1,972,428)	(2,921,564)
Change in fair value of derivative warrant liability	(202,110)	—	(202,110)	—
Grant income	31,223	103,949	113,319	174,098
Total other expense:	(1,258,465)	(744,786)	(2,061,219)	(2,747,466)
Net loss	(2,484,103)	(2,246,126)	(5,796,831)	(7,145,868)
Net loss attributable to noncontrolling interest	(69,843)	(89,414)	(191,674)	(326,581)
Net loss attributable to common shareholders	$(2,414,260)	$(2,156,712)	$(5,605,157)	$(6,819,287)
Net loss per share attributable to common shareholders:				
Loss per share attributable to shareholders – basic and diluted	$(0.03)	$(0.02)	$(0.06)	$(0.07)
Weighted average number of common shares outstanding:	88,148,092	100,752,279	86,809,862	97,679,544

Comprehensive loss:				
Net loss	$(2,484,103)	$(2,246,126)	$(5,796,831)	$(7,145,868)
Foreign currency translation	(606)	41,856	(9,924)	23,743
Comprehensive loss	(2,484,709)	(2,204,270)	(5,806,755)	(7,122,125)
Comprehensive loss attributable to noncontrolling interest	(69,843)	(89,414)	(191,674)	(326,581)
Comprehensive loss attributable to common stockholders	$(2,414,866)	$(2,114,856)	$(5,615,081)	$(6,795,544)

See accompanying notes to unaudited consolidated financial statements.

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BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(UNAUDITED)

	Common stock		Additional paid-in	Accumulated	Accumulated other comprehensive	Non-controlling	
	Shares	Amount	capital	deficit	loss	interest	Total
Balance, December 31, 2016	92,975,970	$62,179	$90,609,774	$(91,915,426)	$ (81,694)	$554,969	$(770,198)
Stock issued for services - vendors and consultants	480,625	331	251,986	—	—	—	252,317
Stock issued to CEO (Note 5)	1,500,000	1,005	(1,005)	—	—	—	—
Payment of interest	1,034,762	821	506,800				507,621
Conversion of notes	2,190,774	1,468	834,782	—	—	—	836,250
Exercise of warrants	510,000	343	152,657	—	—	—	153,000
Cashless exercise of stock options	2,501,937	1,677	(1,677)	—	—	—	—
Financing fee to Lincoln Park	488,998	328	205,672	—	—	—	206,000
Sales of stock to Lincoln Park	51,100	34	22,466	—	—	—	22,500
Stock option compensation expense	—	—	801,716	—	—	—	801,716
Fair value of warrants and conversion feature issued as discount on convertible notes payable	—	—	1,067,629	—	—	—	1,067,629
Purchase of Clyra shares	—	—	—	—	—	(40,000)	(40,000)
Issuance of Clyra shares	—	—	520,260	—	—	500,140	1,020,400
	—	—	299,111	(299,111)	—	—	—

Deemed dividend for anti-dilution trigger (Note 3)							
Cumulative effect from the change in accounting for derivative liability	—	—	491,760	171,800	—	—	663,560
Net loss	—	—	—	(6,819,287)	—	(326,581)	(7,145,868)
Foreign currency translation	—	—	—	—	23,743	—	23,743
Balance, September 30, 2017	101,734,166	$68,186	$95,761,931	$(98,862,024)	$ (57,951)	$688,528	$(2,401,330)

See accompanying notes to unaudited consolidated financial statements.

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BIOLARGO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2017

(UNAUDITED)

	SEPTEMBER 30, 2016	**SEPTEMBER 30, 2017**
Cash flows from operating activities		
Net loss	$ (5,796,831)	$ (7,145,868)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock option compensation expense	645,808	801,716
Common stock issued for services — vendors and consultants	387,806	252,317
Common stock issued for payment of interest	314,937	507,621
Interest expense related to amortization of the discount on convertible notes payable and line of credit and deferred financing costs	1,577,845	2,315,396
Change in fair value of derivative warrant liability	202,110	—
Deferred offering cost expense	—	464
Amortization and depreciation expense	8,580	21,086
Bad debt expense	—	2,500
Changes in assets and liabilities:		
Accounts receivable	(41,856)	(48,149)
Inventories	11,815	(4,838)
Prepaid expenses and other assets	16,913	(42,734)
Accounts payable and accrued expenses	(62,681)	345,844
Officer bonus	100,000	(80,000)
Deposits	(135,000)	—
Other assets	(28,542)	—
Net cash used in operating activities	(2,799,096)	(3,074,645)
Cash flows from investing activities		
Equipment purchases	(55,349)	(9,000)
Net cash used in investing activities	(55,349)	(9,000)
Cash flows from financing activities		
Proceeds from convertible notes	2,190,000	1,266,200
Proceeds from line of credit	300,000	250,000
Proceeds from sale of Clyra stock	—	750,000
Proceeds from sale of common stock	—	22,500
Purchase of Clyra shares	—	(40,000)
Proceeds from exercise of warrants	355,000	153,000
Net cash provided by financing activities	2,845,000	2,401,700
Effect of foreign currency translation	(21,723)	23,743
Net change in cash and cash equivalents	$ (31,168)	$ (658,202)

Cash and cash equivalents at beginning of period	1,763,114	1,910,153
Cash and equivalents at end of period	$ 1,731,946	$ 1,251,951
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 3,551	$ 6,731
Income taxes	$ 6,509	$ 5,350
Non-cash investing and financing activities		
Conversion of accounts payable into stock options	$ 272,032	$ 354,326
Fair value of warrants issued in conjunction with convertible notes payable	$ 2,460,975	$ 1,067,629
Fair value of stock issued for line of credit	$ —	$ 250,000
Fair value of stock issued for financing fee	$ —	$ 206,000
Settlement of accounts payable and interest into shares of common stock	$ 702,743	$ 759,938
Convertible notes into shares of common stock	$ 352,566	$ 836,250

See accompanying notes to unaudited consolidated financial statements

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Business and Organization

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the accompanying financial statements, for the nine months ended September 30, 2017, we had a net loss of $7,145,868, and used $3,074,645 cash in operations, and at September 30, 2017, had negative working capital of $2,165,714, current assets of $1,446,501, and an accumulated stockholders' deficit of $98,862,024. The foregoing factors raise substantial doubt about our ability to continue as a going concern. Ultimately, our ability to continue as a going concern is dependent upon our ability to attract significant new sources of capital, attain a reasonable threshold of operating efficiencies, and achieve profitable operations by licensing or otherwise commercializing products incorporating our technologies. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We have been, and anticipate that we will continue to be, limited in terms of our capital resources. Cash totaled $1,251,951 as of September 30, 2017 and decreased by over $650,000 from December 31, 2016. Our revenues for the nine months ended September 30, 2017 totaled $318,040. Although almost a 100% increase from the same period in 2016, and approximately a 70% increase over the prior three-month period, our revenues are not sufficient to fund our operations and must increase substantially before they will be. We will be required to raise substantial additional capital to expand our operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, incurring costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months. We intend to continue to raise money through private securities offerings for the foreseeable future and through our agreement with Lincoln Park (see Note 7).

As of September 30, 2017, we had $6,360,618 in principal amounts due on various debt obligations, all but $50,000 of which are convertible into common stock (see Note 4). Additionally, as of September 30, 2017, we had $455,547 of accounts payable and accrued expenses (see Note 8).

The unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to Rule 8-03 of Regulation S-X under the Securities Act of 1933, as amended. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for annual financial statements. In the

opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. For some of our activities, we are still operating in the early stages of the sales and distribution process, and therefore our operating results for the nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017, or for any other period. These unaudited consolidated financial statements and notes should be read in conjunction with the Company's audited financial statements and accompanying notes included in the Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission (the "SEC") on March 30, 2017.

We have seven wholly-owned subsidiaries: BioLargo Life Technologies, Inc., organized under the laws of the State of California in 2006, Odor-No-More, Inc., organized under the laws of the State of California in 2009, BioLargo Water USA, Inc., organized under the laws of the State of California in 2013, BioLargo Water, Inc., organized under the laws of Canada in 2014, BioLargo Maritime Solutions, Inc. organized under the laws of the State of California in 2016, BioLargo Development Corp., organized under the laws of the State of California in 2016, and BioLargo Engineering Science and Technologies, LLC, organized under the laws of the State of Tennessee in 2017. Additionally, we own 46.3% of Clyra Medical Technologies, Inc. ("Clyra"), organized under the laws of the State of California in 2012 (see Note 9).

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its majority owned subsidiaries and entities in which management believes it has a controlling interest. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for stock-based compensation, equity components of financing transactions, uncollectible accounts receivable, asset impairment and amortization, and taxes, among others.

The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results of our financial statements.

Share-based Payments

All share-based payments to employees, including grants of employee stock options, are recognized in the consolidated financial statements based on their fair values.

For stock issued to consultants and other non-employees for services, we record the expense based on the fair market value of the securities as of the date of the stock issuance. The issuance of fully vested stock warrants or options to non-employees are valued at the time of issuance utilizing the Black Scholes calculation and the amount is charged to expense. The issuance of stock warrants or options to non-employees that vest over time are revalued each reporting period until vested to determine the amount to be recorded as an expense in the respective period. As the warrants or options vest, they are valued on each vesting date and an adjustment is recorded for the difference between the value already recorded and the then current value on the date of vesting.

Warrants

The Unit Offerings of our convertible promissory note and a Series A stock purchase warrant are accounted for under the fair value and relative fair value method.

The warrant is first analyzed per its terms as to whether it has derivative features or not. If the warrant is determined to be a derivative, then it is measured at fair value using the Black Scholes Option Model, and recorded as a liability on the balance sheet. The warrant is measured again at its then current fair value at each subsequent reporting dates (it is "marked-to-market").

If the warrant is determined to not have derivative features, it is recorded into equity at its fair value using the Black Scholes option model, however, limited to a relative fair value based upon the percentage of its fair value to the total fair value including the fair value of the convertible note.

The convertible note is recorded at its fair value, limited to a relative fair value based upon the percentage of its fair value to the total fair value including the fair value of the warrant. Further, the convertible promissory note is examined for any intrinsic beneficial conversion feature ("BCF") which the effective convertible price of the note is less than the closing stock price on date of issuance. The adjusted BCF value is accounted for as equity.

The warrant and BCF fair values are also recorded as a discount to the convertible promissory notes. The equity features of the convertible promissory notes resulted in a discount to the convertible notes that is equal to the proceeds received.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Non-Cash Transactions

We have established a policy relative to the methodology to determine the value assigned to each intangible we acquire, and/or services or products received for non-cash consideration of our common stock. The value is based on the market price of our common stock issued as consideration, at the date of the agreement of each transaction or when the service is rendered or product is received.

Foreign Currency

The Company has designated the functional currency of Biolargo Water, Inc., our Canadian subsidiary, to be the Canadian dollar. Therefore, translation gains and losses resulting from differences in exchange rates are recorded in accumulated other comprehensive income.

Revenue Recognition

Revenues are recognized as risk and title to products transfers to the customer (which generally occurs at the time shipment is made), the sales price is fixed or determinable, and collectability is reasonably assured. We also may generate revenues from royalties and license fees from our intellectual property. Licensees typically pay a license fee in one or more installments and ongoing royalties based on their sales of products incorporating or using our licensed intellectual property. License fees are recognized over the estimated period of future benefit to the average licensee.

Government Grants

We have been awarded grants from government and industry orgnaizations in the United States and Canada. The government grants received are considered Other Income and are included in our consolidated statements of operations. We received our first grant in 2015 and have been awarded over fifty grants totaling approximately

$1,100,000. Some of the funds from these grants are given directly to third parties to support research on our technology. The grants have terms generally ranging between six and eighteen months and support a majority, but not all, of the related research budget costs.

The grants provide for (i) recurring monthly amounts, (ii) reimbursement of costs for research talent for which we invoice to request payment, and (iii) ancillary cost reimbursement for research talent travel related costs. All awarded grants have specific requirements on how the money is spent, typically to employ researchers. None of the funds may be used for general administrative expenses or overhead. These grants have substantially increased our level of research and development activities in Canada and the development of our AOS filter. We continue to apply for government and agency grants to fund research and development activities. Not all of our grant applications have been awarded, and no assurance can be made that any pending grant application, or any future grant applications, will be awarded.

Earnings (Loss) Per Share

We report basic and diluted earnings (loss) per share ("EPS") for common and common share equivalents. Basic EPS is computed by dividing reported earnings by the weighted average shares outstanding. Diluted EPS is computed by adding to the weighted average shares the dilutive effect if stock options and warrants were exercised into common stock. For the three and nine months ended September 30, 2016 and 2017, the denominator in the diluted EPS computation is the same as the denominator for basic EPS due to the anti-dilutive effect of the warrants and stock options on the Company's net loss.

BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Cash and cash equivalents

The Company considers all highly liquid investments with maturities of three months or less when acquired to be cash equivalents. Substantially all cash equivalents are held in short-term money market accounts at one of the largest financial institutions in the United States. From time to time, our cash account balances are greater than the Federal Deposit Insurance Corporation insurance limit of $250,000 per owner per bank, and during such times, we are exposed to credit loss for amounts in excess of insured limits in the event of non-performance by the financial institution. We do not anticipate non-performance by our financial institution.

Our cash balances were made up of the following:

	DECEMBER 31, 2016	**SEPTEMBER 30, 2017**
Biolargo, Inc. and wholly owned subsidiaries	$ 1,671,857	$ 431,034
Clyra Medical Technologies, Inc.	238,296	820,917
Total	$ 1,910,153	$ 1,251,951

Allowance for uncollectible receivables

Management evaluates credit quality by evaluating the exposure to individual counterparties, and, where warranted, management also considers the credit rating or financial position, operating results and/or payment history of the counterparty. Management establishes an allowance for amounts for which collection is considered doubtful. Adjustments to previous assessments are recognized in income in the period in which they are determined. At September 30, 2017, the allowance for uncollected receivables was $2,500.

Recent Accounting Pronouncements

In July 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (“ASU”) No. 2017-11, “Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815).” The relevant section for Biolargo is Topic 815 where it pertains to accounting for certain financial instruments with down round features. Until the issuance of this ASU, financial instruments with down round features required fair value measurement and subsequent changes in fair value were recognized in earnings. As a result of this ASU, financial instruments with down round features are no longer treated as a derivative liability measured at fair value. Instead, when the down round feature is triggered, the effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. For public entities, the ASU is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. Biolargo has elected early adoption as of July 1, 2017. (See Note 3.)

In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing”. The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which we are required to apply for annual periods beginning after December 15, 2017. Management’s current analysis is that the new guidelines currently will not substantially impact our revenue recognition. However, future licenses, if any, will require specific contract terms for the basis of royalty payments and for support and maintenance of the intellectual property that is the subject of the license.

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which simplifies several aspects of the accounting for share-based award transactions and adds two practical expedients for nonpublic entities. The new standards are effective for annual periods beginning after December 15, 2017. Management’s current analysis is that the new guidelines will not substantially impact our accounting for share based payments.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Although management is still evaluating the potential impact of the adoption of this standard, its preliminary analysis is that the new guidelines will create a ROU asset and lease liability for the company’s lease agreements in place at the time the Update goes into effect. Currently, the company has two real property leases with terms longer than 12 months.

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BIOLARGO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 3. Change in Derivative Liability Treatment

As discussed in Note 2, “Recent Accounting Pronouncements”, Biolargo has adopted ASU 2017-11 as of July 1, 2017. With this adoption, we eliminated the derivative liability, and the changes in the fair value of the derivative liability. The derivative liability was caused by a down round feature in multiple warrants issued. The Company made a cumulative effect adjustment to the balance sheet as of January 1, 2017, which adjusted the beginning balance in the accumulated deficit account by $663,560. In May 2017, the down round feature in those warrants was triggered, and a $216,000 dividend was recognized in equity. In September 2017, the down round feature in those warrants was triggered, and a $83,111 dividend was recognized in equity.

Note 4. Convertible Notes Payable and Lines of Credit

	DECEMBER 31, 2016	**SEPTEMBER 30, 2017**
Current liabilities:		
Line of credit	$ 50,000	$ 50,000
Convertible notes payable		
One-Year Convertible notes, mature July 8, 2017	$ 280,000	$ —
One-Year Convertible notes, mature December 30, 2017	280,000	—
One-Year Convertible notes, mature July 18, 2018	—	280,000
Convertible notes, mature June 1, 2018*	—	4,523,847
Total convertible notes payable	$ 560,000	$ 4,803,847
Long-term liabilities:		
Convertible notes payable, net of current portion		
Convertible notes, mature June 1, 2018*	$ 4,800,097	$ —
Convertible notes, mature September 17, 2019	283,571	283,571
Convertible notes, mature December 31, 2019	167,000	292,000
Convertible notes, mature July 20, 2019	—	440,000
Convertible notes, mature June 20, 2020	—	491,200
Total convertible notes payable, net of current portion	$ 5,250,668	$ 1,506,771

Total	$ 5,860,668	$ 6,360,618

* The convertible notes that mature June 1, 2018, were considered “long-term” liabilities as of December 31, 2016, and “current” liabilities (due within one year) as of June 30, 2017. As such, those same liabilities are in both the “long-term” and “current” liabilities section in the above table.

For the three and nine months ended September 30, 2016, we recorded $1,087,578 and $1,972,428 and for the three and nine months ended September 30, 2017, we recorded $848,735 and $2,921,564 of interest expense related to the amortization of our discount on our convertible notes payable and interest from our convertible notes and lines of credit.

Line of Credit

On June 6, 2016, we received $300,000 pursuant to a line of credit, accruing interest at a rate of 18% per annum, for which we have pledged our inventory and accounts receivable as collateral. At any time after December 1, 2017, the holder of the line of credit may call it due by providing 30 days’ notice of the due date, at which time all principal and outstanding interest is due and payable. Each investor, for no additional consideration, received a warrant to purchase our common stock. (See Note 6.) The warrant allows for the purchase of the number of common shares equal to the investment amount (e.g., one warrant share for each dollar invested).

On September 17, 2016, investors holding $250,000 of the line of credit converted their line of credit into convertible promissory notes and stock purchase warrants on the same terms and notes issued in the 2015 Unit Offering.

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As of December 31, 2016, and September 30, 2017, $50,000 remains outstanding on this line of credit.

One-Year Convertible Notes, mature July 8, 2017

On July 8, 2016, we received $250,000 and issued convertible promissory notes (convertible at $0.45 per share) with a maturity date of July 8, 2017 to two accredited investors' in the aggregate principal amount of $280,000. Interest is charged upon issuance at 3% per annum. We issued these investors stock purchase warrants to purchase an aggregate 400,000 shares of our common stock exercisable at $0.65 per share, which expire five years from the date of grant. (See Note 6.)

On January 13, 2017, the holders of these notes exercised their right to convert their notes in aggregate principal amount of $280,000 into 640,889 shares of our common stock.

One-Year Convertible Notes, mature December 30, 2017

On December 30, 2016, we received $250,000 and issued convertible promissory notes (convertible at $0.57 per share) with a maturity date of December 30, 2017 to two accredited investors, in the aggregate principal amount of $280,000.

Interest was charged upon issuance at 3% per annum. We also issued the two investors warrants to purchase an aggregate 400,000 shares of our common stock exercisable at $0.75 per share, which expire five years from the date of grant. (See Note 6.)

The notes contain a conversion price protection feature such that if the company issues a convertible promissory note at a lower conversion price, the holder may exchange the note for an investment on the same terms offered to the other investor. On July 18, 2017, because we issued notes at a $0.42 conversion price (see "One-Year Convertible Notes,

mature July 18, 2018," below), the holder elected to exchange these notes for notes on similar terms, reducing the conversion price of these notes from $0.57 to $0.42. Concurrently, the holders exercised their right to convert the principal and outstanding interest into 686,667 shares of our common stock.

One-Year Convertible Notes, mature July 18, 2018

On July 18, 2017, we received $250,000 and issued convertible promissory notes (convertible at $0.42 per share) with a maturity date of July 18, 2018 to two accredited investors in the aggregate principal amount of $280,000. Interest was charged upon issuance at 3% per annum. The notes are convertible by the holders at any time. We have the right to convert the notes at any time after January 18, 2018, provided that our common stock closes at two times the conversion price for 10 consecutive business days. The notes contain a conversion price protection feature such that if the company issues a convertible promissory note at a lower conversion price, the holder may exchange the note for an investment on the same terms offered to the other investor.

We also issued these investors stock purchase warrants to purchase an aggregate 400,000 shares of our common stock exercisable at $0.65 per share, which expire five years from the date of grant. (See Note 6.)

Convertible Notes, mature June 1, 2018 (2015 Unit Offering)

On January 15, 2015, we commenced a private securities offering of "Units", each Unit consisting of a convertible promissory note and Series A stock purchase warrant ("2015 Unit Offering"), which was closed on September 16, 2016. The price and availability of the Units were set forth in five "Pricing Supplements" issued from time-to-time. Each note issued is convertible into the Company's common stock at the Unit price set forth in the particular pricing supplement, and matures June 1, 2018.

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Interest due may be paid quarterly in cash or shares of common stock; all interest due thus far has been paid in shares of common stock. If paid by the issuance of common stock, interest is paid at a conversion price equal to the average closing price of the Company's common stock over the 20 trading days prior to the interest payment due date. The principal amount of the note may be paid by the issuance of shares of common stock, or cash, upon maturity at the Company's election. When paid in shares, the number of shares to be issued shall be calculated by dividing the principal amount invested by the Unit price, as it is established at the time of the original investment by the applicable Pricing Supplement. The notes may be converted at any time by the investor, at maturity by the Company, or by the Company prior to maturity, so long as all of the following conditions are met: (i) the shares issued as payment are registered with the SEC, (ii) the Company's common stock closes for ten consecutive trading days at or above three times the Unit price. On June 15, 2017, a registration statement registering the shares issuable upon conversion was deemed effective by the SEC.

Each investor, for no additional consideration, received a Series A stock purchase warrant. (See Note 6).

As of September 30, 2017, the outstanding balance for notes issued in the 2015 Unit Offering, maturing June 1, 2018 is as follows:

Unit/Conversion Price	**Warrant Exercise Price**	**Total**
$ 0.25	$ 0.40	$1,626,134
$ 0.35	$ 0.45	1,751,046
$ 0.55	$ 0.70	1,146,667
		$4,523,847

During the nine months ended September 30, 2017, investors elected to convert an aggregate $276,250 principal amount promissory notes issued in our 2015 Unit Offering and accrued interest into 883,218 shares of our common stock.

During the nine months ended September 30, 2016, we received $1,940,000, and issued unsecured convertible promissory notes with maturity dates of June 1, 2018, which accrue interest at the rate of 12% per annum.

Clyra Line of Credit, matures March 31, 2019

On March 31, 2017, our subsidiary Clyra (see Note 9), obtained a $250,000 line of credit from Sanatio Capital LLC, accruing interest at a rate of 10% per annum and a 5% original issue discount.

On July 22, 2017, Sanatio Capital LLC and Clyra agreed to convert the $250,000 line of credit held by Sanatio to shares of Clyra common stock at a price per share equal to that offered to investors in the Clyra offering (see Note 9). As of the date of conversion, the outstanding amount due on the line of credit was $270,400. Once the offering price was established, Sanatio was issued 1,690 shares of Clyra common stock at $160 per share.

Convertible Notes, mature September 17, 2019

On September 17, 2016, investors in the line of credit (see "Line of Credit, matures December 1, 2017," above), converted an aggregate principal amount of $250,000 plus accrued interest of $33,571 promissory notes convertible at $0.55 per share. Other than the maturity date of September 17, 2019, these notes contain the same terms as the notes issued in the 2015 Unit Offering. Our common stock closed at $0.70 on September 17, 2016. In addition to the convertible promissory notes, the investors received a Series A stock purchase warrant to purchase an aggregate 515,583 shares of our common stock at an exercise price of $0.70 per share (see Note 6).

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Convertible Notes, mature December 31, 2019 (Winter 2016 Unit Offering)

On December 27, 2016, we commenced a private securities offering (titled the “Winter 2016 Unit Offering”) which offered the sale of $600,000 of “Units,” each Unit consisting of a convertible promissory note and stock purchase warrant. The promissory notes issued to investors were convertible at $0.57 per share, a discount to the market price of our stock on that date of $0.86, mature December 31, 2019, and bear interest at the rate of 12% per annum on the amount invested. Any interest due will be paid quarterly in arrears in cash or shares of common stock. If paid by the issuance of common stock, interest is paid at a conversion price equal to the average closing price of the Company’s common stock over the 20 trading days prior to the interest payment due date. The principal amount of the note may be paid by the issuance of shares of common stock, or cash, upon maturity at the Company’s election.

When paid in shares, the number of shares to be issued shall be calculated by dividing the principal amount invested by the $0.57 conversion price. Promissory notes may be converted at any time by the investor, at maturity by the Company, or by the Company prior to maturity, so long as the following conditions are met: (i) the Shares issued as payment are registered with the SEC; and (ii) the Company’s common stock closes for ten consecutive trading days at or above three times the Unit price. In addition to the convertible promissory note, each investor received a warrant allowing for the purchase of the number of shares of BioLargo common stock equal to the investment amount divided by $0.57 (e.g., one warrant share for each share of common stock which the investor is eligible to receive through conversion of his original convertible note). The exercise price of the warrant is $0.70 per share of common stock and expire on December 31, 2021 (see Note 6). The Company may “call” the warrants, requiring the investor to exercise their warrants within 30 days or forever lose the rights to do so, only if the following conditions have been met: (i) the underlying Shares are registered with the SEC and (ii) the Company’s common stock closes for 10 consecutive trading days at or above two times the exercise price. The shares underlying the warrants contain “piggy back” registration rights for any registrations subsequent to the Form S-1 filed January 24, 2017.

From inception of the offering through its termination on January 13, 2017, we received $292,000 from six investors, issued convertible notes in the aggregate of $292,000, and issued warrants to purchase 512,281 shares of our common stock.

Convertible Notes, mature June 20, 2020 (Summer 2017 Unit Offering)

On May 24, 2017, we commenced a private securities offering (titled the "Summer 2017 Unit Offering") which offered the sale of $1,500,000 of "Units," each Unit consisting of a convertible promissory note and stock purchase warrant. The promissory notes issued to investors are convertible at $0.42 per share, mature June 20, 2020, and bear interest at the rate of 12% per annum on the amount invested. Any interest due will be paid quarterly in arrears in cash or shares of common stock. If paid by the issuance of common stock, interest is paid at a conversion price equal to the average closing price of the Company's common stock over the 20 trading days prior to the interest payment due date. The principal amount of the note may be paid by the issuance of shares of common stock, or cash, upon maturity at the Company's election.

When paid in shares, the number of shares to be issued shall be calculated by dividing the principal amount invested by the $0.42 conversion price. Promissory notes may be converted at any time by the investor, at maturity by the Company, or by the Company prior to maturity, so long as the following conditions are met: (i) the Shares issued as payment are registered with the SEC; and (ii) the Company's common stock closes for ten consecutive trading days at or above three times the Unit price. In addition to the convertible promissory note, each investor received a warrant allowing for the purchase of the number of shares of BioLargo common stock equal to the investment amount divided by $0.42 (e.g., one warrant share for each share of common stock which the investor is eligible to receive through conversion of his original convertible note). The exercise price of the warrant is $0.65 per share of common stock and expire on June 20, 2022 (see Note 6). The Company may "call" the warrants, requiring the investor to exercise their warrants within 30 days or forever lose the rights to do so, only if the following conditions have been met: (i) the underlying Shares are registered with the SEC and (ii) the Company's common stock closes for 10 consecutive trading days at or above two times the exercise price.

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Through September 30, 2017, we have received $491,200 in investments from nine accredited investors, and issued warrants to purchase 1,169,525 shares of our common stock.

Two-Year Convertible Note, matures July 20, 2019

On July 20, 2017, the company accepted $400,000 and issued a promissory note with a 10% original issue discount in the principal amount of $440,000, due in two years, that accrues interest at 12% paid quarterly. The note is convertible, at the holder's option, into either BioLargo common shares at $0.42 per share, 2,000 shares of Clyra Medical Technologies common stock held by BioLargo, or any combination thereof. At maturity, the note automatically converts into shares of BioLargo common stock at $0.42 per share, unless otherwise instructed by the holder. Interest may be paid in cash, common stock, or options to purchase common stock, at the holder's option. The fair value of the beneficial conversion feature resulted in a $171,429 dicount recorded on our balance sheet as a discount on convertible notes payable, net of current portion. The discount will be amortized monthly as interest expense through July 20, 2019.

Note 5. Share-Based Compensation

Common Stock

On May 2, 2017, pursuant to an employment agreement with the Company's president, Dennis Calvert (see Note 11), we issued Mr. Calvert 1,500,000 shares of common stock. The shares are subject to a "lock-up agreement" whereby the shares remain unvested unless and until the earlier of (i) a sale of the Company, (ii) the successful commercialization of the Company's products or technologies as demonstrated by its receipt of at least $3,000,000 in cash, or the recognition of $3,000,000 in revenue, over a 12-month period from the sale of products and/or the license of technology, and (iii) the Company's breach of the employment agreement resulting in his termination. The Company will expense the fair value of the stock if and when it is probable that any of the conditions above are met.

Stock Option Expense

During the three and nine months ended September 30, 2017, we recorded an aggregate $285,757 and $801,716, respectively, and during the three and nine months ended September 30, 2016, we recorded an aggregate $154,368 and $645,808, respectively, in selling, general and administrative expense related to the issuance of stock options. We issued options through our 2007 Equity Incentive Plan and outside of our 2007 Equity Incentive Plan.

2007 Equity Incentive Plan

On September 7, 2007, and as amended April 29, 2011, the BioLargo, Inc. 2007 Equity Incentive Plan ("2007 Plan") as a means of providing our directors, key employees and consultants additional incentive to provide services. Both stock options and stock grants may be made under this plan for a period of 10 years, which expired on September 7, 2017. The Board's Compensation Committee administers this plan. As plan administrator, the Compensation Committee has sole discretion to set the price of the options.

On June 19, 2017, the date of our annual stockholders' meeting, we recorded the issuance of options to purchase an aggregate 40,000 shares of our common stock to the non-employee members of our Board of Directors, pursuant to the terms of the 2007 Equity Plan which calls for an annual automatic issuance. The exercise price of $0.43 equals the price of our common stock on the grant date. The fair value of these options totaled $15,600 and was recorded as selling, general and administrative expense.

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On February 10, 2017, we extended our engagement agreement with our Chief Financial Officer. The sole consideration for the one-year extension was the issuance of an option to purchase 300,000 shares of our common stock, at an exercise price of $0.69 per share which was equal to the closing price of our common stock on the date of grant. The option expires February 10, 2027, and vests over the term of the engagement with 125,000 shares having vested as of February 10, 2017, and the remaining shares to vest 25,000 shares monthly beginning March 1, 2017, and each month thereafter, so long as his agreement is in full force and effect. The fair value of the option totaled $207,000, and during the three and nine months ended September 30, 2017, we recorded $51,750 and $207,000, respectively, of selling, general and administrative expense on our statement of operations. The option has fully vested.

On June 20, 2016, we recorded the issuance of options to purchase an aggregate 40,000 shares of our common stock to the non-employee members of our Board of Directors, pursuant to the terms of the 2007 Equity Plan which calls for an annual automatic issuance. The exercise price of $0.45 equals the price of our common stock on the grant date. The fair value of these options totaled $18,000 and was recorded as selling, general and administrative expense.

On March 21, 2016, our Board of Directors extended by five years the expiration of options to purchase 307,777 shares of our common stock issued to our Board of Directors and vendors in March 2011. The options were originally issued in exchange for unpaid obligations and now expire on March 21, 2021. The weighted-average fair value of the options resulted in additional $119,971 of selling, general and administrative expenses.

Activity for our stock options under the 2007 Plan for the nine months ended September 30, 2016 and 2017 is as follows:

Balance, September 30, 2016:	**Options Outstanding**	**Shares Available**	**Exercise Price per share**	**Weighted Average Price per share**
Balances as of December 31, 2015	10,241,086	1,758,914	$0.22– 1.89	$ 0.44
Granted	40,000	(40,000)	0.45	0.45
Expired	(262,500)	262,500	0.40	0.40
Balance, September 30, 2016	10,018,586	1,981,414	$0.22– 1.89	$ 0.46

Balance, September 30, 2017:	**Options Outstanding**	**Exercise Price per share**	**Weighted Average Price per share**
Balances as of December 31, 2016	9,916,586	$0.22–1.89	$ 0.44
Granted	340,000	0.39 –0.69	0.65
Exercised	—	—	—
Balance, September 30, 2017	10,256,586	$0.22–1.89	$ 0.44

Options issued Outside of the 2007 Equity Incentive Plan

During the three and nine months ended September 30, 2017, we issued options to purchase 132,354 and 407,704 shares of our common stock at exercise prices ranging between $0.43 – $0.51 per share to members of our board of directors for fees for service for the three and nine months ended September 30, 2017 totaling $67,500 and $202,500, respectively.

During the three and nine months ended September 30, 2017, we issued options to purchase 144,317 and 689,846 shares of our common stock at exercise prices ranging between $0.43 – $0.67 per share to vendors and employees in lieu of accrued and unpaid fees for the three and nine months ended September 30, 2017 totaling $45,402 and $187,476, respectively.

On September 5, 2017, we issued options to purchase 2,000,000 shares of our common stock to the employees of our newly created engineering subsidiary (see Note 10). The options are non-qualified stock options, exercisable at $0.45 per share, the closing price of our common stock as of September 5th, exercisable for ten years from the date of grant and subject to vesting in five equal increments on the anniversary of the agreement for five years based on certain performance milestones related to the operations of the subsidiary. (See Note 10 for details of the performance milestones.) The options contain other terms standard in option agreements issued by the Company, including provisions for a cashless exercise. The fair value of these options totals $900,000. Management chose not to expense the fair value of the options at this time because the subsidiary is just beginning operations and therefore reaching the performance milestones by September 2018 is uncertain.

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On May 2, 2017, pursuant to his employment agreement (see Note 11), we granted to our president, Dennis P. Calvert, an option to purchase 3,731,322 shares of the Company's common stock. The option is a non-qualified stock option, exercisable at $0.45 per share, the closing price of our common stock as of May 2nd, exercisable for ten years from the date of grant, and vesting in equal increments on the anniversary of the agreement for five years. Any portion of the option which has not yet vested shall immediate vest in the event of, and prior to, a change of control, as defined in the employment agreement. The option contains the other terms standard in option agreements issued by the Company, including provisions for a cashless exercise. The fair value of this option totaled $1,679,095 and will be amortized monthly through May 2, 2022. During the three and nine months ended September 30, 2017, we recorded $83,955 and $111,940, respectively, of selling, general and administrative expense related to the option.

During the three and nine months ended September 30, 2016, we issued options to purchase 422,896 and 906,973 shares of our common stock at exercise prices ranging between $0.33 – $0.76 per share to vendors and to members of our board of directors. During the three and nine months ended September 30, 2016, the fair value of these options totaled $77,418 and $430,887, respectively, and is recorded as selling, general and administrative expenses.

The fair value of the options issued prior to 2016 that vested during the three and nine months ended September 30, 2016, was $0 and $170,310, and during the three and nine months ended September 30, 2017, was $37,150 and $77,200, respectively.

Exercise of Stock Option

On April 30, 2017, our president, Dennis P. Calvert, delivered a notice of exercise of 3,866,630 shares pursuant to his stock option agreement dated April 30, 2007. The exercise price was $0.18 per share, and the Company issued 2,501,937 shares, calculated by multiplying the difference between the market price of $0.51 and the exercise price of $0.18 with the number of shares exercised, and dividing that amount by the market price. No cash consideration was tendered with respect to the exercise. The remaining 3,866,629 shares available for purchase under the option agreement expired unexercised.

Pursuant to a "lock-up agreement" dated April 30, 2017, Mr. Calvert agreed to restrict the sales of the shares received until the earlier of (i) the consummation of a sale (in a single transaction or in a series of related transactions) of the

Company by means of a sale of (a) a majority of the then outstanding common stock (whether by merger, consolidation, sale or transfer of common stock, reorganization, recapitalization or otherwise) or (b) all or substantially all of its assets; and (ii) the successful commercialization of the Company's products or technologies as demonstrated by its receipt of at least $3,000,000 in cash, or the recognition of $3,000,000 in revenue, over a 12-month period from the sale of products and/or the license of technology; and (iii) the Company's breach of the employment agreement between the Company and Calvert dated May 2, 2017 and resulting in Calvert's termination.

Activity of our stock options issued outside of the 2007 Plan for the nine months ended September 30, 2016 and 2017 is as follows:

Balance, September 30, 2016:

	Options Outstanding	**Exercise Price per share**	**Weighted Average Price per share**
Balance, December 31, 2015	19,394,975	$0.18 – 1.00	$ 0.40
Granted	484,077	0.33 – 0.45	0.38
Exercised	(60,000)	0.25	0.25
Balance, September 30, 2016	19,819,052	$0.18 – 1.00	$ 0.41

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Balance, September 30, 2017:	**Options Outstanding**	**Exercise Price per share**	**Weighted Average Price per share**
Balance, December 31, 2016	20,148,766	$0.18 – 1.00	$ 0.40
Granted	6,828,872	0.43 – 0.67	0.46
Expired	(3,866,629)	0.18	0.18
Exercised	(3,866,630)	0.18	0.18
Balance, September 30, 2017	19,244,379	$0.18 – 1.00	$ 0.51

We recognize employee compensation expense for stock option awards on a straight-line basis over the applicable service period of the award, which is the vesting period. Share-based compensation expense is based on the grant date fair value estimated using the Black-Scholes Option Pricing Model. The following methodology and assumptions were used to calculate share based compensation for the nine months ended September 30:

	2016		**2017**	
	Non Place	**2007 Plan**	**Non Plan**	**2007 Plan**
Risk free interest rate	1.77–2,27%	1.36–1.77%	2.29–2.40%	2.31–2.40%
Expected volatility	641 –738%	315 –641%	571 –601%	578 –601%
Expected dividend yield	—	—	—	—
Forfeiture rate	—	—	—	—
Expected life in years	7	5	7	7

Expected price volatility is the measure by which our stock price is expected to fluctuate during the expected term of an option. Expected volatility is derived from the historical daily change in the market price of our common stock, as we believe that historical volatility is the best indicator of future volatility.

The risk-free interest rate used in the Black-Scholes calculation is based on the prevailing U.S Treasury yield as determined by the U.S. Federal Reserve. We have never paid any cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future.

Historically, we have not had significant forfeitures of unvested stock options granted to employees and Directors. A significant number of our stock option grants are fully vested at issuance or have short vesting provisions. Therefore, we have estimated the forfeiture rate of our outstanding stock options as zero.

Note 6. Warrants

Warrants Issued to Summer 2017 Unit Offering Investors

Pursuant to the terms of our Summer 2017 Unit Offering (see Note 4), we issued warrants to purchase an aggregate 1,169,525 shares of our common stock, at an exercise price of $0.65 per share. Of this amount, we issued warrants to purchase 238,096 shares during the three months ended June 30, 2017, and 931,429 shares during the three months ended September 30, 2017. These warrants expire June 20, 2022. The relative fair value of these warrants resulted in $491,200 recorded as a discount on our convertible notes. This offering is open as of the date of this report.

Warrants Issued to Winter 2016 Unit Offering Investors

Pursuant to the terms of our Winter 2016 Unit Offering (see Note 4), we issued warrants to purchase an aggregate 512,281 shares of our common stock at an exercise price of $0.70 per share. Of this amount, warrants to purchase 292,983 shares were issued during the three months ended December 30, 2016, and 219,298 shares were issued during the three months ended March 31, 2017. These warrants expire December 31, 2021. The relative fair value of these warrants resulted in $125,000 recorded as a discount on our convertible notes. This offering is closed and no further warrants will be issued.

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Warrants Issued Concurrently with One-Year Convertible Notes

On July 8, 2016, we issued warrants to purchase an aggregate 400,000 shares of our common stock to two investors who received one-year convertible notes with a maturity date of July 8, 2017 (see Note 4). These warrants are initially exercisable at $0.65 per share and expire July 8, 2021. The fair value of warrants issued resulted in $160,000 discount on the one-year convertible notes. The exercise price of the stock purchase warrant may be adjusted downward in the event we sell our common stock or issue warrants at a lower price, other than through our 2015 Unit Offering. On May 24, 2017, we initiated the Summer 2017 Unit Offering offering promissory notes convertible at $0.42 per share (see Note 4). Since these securities were sold at less than the exercise price of the July 8, 2016 warrants, the exercise price of the warrants was decreased from $0.65 to $0.42 per share, and the number of shares issuable under the warrant increased by 219,048 shares to a total of 619,048 shares.

On December 30, 2016 we issued warrants to purchase an aggregate 400,000 shares of our common stock to two investors who received one-year convertible notes with a maturity date of December 30, 2017 (see Note 4). These warrants are initially exercisable at $0.75 per share and expire December 31, 2021. The stock price on the date of grant was $0.83. The fair value of warrants issued resulted in $280,000 discount on the one-year convertible notes. The exercise price of the stock purchase warrant may be adjusted downward in the event we sell our common stock or issue warrants with a lower price, other than through our Winter 2016 Unit Offering, or stock or stock options to persons providing services to our company. On May 24, 2017, we initiated the Summer 2017 Unit Offering offering promissory notes convertible at $0.42 per share (see Note 4). Since these securities were sold at less than the exercise price of the December 30, 2016 warrants, the exercise price of the warrants was decreased from $0.75 to $0.42 per share, and the number of shares issuable under the warrant increased by 314,285 shares to a total of 714,285 shares.

On July 18, 2017, we issued warrants to purchase an aggregate 400,000 shares of our common stock to two investors who received one-year convertible notes with a maturity date of July 18, 2018 (see Note 4). These warrants are initially exercisable at $0.65 per share and expire July 31, 2022. The exercise price of the stock purchase warrant may be adjusted downward in the event we sell our common stock or issue warrants with a lower price, other than through our Summer 2017 Unit Offering, securities issued for the payment of interest on notes, any convertible note, warrants issued to these two investors, or stock or stock options issued for the reduction of accounts payable. The fair value of these warrants resulted in a $280,000 discount recorded on our balance sheet as a discount on convertible note payable and will be amortized monthly as interest expense through July 18, 2022. On September 26, 2017, we sold shares of our common stock to Lincoln Park (see Note 7), and thus the exercise price of these warrants were decreased from $0.65 to $0.42 per share, and the number of shares issuable under the warrants increased by 177,777 shares to a total of 577,777 shares.

These warrants are no longer treated as derivative liabilities. Any adjustments in the warrant price and shares due to a down round will be treated as a dividend.

2015 Unit Offering Warrants

During the nine months ended September 30, 2016, we issued Series A warrants to purchase up to an aggregate 4,455,413 shares of our common stock to investors in the 2015 Unit Offering (see Note 4). Of this amount, warrants to purchase an aggregate 2,719,048 shares were issued at an exercise price of $0.45 per share, and warrant to purchase an aggregate 1,736,365 shares were issued at an exercise price of $0.70 per share. All Series A Warrants expire June 1, 2020. The relative fair value of these warrants resulted in $1,940,000 recorded as a discount on our convertible notes on our consolidated balance sheets in the periods presented.

Warrants Issued Concurrently with Line of Credit

During the nine months ended September 30, 2016, we issued warrants to purchase an aggregate 300,000 shares of our common stock to the investors in our line of credit (see Note 4). These warrants are exercisable at $0.35 per share and expire June 2021. The relative fair value of warrants issued resulted in $237,405 discount on the line of credit.

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Pursuant to the terms of our line of credit, five line of credit holders exchanged their line of credit and accrued interest for notes and warrants on the terms offered in our 2015 Unit Offering totaling $283,571 (see Note 4). With the exchange, these note holders received additional warrants to purchase an aggregate 515,583 of our common stock at an exercise price of $0.70 which expire June 1, 2018. The fair value of the warrants and the intrinsic value of the beneficial conversion feature resulted in an aggregate $283,571 recorded as a discount on convertible notes payable.

Exercise of Warrants

During the nine months ended September 30, 2017, we issued 510,000 shares of our common stock and in exchange we received proceeds totaling $153,000 from the exercise of outstanding stock purchase warrants.

During the three months ended September 30, 2016, we issued 1,150,000 shares of our common stock and in exchange we received proceeds totaling $355,000 from the exercise of outstanding stock purchase warrants.

We have certain warrants outstanding to purchase our common stock, at various prices, as summarized in the following tables:

Balance, September 30, 2016	**Number of Shares**	**Price Range**
Outstanding as of December 31, 2015	13,779,438	$0.125–1.00
Issued	5,670,996	0.35 – 0.70
Exercised	(1,150,000)	0.30 – 0.45
Expired	(263,545)	0.55 – 0.75
Outstanding as of September 30, 2016	18,036,889	$0.125–1.00

Balance, September 30, 2017	**Number of Shares**	**Price Range**
Outstanding as of December 31, 2016	20,035,114	$0.125– 1.00

Issued	2,499,933	0.42	–	0.70
Exercised	(510,000)		0.30	
Expired	(250,000)	0.25	–	0.30
Outstanding as of September 30, 2017	21,775,047	$0.125	–	1.00

The fair value of each award grant is estimated on the date of grant using the Black-Scholes option-pricing model. The determination of expense of warrants issued for services or settlement also uses the option-pricing model. The principal assumptions we used in applying this model were as follows for the nine months ended September 30:

	2016	**2017**
Risk free interest rate	0.95 – 1.36%	1.71 – 1.93%
Expected volatility	311 – 315%	293 – 297%
Expected dividend yield	—	—
Forfeiture rate	—	—
Expected life in years	5	5

The risk-free interest rate is based on U.S Treasury yields in effect at the time of grant. Expected volatilities are based on historical volatility of our common stock.

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BIOLARGO, INC. AND SUBSIDIARIES

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(UNAUDITED)

Note 7. Lincoln Park Transaction

On August 25, 2017, we entered into a purchase agreement ("Purchase Agreement") with Lincoln Park Capital Fund, LLC ("Lincoln Park"), pursuant to which Lincoln Park has agreed to purchase from us at our request up to an aggregate of $10,000,000 of our common stock (subject to certain limitations) from time to time over a period of three years. Concurrently, we entered into a registration rights agreement with Lincoln Park, pursuant to which we were required to file with the SEC a registration statement on Form S-1 to register for resale under the Securities Act of 1933, as amended, the shares of common stock that have been or may be issued to Lincoln Park under the Purchase Agreement. The registration statement was filed, and on September 22, 2017, it was deemed effective by the SEC. The Purchase Agreement allows us, from time to time and at our sole discretion, to direct Lincoln Park to purchase shares of our common stock, subject to limitations in both volume and dollar amount. The volume of shares is limited to a maximum of 50,000 shares if our stock closes at less than $0.50 per share, 75,000 if it closes from $0.50 to $0.74 per share, 100,000 if it closes from $0.75 to $1.24 per share, and 200,000 if it closes at or above $1.25 per share. The maximum dollar amount for any single purchase is $500,000. There are no trading volume requirements under the Purchase Agreement, and we alone control the timing and amount of any sales of our common stock to Lincoln Park. The purchase price of the shares that may be sold to Lincoln Park under the Purchase Agreement is the lower of (i) the lowest sale price on the date date of purchase, or (ii) the average of the three lowest closing prices in the prior 12 business days. The purchase price per share will be equitably adjusted for any reorganization, recapitalization, non-cash dividend, stock split, or other similar transaction occurring during the business days used to compute such price. We may at any time in our sole discretion terminate the Purchase Agreement without fee, penalty or cost upon one business day notice. There are no restrictions on future financings, rights of first refusal, participation rights, penalties or liquidated damages in the Purchase Agreement or Registration Rights Agreement other than a prohibition on entering into a "Variable Rate Transaction," as defined in the Purchase Agreement. Lincoln Park may not assign or transfer its rights and obligations under the Purchase Agreement.

In consideration for entering into the Purchase Agreement, on August 25, 2017, we issued to Lincoln Park 488,998 shares of common stock as an "initial commitment fee." For no additional consideration, when and if Lincoln Park purchases (at the Company's discretion) any portion of the $10,000,000 aggregate commitment, we are required to issue up to 488,998 shares, pro-rata, as "additional committment shares". For example, if we elect, at our sole discretion, to require Lincoln Park to purchase $25,000 of our stock, then we would issue 1,222 additional commitment shares, which is the product of $25,000 (the amount we have elected to sell) divided by $10,000,000 (total amount we can sell Lincoln Park pursuant to the Purchase Agreement) multiplied by 488,998 (the total number of additional commitment shares). The additional commitment shares will only be issued pursuant to this formula as and when we elect at our discretion to sell stock to Lincoln Park.

During the three months ended September 30, 2017, we elected to sell Lincoln Park 50,000 shares of our common stock. We received $22,500, and issued Lincoln Park 51,100 shares, comprised of the 50,000 purchased shares and 1,100 “additional commitment shares”. We recorded the stock sale in our equity statement and the addional shares issued as a fee for the transaction was offset against the shares issued.

Subsequent to September 30, 2017, we elected to sell to Lincoln Park additional shares pursuant to the Purchase Agreement. (See Note 12.)

Note 8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included the following:

	December 31, 2016	**September 30, 2017**
Accounts payable and accrued expenses	$ 22,231	$ 277,411
Payroll tax liability	137,500	137,500
Accrued officer bonus	80,000	—
Accrued interest	40,372	40,636
Total accounts payable and accrued expenses	$ 280,103	$ 455,547

The payroll tax liability is the Company’s estimate of payroll taxes due on the past services of independent contractors. The Company is currently attempting to reduce the liability to approximately $5,000 through the IRS Voluntary Classification Settlement Program.

On September 27, 2016, the board approved a $60,000 bonus for each of our Chief Executive and Chief Science Officers, $20,000 of which was paid to each in 2016. Each were paid the remaining $40,000 in January 2017.

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Note 9. Noncontrolling Interest – Clyra Medical

In May 2012, we formed a subsidiary for the purpose of marketing and selling medical products containing our technology, Clyra Medical Technologies, Inc. ("Clyra"). We initially owned 100% of this subsidiary, and then Clyra granted shares to management, such that we owned approximately 85% of Clyra's shares.

On December 30, 2015, Clyra sold shares of its Series A Preferred Stock ("Preferred Shares") to Sanatio Capital, LLC ("Sanatio") for $750,000. As a result of the sale, Sanatio owned 40% of Clyra's issued and outstanding shares, BioLargo owned 54%, and the remainder was owned by management. Concurrent with the sale of the Preferred Shares, the shareholders entered into a shareholders' agreement that provides for a three-member board of directors, consisting of the company's president, a person appointed by BioLargo, and a person appointed by Sanatio. BioLargo appointed its president, Dennis P. Calvert, to serve on Clyra's board. Sanatio appointed its owner, Jack B. Stromment, to serve on the board. In June 2017, Mr. Strommen was elected to BioLargo's board of directors.

As set forth in Clyra's Amended and Restated Articles of Incorporation, Preferred Shares accrue an annual dividend of 8% for a period of five years. Although the dividends began to accrue immediately, Clyra has no obligation to declare a dividend until a product of the company has received a premarket approval by the United States Federal Drug Administration ("FDA"), or for which a premarket notification pursuant to form 510(k) has been submitted and for which the FDA has given written clearance to market the product in the United States (either, "FDA Approval"). After FDA Approval, annually on December 20, and unless prohibited by California law governing distributions to shareholders, Clyra is required to declare and pay any accruing dividends to holders of Preferred Shares then accrued but unpaid. Management classifies the Preferred Shares dividend as a medium probability of occurring and as of September 30, 2017 the Preferred Shares dividend has a cumulative undeclared dividend balance of $105,000.

Holders of Preferred Shares are entitled to preferential payments in the event of a liquidation, dissolution or winding up of the company, in an amount equal to any accrued and unpaid dividends. After such preference, any remaining assets are distributed pro-rata between holders of Clyra common stock and Preferred Shares as if the Preferred Shares had converted to Clyra common stock. Holders of Preferred Shares may convert the shares to Clyra common stock initially on a one-to-one basis. The conversion formula is subject to change in the event Clyra sells stock at a lower price than the price paid by Sanatio.

In addition to the foregoing, Clyra entered into a consulting agreement with Beach House Consulting, LLC, through which Jack B. Strommen will be providing consulting services to the company. Mr. Strommen will be assisting the company in its sales and marketing activities once it has FDA Approval on a product, at which point the agreement provides that Mr. Strommen is to receive $23,438 per month for a period of four years.

In April 2017, BioLargo purchased 500 shares of Clyra common stock from a former member of Clyra's management.

BIOLARGO, INC. AND SUBSIDIARIES

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(UNAUDITED)

In August 2017, Clyra commenced a private securities offering of its common shares at a price of $160 per share, and accepted $1,000,000 in subscriptions. It issued 6,250 shares of its common stock to two investors. Of that amount, BioLargo invested $250,000 and was issued 1,562.5 shares. On August 4, 2017, Clyra issued 1,690 shares of its common stock to Sanatio in exchange for payment of amounts outstanding under a line of credit held by Sanatio. Subsequent to the issuance of shares to investors in the offering, and to Sanatio for the conversion of the line of credit, BioLargo owns 15,297.5 shares of Clyra common stock, which is 46.3% of the outstanding stock at Clyra. Two members of BioLargo's board of directors (Dennis P. Calvert and Jack B. Strommen) comprise a majority of the three-member Clyra board of directors. Based on the foregoing, management believes Biolargo, Inc. controls the activities of Clyra and has therefore consolidated Clyra's accounts with BioLargo's.

On September 27, 2017, Clyra submitted to the FDA an application for premarket notification under Section 510(k) for a wound care product. It is now in the formal 90-day review process by the FDA.

Note 10. Biolargo Engineering, Science and Technologies, LLC

In September 2017, we commenced a full service environmental engineering firm and formed a wholly owned subsidiary named BioLargo Engineering, Science & Technologies, LLC. In conjunction with the start of this subsidiary, we entered into a three-year office lease in the Knoxville Tennessee area (see Note 11), and entered into employment agreements with seven scientists and engineers. These agreements and related operational obligations add approximately $100,000 to our monthly budget for payroll, taxes, benefits, insurance, and other related obligations. The company was capitalized with two classes of membership units: Class A, 100% owned by Biolargo, and Class B, held by management of BLEST, and which initially have no "profit interest," as that term is defined in Tennesee law. However, over the succeeding five years, the the Class B members can earn up to a 30% profit interest. They also have been granted options to purchase up to an aggregate 2,000,000 shares of BioLargo, Inc. common stock. The profit interest and option shares are subject to a five year vesting schedule tied to the performance of the subsidiary, including gross revenue targets that increase over time, obtaining positive cash flow by March 31, 2018, collecting 90% of its account receivables, obtaining a profit of 10% in its first year (and increasing in subsequent years), making progress in the scale-up and commercialization of our AOS system, and using BioLargo research scientists (such as our Canadian team) for billable work on client projects. The details of these transactions were reported on a Form 8-K filed with the SEC on September 8, 2017.

Note 11. Commitments and Contingencies.

Calvert Employment Agreement

On May 2, 2017, the Company entered into an employment agreement with its President and Chief Executive Officer Dennis P. Calvert (the "Calvert Employment Agreement"), replacing in its entirety the previous employment agreement with Mr. Calvert dated April 30, 2007.

The Calvert Employment Agreement provides that Mr. Calvert will continue to serve as our President and Chief Executive Officer and receive base compensation equal to his current rate of pay of $288,603 annually. In addition to this base compensation, the agreement provides that he is eligible to participate in incentive plans, stock option plans, and similar arrangements as determined by the Company's Board of Directors, health insurance premium payments for himself and his immediate family, a car allowance of $800 per month, paid vacation of four weeks per year, and bonuses in such amount as the Compensation Committee may determine from time to time.

The Calvert Employment Agreement provides that Mr. Calvert will be granted an option (the "Option") to purchase 3,731,322 shares of the Company's common stock. The Option shall be a non-qualified stock option, exercisable at $0.45 per share, which represents the market price of the Company's common stock as of the date of the agreement, exercisable for ten years from the date of grant and vesting in equal increments over five years. Notwithstanding the foregoing, any portion of the Option which has not yet vested shall be immediately vested in the event of, and prior to, a change of control, as defined in the Calvert Employment Agreement. The agreement also provides for a grant of 1,500,000 shares of common stock, subject to the execution of a "lock-up agreement" whereby the shares remain unvested unless and until the earlier of (i) a sale of the Company, (ii) the successful commercialization of the Company's products or technologies as demonstrated by its receipt of at least $3,000,000 in cash, or the recognition of $3,000,000 in revenue, over a 12-month period from the sale of products and/or the license of technology, and (iii) the Company's breach of the employment agreement resulting in his termination. The Option contains the other terms standard in option agreements issued by the Company, including provisions for a cashless exercise.

BIOLARGO, INC. AND SUBSIDIARIES

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(UNAUDITED)

The Calvert Employment Agreement has a term of five years, unless earlier terminated in accordance with its terms. The Calvert Employment Agreement provides that Mr. Calvert's employment may be terminated by the Company due to his death or disability, for cause, or upon a merger, acquisition, bankruptcy or dissolution of the Company. "Disability" as used in the Calvert Employment Agreement means physical or mental incapacity or illness rendering Mr. Calvert unable to perform his duties on a long-term basis (i) as evidenced by his failure or inability to perform his duties for a total of 120 days in any 360-day period, or (ii) as determined by an independent and licensed physician whom Company selects, or (iii) as determined without recourse by the Company's disability insurance carrier. "Cause" means that Mr. Calvert has (i) engaged in willful misconduct in connection with the Company's business; or (ii) been convicted of, or plead guilty or *nolo contendre* in connection with, fraud or any crime that constitutes a felony or that involves moral turpitude or theft. If Mr. Calvert's employment is terminated due to merger or acquisition, then he will be eligible to receive the greater of (i) one year's compensation plus an additional one-half year for each year of service since the effective date of the employment agreement or (ii) one year's compensation plus an additional one-half year for each year remaining in the term of the agreement. Otherwise, he is only entitled to receive compensation due through the date of termination.

The Calvert Employment Agreement requires Mr. Calvert to keep certain information confidential, not to solicit customers or employees of the Company or interfere with any business relationship of the Company, and to assign all inventions made or created during the term of the Calvert Employment Agreement as "work made for hire".

Office Leases

We are parties to three real property agreements for office, industrial and laboratory space in Westminster, California, Oak Ridge, Tennessee, and Alberta, Canada. Our Westminster lease rquires a monthly payment of $8,630 (increasing 3% each year on September 1st) and expires September 1, 2020. Our Oak Ridge lease requires a monthly payment of $5,400 and expires September 1, 2020. Our Alberta Canada lease requires a monthly payment of CAD$5,130 (plus tax) and expires June 30, 2018. From October 1, 2017, through the expiration of our leases, our required payments are $500,477 for our U.S. facilities, and CAD$46,170 (plus tax) for our Canadian facility.

Clyra Consulting Agreement

Our partially owned subsidiary Clyra (see Note 9) entered into a consulting agreement with Beach House Consulting, LLC, through which Jack B. Strommen will be providing consulting services to Clyra related to its sales and marketing activities once it has received FDA Approval (as defined in Note 9 and the associated agreement) on a product, at which point the agreement provides that Mr. Strommen is to receive $23,438 per month for a period of four years. Our total cash obligation related to the agreement is $1,125,024.

Note 12. Subsequent Events.

Management has evaluated subsequent events through the date of the filing of this Quarterly Report and management noted the following for disclosure.

Lincoln Park Capital

Subsequent to October 1, 2017, and through November 8, 2017, we elected to sell to Lincoln Park 675,000 shares of our common stock (see Note 7). We received $308,745 in gross and net proceeds, and, in addition to the purchased shares, issued to Lincoln Park 15,097 "additional commitment shares" as required by the Purchase Agreement.

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

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements. These forward-looking statements involve risks and uncertainties, including statements regarding BioLargo’s capital needs, business plans and expectations. Such forward-looking statements involve risks and uncertainties regarding BioLargo’s ability to carry out its planned development and production of products. Forward-looking statements are made, without limitation, in relation to BioLargo’s operating plans, BioLargo’s liquidity and financial condition, availability of funds, operating and exploration costs and the market in which BioLargo competes. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may”, “will”, “should”, “expect”, “plan”, “intend”, “anticipate”, “believe” “estimate”, “predict”, “potential” or “continue”, the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined in our Form most recent annual report on Form 10-K, and, from time to time, in other reports BioLargo files with the SEC. These factors may cause BioLargo’s actual results to differ materially from any forward-looking statement. BioLargo disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Unless otherwise expressly stated herein, all statements, including forward-looking statements, set forth in this Form 10-Q are as of September 30, 2017, unless expressly stated otherwise, and we undertake no duty to update this information.

As used in this report, “we” and “Company” refers to (i) BioLargo, Inc., a Delaware corporation; (ii) its wholly-owned subsidiaries BioLargo Life Technologies, Inc., a California corporation, Odor-No-More, Inc., a California corporation, BioLargo Water USA, Inc., a California corporation, BioLargo Development Corp., a California corporation, BioLargo Maritime Solutions, Inc., a California corporation, BioLargo Engineering, Science & Technologies, LLC, a Tennessee limited liability company, and Canadian subsidiary BioLargo Water, Inc.; and (iii) Clyra Medical Technologies, Inc. (“Clyra”), a partially owned subsidiary.

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and the related notes to the consolidated financial statements included elsewhere in this report.

General Description of Our Business

BioLargo, Inc. is a sustainable science, technology and full-service environmental engineering company that *makes life better* by delivering world-class products and services across a broad range of industries, with a drive to deliver clean water, clean air and advanced wound care. Our goal is deliver sustainable technology-based products and services that can help solve some of the most widespread problems threatening the world's supply of water, air, food, agriculture, healthcare and energy. We create and refine intellectual property that forms a foundation from which to build and create break-through products and technology to serve our customers and to license to commercial partners.

We operate in three locations – our research and development team works in a laboratory at the University of Alberta in Canada; our corporate offices, manufacturing, and distribution are located in Westminster California; and our engineering team is located in the Knoxville Tennessee area. In all, we employ approximately 25 people, including Ph.Ds and licensed professional engineers. We also have an extended network of contracted highly qualified professionals, advisors and consultants available to support our team when needed.

We are continuing to expand our ability to generate revenues. We recently formed a full service environmental engineering company. Our medical subsidiary has filed its first pre-market notification with the FDA and plans to be commercially active early next year. Sales of our industrial odor product, CupriDyne Clean, are increasing as we have begun servicing some of the largest solid waste companies in the United States.

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Full Service Environmental Engineering

In September 2017 we formed a subsidiary for the purpose of offering full service environmental engineering to third parties, and to provide engineering support services to our internal teams to accelerate the commercialization of our AOS technologies. Its website is found at www.BioLargoEngineering.com.

The subsidiary, BioLargo Engineering, Science & Technologies, LLC ("BLEST"), entered into a three-year office lease in the Knoxville Tennessee area, and entered into employment agreements with seven scientists and engineers with a combined 200+ years experience in diverse engineering fields. The team is led by Randall Moore, who served as Manager of Operations for Consulting and Engineering for the Knoxville office of CB&I Environmental & Infrastructure. The other team members are also former employees of CB&I. The team is highly experienced across multiple industries and they are considered experts in their respective fields, including chemical engineering, wastewater treatment (including design, operations, data gathering and data evaluation), process safety, energy efficiency, air pollution, design and control, technology evaluation, technology integration, air quality management & testing, engineering management, permitting, industrial hygiene, applied research and development, air testing, environmental permitting, HAZOP review, chemical processing, thermal design, computational fluid dynamics, mechanical engineering, mechanical design, NEPDES permitting, RCRA/TSCA compliance and permitting, project management, storm water design & permitting, marine engineering, AutoCAD, bench chemistry, continuous emission monitoring system operator, data handling and evaluation and decommissioning and decontamination of radiological and chemical contaminated facilities.

We motivated our new team members by offering a profit sharing plan through which they can earn, over five years, a collective 30% profit interest in the subsidiary, and up to an aggregate 2,000,000 shares of BioLargo, Inc. common stock through option agreements. The profit interest and option shares are subject to a five year vesting schedule tied to the performance of the subsidiary, including gross revenue targets that increase over time, obtaining positive cash flow by March 31, 2018, collecting 90% of its account receivables, obtaining a profit of 10% in its first year (and increasing in subsequent years), making progress in the scale-up and commercialization of our AOS system, and using BioLargo research scientists (such as our Canadian team) for billable work on client projects. The details of these transactions were reported on a Form 8-K filed with the SEC on September 8, 2017.

Our engineering team plans to focus its efforts in two areas. First, servicing third party clients in similar roles as to what they did at CB&I and throughout their well-established careers. Their first client is a CB&I spin off that provides engineering services world wide, and they have already started providing services to local utilities. They are evaluating, bidding on, negotiating, and generally pursing other commercial opportunities immediately.

Second, our engineering team is working to assist BioLargo to scale-up, engineer and commercialize our AOS water treatment technologies, as well as support other technology and product development efforts within the BioLargo family of companies, including its industrial odor control solutions. By way of example, the team is working to

engineer and design a portable misting system requested by a large waste handling company. BLEST will also pursue new inventions and be available to provide assistance where needed for any commercial opportunities that are presented by and through any and all operating units of BioLargo.

Advanced Wound Care - Clyra Medical

On September 27, 2017, Clyra submitted to the U.S. Food & Drug Administration an application for premarket notification under Section 510(k) of the Food, Drug, and Cosmetic Act for its woundcare technology. The application is now in the formal review process by the FDA. By statute, Clyra must wait 90 days after the initiation of the formal review process while the FDA evaluates the submission and determines whether to grant the product clearance to go to market. We can make no assurance or prediction as to the success of Clyra’s efforts to obtain pre-market notification. Clrya intends this to be the first of multiple FDA submissions for “advanced wound care” and other products.

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Clyra presented the results of testing conducted for its FDA application at the SAWC international conference held in October in Las Vegas, Nevada (http://www.sawc.net/fall/). The semi-annual SAWC meeting is the premier interdisciplinary wound care program and the largest annual gathering of wound care clinicians in the United States.

Clyra's management is actively engaged in arranging for clinical work and is in discussions with a number of potential strategic partners. It also continues to actively work on the development of new products.

Industrial Odor Control - CupriDyne Clean

Our CupriDyne Clean industrial products are designed to tackle tough odors in industrial settings such as landfills, waste processing and recycling operations, waste-water treatment facilities, waste to energy conversion operations, materials recovery facilities, food processing operations, and livestock production facilities. Our product website is found at www.CupriDyne.com.

We have entered into "national purchasing agreements" (NPA) with three of the largest waste handling companies in the United States, and are working with other large companies for similar agreements. An NPA is a formal corporate approval of our company and product, and authorizes us to sell product to an operational facility, such as a landfill, through a company's regular vendor channels. For a new product such as ours, obtaining an NPA requires convincing the landfill to try the product, obtain the local management support once they see it works, and then use those relationships and support to push through approval through the company's corporate office. Once an NPA is signed, we have had to integrate into the company's online order processing system. Individual locations can purchase direct, but many prefer to use their online purchasing portals. As a result, the opportunity to sell throughout an organization is substantially improved and the validation at the corporate level lends much more credibility to a product's safety and performance. We have only recently concluded those efforts, and believe increased sales will result over time.

Within the solid waste industry, we are initially targeting primarily waste transfer stations and landfills. We have solved previously unsolvable odor problems at large facilities (and doing so is why we've had success signing national purchasing agreements). We are also actively engaged in multiple odor-control trials in the wastewater treatment industry and are enjoying early success with municipal clients. We believe this segment will also continue to expand resulting in increased sales over time. We are actively engaged in working directly with clients in the field to optimize the performance of our products, evaluate and assist in the use and design of various delivery methods and systems, and, generally we seek to offer whatever assisitance we can to help solve odor related problems. As a result of our in-field experience, our team has become highly skilled in these markets. Opportunities with our existing clients as well as new clients are expanding, and we expect the trend to continue. The addition of our engineering team is allowing us to expand our capabilities and open new opportunities.

In the near future, we plan to add additional sales people and independent sales representatives to service our expanding accounts.

Community

We believe it is part and parcel to our mission to make life better by supporting various socially important causes and events, and believe that doing so is a great way to help share our vision and purpose behind BioLargo, as well as our technologies. In addition to our sponsorship of scholarships with the Environmental Research and Education Foundation (EREF.org) and the National Water Research Institute (NWRI), we are often invited to be presenters and have even enjoyed recognition as award winners at multiple industry-related conferences. These include recent events such as the Metropolitan Water District of Southern California's Agriculture and Industry Relations Committee meeting; Bluetech Week in San Diego sponsored by The Maritime Alliance; an international trade mission hosted by the Canadian Embassy and Consulate in Beijing and Guangzhou that was sponsored by NRC-IRAP (National Research Council of Canada); and the Uptick Newswire “Uppie Award” for the "Most Promising Technology Growth" for 2017 and our CEO "Best CEO of the Year." We were honored to be the title sponsor along with Metropolitan Water District of Southern California at Sustain OC's recent Water Solutions 2 conference held at UC Irvine's Applied Innovation Center in Irvine, California. We are also honored to provide sponsorship support at the EREF Fall Classic Fund Raising Event to further their mission to fund and direct scientific research and educational initiatives for waste management practices to benefit industry participants and the communities they serve. We were honored guests at this year’s Clarke Prize Awards event sponsored by the National Water Research Institute. a highly prestigious event where NWRI honors the outstanding individual residing in the U.S. who has implemented exceptional water science research/and or policy development to solve real-world water challenges. We recently co-sponsored a Water Environment & Reuse Foundation ("WERF") onsite technical symposium where more than 80 technical leaders from around the United States joined together to discuss the current events and technical guidelines for water reuse, a growing trend in drought burdened and densely populated urban areas.

Results of Operations—Comparison of the three and nine months ended September 30, 2017 and 2016

Revenue

Our revenue is increasing, primarily due to an increase in the volume of sales of our CupriDyne Clean Industrial Odor Control products to landfills and waste processing operations. The volume of sales of our Specimen Transport Solidifier pouches to the U.S. military also increased, although not to the extent as our CupriDyne Clean products. For the nine months ended September 30, 2017, our total product sales increased by 98% over the comparable period in 2016. For the three months, it increased 60% as compared to 2016. In 2017, our product sales have increased each quarter – from approximately $50,000 in the first quarter, almost $100,000 in the second, and approximately $170,000 in this last quarter, representing approximately a 100% increase from Q1 to Q2, and a 70% increase in sales from Q2 to Q3. More than 50% of our total revenues thus far in 2017 were generated in this most recent quarterly period.

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With respect to our CupriDyne Clean Industrial Odor Control products, while we are experiencing increases in sales, we do not have a long enough sales history to identify trends or uncertainties that would affect future sales. We have signed "national purchasing agreements" that authorize us to sell product to the operational facilities of three of the largest waste handling companies in the United States. None of those agreements require the client to purchase a minimum amount of, or any, product. Our first such agreement was executed just prior to the beginning of our second fiscal quarter, and thus sales to companies for which we have national purchasing agreements increased significantly from the first quarter, and accounted for 44% of our total revenue in the three months ended September 30, 2017. While we cannot predict their future with certainty, we are highly encouraged by the positive feedback from our customers and the expanding opporutnities that are being presented to us within the large systems that are continuing to adopt the use of our products. We believe the opportunities to increase sales to our customers are quite large and we continue to work diligently to provide high levels of service, exceptional product performance and value pricing. With respect to sales of our odor control products to the waste handling industry in general, we are finding that in colder climates, odors are less noticeable at waste processing facilities, and thus there appears to be less of a demand for odor control products in winter months. Locations that are near populated areas are more likely to pursue the use of active odor control and abatement products like ours, as compared with locations far away from populated areas.

We are also experiencing success in securing new sales with municipal wastewater treatment operators and we believe sales in this area will continue to expand. In a market like the solid waste industry, where the customers have generally come to believe that no product can adequately address very challenging odor related issues, the selling challenge is significant, in that until they witness it first hand, they do not believe a product can perform successfully to eliminate or control odors. We have and are continually required to prove our products performance, through multiple layers of management and ultimately win their trust and confidence. We are succeeding and fully expect our product sales to continue to grow.

As noted above, in September 2017 we started an engineering subsidiary that is providing professional services to third party clients. This subsidiary had not generated any revenue as of September 30, 2017. We do expect it to do so for the three months ending December 31, 2017, and, as it adds clients and projects, we expect its revenues will continue to increase over time.

Other Income

Our wholly owned Canadian subsidiary has been awarded more than 50 research grants from various Canadian public and private agencies, including the Canadian National Research Institute – Industrial Research Assistance Program (NRC-IRAP) and the National Science and Engineering Research Council of Canada (NSERC). The grants received are considered reimbursement grants related to costs we incur and therefore are included as Other Income on our income statement. The majority of grant funds awarded are paid directly to third parties. Amounts paid directly to third parties are not included as other income in our financial statements. We also received a grant from the Metropolitan Water District of Southern California pursuant to its Innovative Conservation Program to test our AOS system with three wastewater matrices to determine its disinfection and decontamination capabilities.

Although we are continuing to apply for government and industry grants, and have been successful in so applying in the past, we cannot be certain of continuing those successes in the future.

Cost of Goods Sold

Our cost of goods sold includes costs of raw materials, contract manufacturing, and proportions of salaries and expenses related to the sales and marketing efforts of our products, including commissions. Because we have not achieved a meaningful product revenue base, and our number of products is increasing, the inclusion of the fixed costs related to the product development and manufacturing increases our cost of goods disproportionately, resulting in high percentage fluctuations from period to period. Nevertheless, the decline in gross margin in the three and nine months ended September 30, 2017 versus 2016 is due to selling more Cupridyne Clean powder versus liquid, which does not have as favorable costs and margins. We believe that both our selling, markeing and cost of goods will lower as we achieve economies of scale and more purchasing power. We also believe that our customer acquisition costs will lower over time as we build our reputation and market awereness.

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Selling, General and Administrative Expense

Our Selling, General and Administrative ("SG&A") expenses include both cash and non-cash expenses. Our total SG&A increased $128,567 (13%) and $491,169 (17%) in the three and nine months ended September 30, 2017 compared to the same period in 2016. With the addition of seven employees in our engineering division, we expect our SG&A expenses to continue to increase. The largest components of our selling, general and administrative expenses for the three and nine months ended September 30, 2017 and 2016 included:

	Three months ended September 30,		**Nine months ended September 30,**	
	2016	**2017**	**2016**	**2017**
Salaries and payroll-related expenses	$378,693	$433,920	$840,738	$1,146,667
Consulting expense	248,093	138,441	761,973	612,696
Professional fees	58,461	174,363	336,356	486,431
Investor relations	58,532	54,209	127,132	159,697

Our salaries and payroll related expenses increased in 2017 primarily due to the non-cash expense recorded due to the stock option issued to our Chief Financial Officer, and generally to an increase in our operational acitivites.

With respect to our professional fees, this increase was a result of increased legal work for patent application and prosecutions and audit and legal work needed with respect to our registration statements filed with the SEC.

Our investor relations fees increased due to our efforts and activities at various conferences and with consultants promoting the BioLargo brand.

Research and Development

Research and development expenses increased $77,051 (22%) and $111,649 (11%) for the three and nine months ended September 30, 2017, as compared to the same periods in 2016. The level of activity in research and development expenses is consistent with the use of funds from the investment in Clyra, and increased activities at our research facility at the University of Alberta due in part to our grant funding.

Interest expense

Interest expense decreased $238,843 and increased $949,136 for the three and nine months ended September 30, 2017, as compared to the same periods in 2016. Our interest expense for the three-month period decreased due to a cumulative change in accounting for the derivative liability. Our interest expense for the nine-month period significantly increased due to the increase in principal amount of outstanding convertible promissory notes and the amortization of the debt discount on the warrants issued in our 2015 Unit Offering and our Winter 2016 Unit Offering. From March 31, 2016, through September 30, 2017, we increased our debt balance by approximately $3,500,000. Our debt now totals approximately $6,300,000 on which we are paying interest primarily through the issuance of common stock.

Dividend

As discussed in Note 2, "Recent Accounting Pronouncements", Biolargo has adopted ASU 2017-11 as of July 1, 2017. With this adoption, the derivative liability and the changes in the fair value of the derivative liability are eliminated. The derivative liability was caused by a down round feature in multiple warrants issued. The Company made a cumulative effect adjustment to the balance sheet as of January 1, 2017, which adjusted the beginning balance in the accumulated deficit account by $663,560. During 2017, the down round feature in those warrants was triggered and the treatment created a $299,111 dividend.

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Net Loss

Net loss for the three and nine months ended September 30, 2017 was $5,796,831 and $7,145,868, a loss of $0.02 and $0.07 per share, respectively, compared to a net loss for the three and nine months ended September 30, 2016 of $2,484,103 and $5,796,831, a loss of $0.03 and $0.07 per share, respectively. The net loss increased mainly due to the increased interest expense and to increased compensation expenses across the various subsdiaries. Our net loss is primarily composed of non-cash expenses. The net loss per share did not change as the increase in net loss was offset by the increase in common shares outstanding. We do not expect to generate revenues in amount significant enough for us to generate a profit in the foreseeable future. (See Part I, Item II, “Our Business”, above.)

Liquidity and Capital Resources

We have been, and anticipate that we will continue to be, limited in terms of our capital resources. As reflected in the accompanying financial statements, we had a net loss of $7,145,868 for the nine months ended September 30, 2017, and an accumulated stockholders’ deficit of $98,862,024 as of September 30, 2017. Our total cash balance was $1,251,951 at September 30, 2017, a decrease of $658,202 since December 31, 2016. Of our cash balance at September 30, 2017, approximately two-thirds was held by Clyra.

Our working capital at September 30, 2017 was negative $2,165,714, largely due to the majority of the convertible notes issued that are within one year of maturity. The short-term demands on our liquidity consist of our obligations to pay our employees, multiple consultants, and for other ongoing operational obligations, including research and development activities in Canada. The addition of our engineering subsidiary has increased these obligations by approximately $100,000 per month. In the past, because we had limited capital available, we have paid only a portion of these obligations in cash, and the remainder by the issuance of common stock or options pursuant to the accounts payable conversion plan approved by our board of directors.

As of September 30, 2017, we had $6,360,618 in principal amounts due on various debt obligations, $6,310,618 of which are convertible at our option into common stock at maturity. Additionally, we had $455,547 of accounts payable and accrued expenses.

We are addressing our need for working capital to support our growing operations in multiple ways. First, we continue to accelerate our efforts to generate positive cash flow from operations. Second, we continue to raise money from private investors through the sale of promissory notes and warrants. Third, we entered into a financing agreement with Lincoln Park Capital (detailed below) through which we are able to sell stock to Lincoln Park on an as-needed basis. Fourth, we have outstanding warrants to purchase stock, some of which have provisions allowing us to require the holder exercise the warrant, or lose the rights to do so, under certain conditions that have not yet been met.

On August 25, 2017, we entered into an agreement with Lincoln Park pursuant to which Lincoln Park has agreed to purchase from us up to $10,000,000 of our common stock (subject to certain limitations) from time to time over the term of the agreement (the "Purchase Agreement"). We have been able to require Lincoln Park to purchase stock pursuant to the Purchase Agreement since September 25, 2017. Since that time, through November 8, 2017, we have received $331,245 from Lincoln Park, through 13 transactions. Our right to sell Lincoln Park stock pursuant to the Purchase Agreement has limitations, including a maximum number of shares (200,000) purchased at any one time, and a maximum value ($500,000) of shares purchased at any one time. We have no right to require Lincoln Park purchase shares if our stock closes at or below $0.15.

We will be required to raise substantial additional capital to continue our current level of operations, including without limitation, hiring additional personnel, additional scientific and third-party testing, costs associated with obtaining regulatory approvals and filing additional patent applications to protect our intellectual property, and possible strategic acquisitions or alliances, as well as to meet our liabilities as they become due for the next 12 months. We have been, and will continue to be, required to financially support the operations of our subsidiaries, none of which are operating at a positive cash flow. Only one subsidiary, Clyra, has financing in place to fund operations for the remainder of the year.

The foregoing factors raise substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of our business. Ultimately, our ability to continue as a going concern is dependent upon our ability to attract significant new sources of capital, attain a reasonable threshold of operating efficiencies and achieve profitable operations by licensing or otherwise commercializing products incorporating our technologies. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

If we are unable to raise sufficient capital, we may be required to curtail some of our operations, including efforts to develop, test, market, evaluate and license our BioLargo technology. If we were forced to curtail aspects of our operations, there could be a material adverse impact on our financial condition and results of operations.

Critical Accounting Policies

Our unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these consolidated financial statements. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 30, 2017, in the Notes to the Consolidated Financial Statements and the Critical Accounting Estimates sections. In addition, refer to Note 2 to the consolidated interim financial statements included in Part I, Item 1 of this report.

The methods, estimates and judgments the Company uses in applying these most critical accounting policies have a significant impact on the results of the Company reports in its consolidated financial statements.

Recent Accounting Pronouncements

See Note 2, “Recent Accounting Pronouncements”, to the Consolidated Financial Statements.

Item 4. Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report.

Our procedures have been designed to ensure that the information relating to our company, including our consolidated subsidiaries, required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow for timely decisions regarding required

disclosure. Based on this evaluation, our chief executive officer and chief financial officer concluded that as of the evaluation date our disclosure controls and procedures are effective.

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

OTHER INFORMATION

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

Stock Issued for Services

During the three months ended September 30, 2017, we issued 172,796 shares of common stock to five consultants. The common stock was issued for services provided by consultants and is recorded in selling general and administrative expense in our consolidated statement of operations.

Stock issued as payment for interest on convertible notes

On June 20, 2017, we issued 373,471 shares of common stock to holders of our convertible promissory notes. These shares were issued as payment of $158,267 in accrued interest at a price of $0.4235 per share, and is recorded as interest expense in our consolidated statement of operations.

Summer 2017 Private Securities Offering

On May 24, 2017, we commenced a private securities offering (titled the "Summer 2017 Unit Offering") which offered the sale of $1,500,000 of "Units," each Unit consisting of a convertible promissory note and stock purchase warrant. The promissory notes issued to investors thus far are convertible at $0.42 per share, mature June 20, 2020, and bear interest at the rate of 12% per annum on the amount invested. Any interest due will be paid quarterly in arrears in cash or shares of common stock. If paid by the issuance of common stock, interest is paid at a conversion price equal to the average closing price of the Company's common stock over the 20 trading days prior to the interest payment due date. The principal amount of the note may be paid by the issuance of shares of common stock, or cash, upon maturity at the Company's election.

When paid in shares, the number of shares to be issued shall be calculated by dividing the principal amount invested by the $0.42 conversion price. Promissory notes may be converted at any time by the investor, at maturity by the Company, or by the Company prior to maturity, so long as the following conditions are met: (i) the Shares issued as payment are registered with the SEC; and (ii) the Company's common stock closes for ten consecutive trading days at or above three times the Unit price. In addition to the convertible promissory note, each investor received a warrant allowing for the purchase of the number of shares of BioLargo common stock equal to the investment amount divided by $0.42 (e.g., one warrant share for each share of common stock which the investor is eligible to receive through conversion of his original convertible note). The exercise price of the warrant is $0.65 per share of common stock and expire on June 20, 2022. The Company may "call" the warrants, requiring the investor to exercise their warrants within 30 days or forever lose the rights to do so, only if the following conditions have been met: (i) the underlying Shares are registered with the SEC and (ii) the Company's common stock closes for 10 consecutive trading days at or above two times the exercise price.

During the three months ended September 30, 2017, we received an aggregate $391,200 from seven investors and issued convertible promissory notes with a maturity date of June 20, 2020, convertible into our common stock at $0.42 per share. Each investor, for no additional consideration, received a stock purchase warrant exercisable at $0.65 per share, which right terminates June 20, 2022. We issued warrants to purchase an aggregate 931,429 shares to the two investors.

Issuance of Stock Options in exchange for payment of payables

On September 30, 2017, we issued options to purchase 276,671 shares of our common stock at an exercise price of $0.51 per share to certain members of our board of directors, in lieu of $67,500 in fees, and to vendors per an agreement and in lieu of accrued and unpaid fees totaling $45,402.

Conversion of Notes

On December 30, 2016, we received $250,000 and issued convertible promissory notes (convertible at $0.57 per share) with a maturity date of December 30, 2017 to two accredited investors, in the aggregate principal amount of $280,000. Interest is charged upon issuance at 3% per annum. The notes are convertible by the holders at any time. We have the right to convert the notes at any time after January 18, 2018, provided that our common stock closes at $0.84 per share for 10 consecutive business days. The note also provides that if the company issues a convertible promissory note in the future at a conversion price lower than the conversion price in this note, the holder may convert the current outstanding amount due under the note into an investment on the same terms offered to the other investor.

We also issued these investors stock purchase warrants to purchase an aggregate 400,000 shares of our common stock exercisable at $0.75 per share, which expire five years from the date of grant. (See Note 6.)

On July 18, 2017, we issued notes under similar terms as the December 30, 2016 notes, convertible at a lower conversion price of $0.42 per share (disclosed immediately below), and provided notice to the investors of the reduction in the conversion price of the two notes issued December 30, 2016, to $0.42 per share.

On July 20, 2017, the holders of these notes exercised their right to convert their notes in aggregate principal amount of $280,000 into 686,667 shares of our common stock.

All of these offerings and sales were made in reliance on the exemption from registration contained in Section 4(2) of the Securities Exchange Act and/or Regulation D promulgated thereunder as not involving a public offering of securities.

Item 5. Other Information

Purusant to the terms of our agreement with Lincoln Park Capital Fund dated August 25, 2017 (the “Purchase Agreement”, disclosed on Form 8-K filed with the SEC on August 31, 2017), on September 26, 2017, we elected to sell to Lincoln Park 50,000 shares of our common stock. We received $22,500 in gross and net proceeds, and, in addition to the purchased shares, issued to Lincoln Park 1,100 “additional commitment shares” as required by the Purchase Agreement.

From October 1, 2017, through November 8, 2017, we elected to sell to Lincoln Park 675,000 shares of our common stock. We received $308,475 in gross and net proceeds, and, in addition to the purchased shares, issued to Lincoln Park 15,097 "additional commitment shares" as required by the Purchase Agreement.

Item 6. Exhibits

The exhibits listed below are attached hereto:

		Incorporated by Reference Herein	
Exhibit Number	Exhibit Description	Form	File Date
3.1	Bylaws of BioLargo, Inc., as amended and restated	Form 10-KSB	5/23/2003
3.2	Amended and Restated Certificate of Incorporation for BioLargo, Inc. filed March 16, 2007	Form 10-KSB	5/4/2007
4.1	BioLargo, Inc. 2007 Equity Incentive Plan	Form 10-QSB	11/19/2007
4.2	Amendment No. 1 to BioLargo 2007 Equity Incentive Plan	Def 14C (Exhibit A)	5/2/2011
4.3	Form of Convertible Promissory Note issued in 2015 Unit Offering	Form 10-K	3/31/2015

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4.4	Form of Series A Stock Purchase Warrant issued in 2015 Unit Offering	Form 10-K	3/31/2015
4.5	Form of Stock Options issued in exchange for reduction in accounts payable.	Form 10-K	3/31/2015
4.6	Stock purchase warrant issued with Line of Credit in June 2016	Form 10-Q	8/15/2016
4.7	Form of Note issued to One Year Note holder in July 2016	Form 10-Q	8/15/2016
4.8	Form of Warrant issued to One Year Note holder in July 2016	Form 10-Q	8/15/2016
4.9	Securities Purchase Agreement (One Year Note Holder) dated July 8, 2016	Form 10-Q	11/14/2016
4.10	Form of Note Issued in Winter 2016 Unit Offering	Form S-1	1/25/2017
4.11	Form of Warrant Issued in Winter 2016 Unit Offering	Form S-1	1/25/2017
4.12	Form of Note issued to One Year Note holder dated December 30, 2016	Form S-1	1/25/2017
4.13	Form of Warrant issued to One Year Note holder dated December 30, 2016	Form S-1	1/25/2017
4.14	Stock Option dated February 10, 2017 issued to Chief Financial Officer Charles K. Dargan II.	Form 8-K	2/14/2017
4.15	$300,000 Line of Credit issued June 2016	Form 10-K	3/30/2017
4.16	Option to purchase common stock issued to Dennis P. Calvert dated May 2, 2017	Form 8-K	5/4/2017
4.17	Form of Note issued in Summer 2017 Offering	Form 10-Q	8/14/2017
4.18	Form of Warrant issued in Summer 2017 Offering	Form 10-Q	8/14/2017
4.19	Form of One-Year Note issued July 2017	Form 10-Q	8/14/2017
4.20	Form of Warrant issued to One-Year Noteholder July 2017	Form 10-Q	8/14/2017
4.21	Two-year Note in face amount of $440,000 issued July 2017	Form 10-Q	8/14/2017
10.1	License Agreement with Insultech Manufacturing LLC dba Clarion Water	Form 10-Q	8/15/2014
10.2	License Agreement between Clyra Medical Technologies, Inc., dated December 17, 2012	Form 8-K	1/6/2016
10.3	December 30, 2015 amendment to License Agreement with Clyra Medical Technologies, Inc.	Form 8-K	1/6/2016
10.4	Commercial Office Lease Agreement for 14921 Chestnut St., Westminster, CA 92683	Form 8-K	8/24/2016
10.5†	February 10, 2017 extension to Engagement Extension Agreement with Charles K. Dargan, II.	Form 8-K	2/14/2017
10.6†	Employment Agreement with Dennis P. Calvert dated May 2, 2017.	Form 8-K	5/4/2017
10.7†	Lock-Up Agreement with Dennis P. Calvert dated April 30, 2017	Form 8-K	5/4/2017
10.8†	Lock-Up Agreement with Dennis P. Calvert dated May 2, 2017.	Form 8-K	5/4/2017

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10.9	Purchase Agreement, dated as of August 25, 2017 by and between BioLargo, Inc. and Lincoln Park Capital Fund, LLC	Form 8-K	8/31/2017
10.10	Registration Rights Agreement, dated as of August 25, 2017, by and between BioLargo, Inc. and Lincoln Park Capital Fund, LLC	Form 8-K	8/31/2017
10.11	Commercial Office Lease Agreement for Oak Ridge Tennessee	Form 8-K	9/8/2017
10.12	Form of Employment Agreement for Engineering Subsidiary	Form 8-K	9/8/2017
10.13	Form of Option issued to founding employees of Engineering subsidiary	Form 8-K	9/8/2017
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934		
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934		
32*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.		
101.INS**	XBRL Instance		
101.SCH**	XBRL Taxonomy Extension Schema		
101.CAL**	XBRL Taxonomy Extension Calculation		
101.DEF**	XBRL Taxonomy Extension Definition		
101.LAB**	XBRL Taxonomy Extension Labels		
101.PRE**	XBRL Taxonomy Extension Presentation		

* Filed herewith

** Furnished herewith

† Management contract or compensatory plan, contract or arrangement

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.

BIOLARGO, INC.

Date: November 14, 2017	By: /s/ DENNIS P. CALVERT Dennis P. Calvert Chief Executive Officer
Date: November 14, 2017	By: /s/ CHARLES K. DARGAN, II Chief Financial Officer

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Removes references to credit ratings consistent with the Dodd-Frank Act and establishes due diligence requirements for securitization exposures.

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NOTE 17 – VARIABLE INTEREST ENTITIES

The Company holds ownership interests in alternative energy partnerships, qualified affordable housing partnerships, and the SECT. The Company evaluates its interests in these entities to determine whether they meet the definition of a variable interest entity (VIE) and whether the Company is required to consolidate these entities. A VIE is consolidated by its primary beneficiary, which is the party that has both (i) the power to direct the activities that most significantly impact the economic performance of the VIE and (ii) a variable interest that could potentially be significant to the VIE. To determine whether or not a variable interest the Company holds could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size and form of the Company's involvement with the VIE. The Company has determined that its interests in these entities meet the definition of a variable interest.

Unconsolidated VIEs

Alternative Energy Partnerships

The Company invests in certain alternative energy partnerships (limited liability companies) formed to provide sustainable energy projects that are designed to generate a return primarily through the realization of federal tax credits (energy tax credits). These entities were formed to invest in newly installed residential rooftop solar leases and power purchase agreements. As a result of its investments, the Company has the right to certain investment tax credits and tax depreciation benefits (recognized on the flow through and income statement method in accordance with ASC 740), and to a lesser extent, cash flows generated from the installed solar systems leased to individual consumers for a fixed period of time.

While the Company's interest in the alternative energy partnerships meets the definition of a VIE in accordance with ASC 810, the Company has determined that the Company is not the primary beneficiary because the Company does not have the power to direct the activities that most significantly impact the economic performance of the entities including operational and credit risk management activities. As the Company is not the primary beneficiary, the Company did not consolidate the entities. The Company uses the HLBV method to account for these investments in energy tax credits as an equity investment under ASC 970-323-25-17. Under the HLBV method, an equity method investor determines its share of an investee's earnings by comparing its claim on the investee's book value at the beginning and end of the period, assuming the investee were to liquidate all assets at their U.S. GAAP amounts and distribute the resulting cash to creditors and investors under their respective priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period, after adjusting for capital contributions and distributions, is the Company’s share of the earnings or losses from the equity investment for the period. To account for the tax credits earned on investments in alternative energy partnerships, the Company uses the flow-through income statement method. Under this method, the tax credits are recognized as a reduction to income tax expense and the initial book-tax differences in the basis of the investments are recognized as additional tax expense in the year they are earned.

During the three months ended June 30, 2018 and 2017, the Company received a return of capital of $1.0 million and funded $13 thousand, respectively, from and into these partnerships and recognized a loss on investment of $1.8 million and $9.8 million, respectively, through its HLBV application. During the six months ended June 30, 2018 and 2017, the Company received a return of capital of $1.0 million and funded $30.9 million, respectively, from and into these partnerships and recognized a loss on investment of $1.8 million and $18.4 million, respectively, through its HLBV application. As a result, the balance of these investments was $44.8 million and $37.6 million, respectively, at June 30, 2018 and 2017. From an income tax benefit perspective, the Company recognized investment tax credits of $1.9 million and $15.7 million, respectively, during the three months ended June 30, 2018 and 2017, and $9.2 million and $24.5 million, respectively, during the six months ended June 30, 2018 and 2017, as well as income tax benefits relating to the recognition of its loss through its HLBV application during these periods.

During the year ended December 31, 2017, the Company completed the funding on one of its two investments. While the Company had committed $100.0 million to the investment, the amount that was drawn down and funded by the Company was $62.8 million and the remaining $37.2 million of the commitment was canceled. During the three months ended June 30, 2018, the Company reached the completion deadline of its remaining investment. While the Company had committed $100.0 million to the investment, the amount that was drawn down and funded by the

Company was $49.9 million, of which $1.0 million was unused and returned to the Company, and the remaining $50.1 million of commitment was canceled.

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The following table represents the carrying value of the associated assets and liabilities and the associated maximum loss exposure for alternative energy partnerships as of the dates indicated:

($ in thousands)	June 30, 2018	December 31, 2017
Cash	$8,022	$ 16,518
Equipment, net of depreciation	265,752	246,297
Other assets	3,262	2,444
Total unconsolidated assets	$277,036	$ 265,259
Total unconsolidated liabilities	$6,073	$ 7,181
Maximum loss exposure	$44,806	$ 98,910

The maximum loss exposure that would be absorbed by the Company in the event that all of the assets in alternative energy partnerships are deemed worthless is $44.8 million, which was the investment balance of $44.8 million at June 30, 2018.

The Company believes that the loss exposure on its investment is reduced considering the return on its investment is provided not only by the cash flows of the underlying customer leases and power purchase agreements, but also through the significant tax benefits, including federal tax credits generated from the investments. In addition, the arrangements include a transition manager to support any transition of the solar company sponsor whose role includes that of the servicer and operation and maintenance provider, in the event the sponsor would be required to be removed from its responsibilities (e.g., bankruptcy, breach of contract, etc.), thereby further limiting the Company’s exposure.

Qualified Affordable Housing Partnerships

The Company also invests in limited partnerships that operate qualified affordable housing projects. The returns on these investments are generated primarily through allocated Federal tax credits and other tax benefits. In addition, these investments contribute to the Company's compliance with the Community Reinvestment Act. These limited partnerships are considered to be VIEs, because either (i) they do not have sufficient equity investment at risk or (ii) the limited partners with equity at risk do not have substantive kick-out rights through voting rights or substantive participating rights over the general partner. As a limited partner, the Company is not the primary beneficiary because the general partner has the ability to direct the activities of the VIEs that most significantly impact their economic performance. Therefore, the Company does not consolidate these partnerships.

At June 30, 2018 and December 31, 2017, the Company had a total investment in qualified affordable housing projects of $21.0 million and $22.0 million, respectively. During the three and six months ended June 30, 2018, the Company funded $1.6 million and $1.6 million, respectively, and recognized proportional amortization expense of $477 thousand and $974 thousand, respectively. The Company has funded $15.3 million of its $29.3 million aggregated funding commitments and had an unfunded commitment of $14.0 million at June 30, 2018. During the three and six months ended June 30, 2017, the Company funded $2.0 million into qualified affordable housing projects and recognized proportional amortization expense of $604 thousand and $727 thousand, respectively. From an income tax benefit perspective, the Company recognized investment tax credits of $466 thousand and $432 thousand, respectively, during the three months ended June 30, 2018 and 2017, and $941 thousand and $539 thousand, respectively, during the six months ended June 30, 2018 and 2017. At June 30, 2018 and December 31, 2017, the maximum loss exposure that would be absorbed by the Company in the event that all of the assets in this investment are deemed worthless is $21.0 million and $22.0 million, which is the Company's recorded investment amount. The recorded investment amount is included in Other Assets in the Consolidated Statements of Financial Condition and the proportional amortization expense is recorded in Income Tax Benefit in the Consolidated Statements of Operations.

As the investments in alternative energy partnerships and qualified affordable housing partnerships represent unconsolidated VIEs to the Company, the assets and liabilities of the investments themselves are not recorded on the Company's Statements of Financial Condition.

Consolidated VIE

On August 3, 2016, the Company established the SECT pursuant to the SECT Trust Agreement, dated as of August 3, 2016, between the Company and Newport Trust Company, as trustee (as successor trustee to Evercore Trust

Company, N.A.) to fund employee compensation and benefit obligations of the Company using shares of the Company's common stock. On August 3, 2016, the Company sold 2,500,000 shares of voting common stock to the SECT at a purchase price of $21.45 per share (the closing price of the voting common stock on August 2, 2016), or $53.6 million in the aggregate, in exchange for a cash amount equal to the aggregate par value of the shares and a promissory note for the balance of the purchase price. The SECT was to terminate on January 1, 2032 unless terminated earlier in accordance with the SECT Trust Agreement, including by the Company's Board of Directors.

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On December 28, 2017, in order to effectuate the early termination of the SECT, as authorized by the Company's Board of Directors, the Company purchased from the SECT all 2,500,000 shares of voting common stock held by the SECT at a purchase price of $21.00 per share (the closing price per share of the voting common stock on December 27, 2017), or $52.5 million in the aggregate. Following the SECT Termination Sale, such shares of voting common stock were canceled. Of the proceeds from the SECT Termination Sale, $2.7 million will be utilized for the purpose of funding obligations under certain of the Company's benefit plans to which 126,517 shares of voting common stock had been allocated prior to the SECT Termination Sale, and $49.8 million was remitted by the SECT Trustee to the Company, which was deemed to be in satisfaction and termination of all remaining obligations of the SECT under the promissory note, which had an outstanding principal balance of $50.9 million plus accrued interest. The Company evaluated its interest in the SECT and determined that it was a VIE for which the Company was the primary beneficiary. As such, the SECT was consolidated by the Company. The entire amount of assets and liabilities of the SECT represented the transactions between the Company and the SECT. As a result, the note receivable on the Company and the note payable on the SECT were eliminated on a consolidated basis. All other transactions, such as note principal and dividend payments and receipts, were also eliminated on a consolidated basis, accordingly.

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NOTE 18 – EARNINGS PER COMMON SHARE

The following table presents computations of basic and diluted EPS for the three and six months ended June 30, 2018:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
($ in thousands except per share data)	Common Stock	Class B Common Stock	Total	Common Stock	Class B Common Stock	Total
Income from continuing operations	$13,709	$ 145	$ 13,854	$20,713	$ 215	$ 20,928
Less: income allocated to participating securities	(85)	(1)	(86)	—	—	—
Less: participating securities dividends	(201)	(2)	(203)	(402)	(4)	(406)
Less: preferred stock dividends	(5,059)	(54)	(5,113)	(10,121)	(105)	(10,226)
Income from continuing operations allocated to common stockholders	8,364	88	8,452	10,190	106	10,296
Income from discontinued operations	916	10	926	2,385	25	2,410
Net income allocated to common stockholders	$9,280	$ 98	$ 9,378	$12,575	$ 131	$ 12,706
Weighted average common shares outstanding	50,062,442	530,987	50,593,429	50,072,385	519,610	50,591,995
Dilutive effects of stock units	211,380	—	211,380	153,029	—	153,029
Dilutive effects of stock options	40,561	—	40,561	44,082	—	44,082
Dilutive effects of warrants	73,721	—	73,721	111,781	—	111,781
Average shares and dilutive common shares	50,388,104	530,987	50,919,091	50,381,277	519,610	50,900,887
Basic earnings per common share						
Income from continuing operations	$0.17	$ 0.17	$ 0.17	$0.20	$ 0.20	$ 0.20
Income from discontinued operations	0.02	0.02	0.02	0.05	0.05	0.05
Net income	$0.19	$ 0.19	$ 0.19	$0.25	$ 0.25	$ 0.25
Diluted earnings per common share						
Income from continuing operations	$0.16	$ 0.17	$ 0.16	$0.20	$ 0.20	$ 0.20
Income from discontinued operations	0.02	0.02	0.02	0.05	0.05	0.05
Net income	$0.18	$ 0.19	$ 0.18	$0.25	$ 0.25	$ 0.25

For the three and six months ended June 30, 2018, there were 38,836 and 222,431 stock units, respectively, that were not considered in computing diluted earnings per common share, because they were anti-dilutive. There were no stock options that were anti-dilutive. For the three and six months ended June 30, 2017, there were 44,875 and 49,946 stock units, respectively, and 120,000 and 229,923 stock options, respectively, that were anti-dilutive.

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The following table presents computations of basic and diluted EPS for the three and six months ended June 30, 2017:

($ in thousands except per share data)	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Common Stock	Class B Common Stock	Total	Common Stock	Class B Common Stock	Total
Income from continuing operations	$ 15,054	$ 84	$ 15,138	$ 24,396	$ 118	$ 24,514
Less: income allocated to participating securities	(12)	—	(12)	(174)	(1)	(175)
Less: participating securities dividends	(201)	(1)	(202)	(403)	(2)	(405)
Less: preferred stock dividends	(5,085)	(28)	(5,113)	(10,177)	(49)	(10,226)
Income from continuing operations allocated to common stockholders	9,756	55	9,811	13,642	66	13,708
Income from discontinued operations	(2,865)	(16)	(2,881)	4,920	24	4,944
Net income allocated to common stockholders	$ 6,891	$ 39	$ 6,930	$ 18,562	$ 90	$ 18,652
Weighted average common shares outstanding	50,010,943	278,647	50,289,590	49,817,624	240,916	50,058,540
Dilutive effects of stock units	42,756	—	42,756	68,664	—	68,664
Dilutive effects of stock options	226,603	—	226,603	207,397	—	207,397
Dilutive effects of warrants	383,375	—	383,375	401,497	—	401,497
Average shares and dilutive common shares	50,663,677	278,647	50,942,324	50,495,182	240,916	50,736,098
Basic earnings per common share						
Income from continuing operations	$ 0.20	$ 0.20	$ 0.20	$ 0.27	$ 0.27	$ 0.27
Income from discontinued operations	(0.06)	(0.06)	(0.06)	0.10	0.10	0.10
Net income	$ 0.14	$ 0.14	$ 0.14	$ 0.37	$ 0.37	$ 0.37
Diluted earnings per common share						
Income from continuing operations	$ 0.20	$ 0.20	$ 0.20	$ 0.27	$ 0.27	$ 0.27
Income from discontinued operations	(0.06)	(0.06)	(0.06)	0.10	0.10	0.10
Net income	$ 0.14	$ 0.14	$ 0.14	$ 0.37	$ 0.37	$ 0.37

For the three and six months ended June 30, 2017, there were 44,875 and 49,946 stock units, respectively, and 120,000 and 229,923 stock options, respectively, that were not considered in computing diluted earnings per common share because they were anti-dilutive.

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NOTE 19 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Risk of credit loss exists up to the face amount of these instruments. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment. The contractual amount of financial instruments with off-balance-sheet risk was as follows for the dates indicated:

	June 30, 2018		December 31, 2017	
($ in thousands)	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit [1]	$1,345	$320,865	$1,851	$335,654
Unused lines of credit	1,754	1,213,416	19,085	1,309,170
Letters of credit	1,044	9,888	1,050	12,976

(1) Includes no commitments to extend credit related to discontinued operations at June 30, 2018 and December 31, 2017.

Commitments to make loans are generally made for periods of 30 days or less.

Other Commitments

During the three months ended March 31, 2017, the Bank entered into certain definitive agreements which grant the Bank the exclusive naming rights to the Banc of California Stadium, a soccer stadium of The Los Angeles Football Club (LAFC), as well as the right to be the official bank of LAFC. In exchange for the Bank's rights as set forth in the agreements, the Bank agreed to pay LAFC $100.0 million over a period of 15 years, beginning in 2017 and ending in 2032. The advertising benefits of such rights are amortized on a straight-line basis and recorded as advertising and promotion expense beginning in 2018. As of June 30, 2018, the Bank has paid $12.7 million of the $100.0 million commitment. The prepaid commitment balance, net of amortization, was $9.3 million as of June 30, 2018, which was recognized as a prepaid asset and included in Other Assets in the Consolidated Statements of Financial Condition. See Note 22 for additional information.

The Company had unfunded commitments of $14.0 million, $10.7 million, and $501 thousand for Affordable Housing Fund Investment, Small Business Investment Company (SBIC), and Other Investments at June 30, 2018, respectively.

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NOTE 20 – RESTRUCTURING

In connection with the sale of its Banc Home Loans division in 2017, the Company restructured certain aspects of its infrastructure and back office operations by realigning back office staffing resulting in certain severance and other employee related costs including accelerated vesting of equity awards, and amending certain system contracts in order to improve the Company's efficiency. These employees and systems primarily supported the Company's mortgage banking activities. The Company recognized $9.1 million of total restructuring expense during the year ended December 31, 2017.

On June 26, 2018, the Company announced a reduction in force to the Company’s workforce by approximately 9% of total staffing. In addition, the Company expects to reduce the use of third party advisors during the third quarter of 2018, with each of these actions intended to align the Company’s cost structure with its focused commercial banking platform. The plan is expected to be substantially completed by the end of the third quarter of 2018 and fully completed during the fourth quarter of 2018. The Company incurred one-time severance-related costs in the second quarter of 2018 of $4.0 million, pre-tax, related to the reduction in force. Additional one-time severance costs may be recognized in the third and fourth quarters of 2018 from executing the plan.

The Company had outstanding unpaid accrued liabilities of $2.7 million and $202 thousand, respectively, at June 30, 2018 and December 31, 2017. The following table presents activities in accrued liabilities and related expenses for the restructuring as of or for the three and six months ended June 30, 2018:

($ in thousands)	Expense Continuing Operations	Discontinued Operations	Total	Accrued Liabilities
As of or For the Three Months Ended June 30, 2018				
Balance at beginning of period				$ 161
Accrual:				
Severance and other employee related costs	$3,983	$ —	$3,983	3,983
Total	$3,983	$ —	$3,983	3,983
Payments:				
Severance and other employee related costs				(1,463)
Total				$ (1,463)
Balance at end of period				$ 2,681
As of or For the Six Months Ended June 30, 2018				
Balance at beginning of period				$ 202
Accrual:				
Severance and other employee related costs	$3,983	$ —	$3,983	3,983
Total	$3,983	$ —	$3,983	3,983
Payments:				
Severance and other employee related costs				(1,504)
Total				$ (1,504)
Balance at end of period				$ 2,681

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The following table presents activities in accrued liabilities and related expenses for the restructuring as of or for the three and six months ended June 30, 2017:

($ in thousands)	Expense Continuing Operations	Discontinued Operations	Total	Accrued Liabilities
As of or For the Three Months Ended June 30 2017				
Balance at beginning of period				$ 7,002
Accrual:				
Severance and other employee related costs	$ 82	$ 297	$ 379	379
Total	$ 82	$ 297	$ 379	379
Payments:				
Severance and other employee related costs				(5,799)
Other restructuring expense				(895)
Total				$ (6,694)
Balance at end of period				$ 687
As of or For the Six Months Ended June 30, 2017				
Balance at beginning of period				$ —
Accrual:				
Severance and other employee related costs	$ 5,369	$ 2,620	$ 7,989	7,989
Other restructuring expense	—	895	895	895
Total	$ 5,369	$ 3,515	$ 8,884	8,884
Payments:				
Severance and other employee related costs				(7,302)
Other restructuring expense				(895)
Total				$ (8,197)
Balance at end of period				$ 687

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NOTE 21 – REVENUE RECOGNITION

On January 1, 2018, the Company adopted ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”, and all subsequent amendments. As stated in Note 1, the implementation of the new standard did not have a material impact on the measurement, timing, or recognition of revenue. Accordingly, no cumulative effect adjustment to opening retained earnings was deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as gain or loss associated with mortgage servicing rights, financial guarantees, derivatives, and income from bank owned life insurance are also not within the scope of the new guidance. Topic 606 is applicable to noninterest income such as trust and asset management income, deposit related fees, interchange fees, merchant related income, and annuity and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Noninterest income considered to be within the scope of Topic 606 is discussed below.

Debit Card Fees

When customers use their debit cards to pay merchants for goods or services, the Company retains a fee from the funds collected from the related deposit account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized at the point in time when the funds are collected and transferred to the payment network.

Investment Commissions

The Company acts as an agent for a third party vendor that provides investment services and products to customers. Upon completion of a sale of investment services or products to a customer, the Company receives a commission from the third party vendor. The performance obligation to the third party vendor is satisfied and the commission income is recognized at that point in time.

Deposit Service Fees

Service charges on deposit accounts consist of account analysis fees, monthly service fees, check orders, and other deposit related fees. The Company’s performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company’s performance obligation is satisfied, and related revenue recognized, at a point in time as incurred.

Other

Other noninterest income primarily consists of other recurring revenue streams from gains or losses on sales of OREO, and merchant referral commissions. The Company's performance obligation for sale of OREO is the transfer of title and ownership rights of the OREO to the buyer, which occurs at the settlement date when the sale proceeds are received and income is recognized. The Company's performance obligation for merchant referral commissions is satisfied with the successful sale of services to those referred merchants, which is when the commission is received and the income is recognized.

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The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2018	2017	2018	2017
Noninterest Income				
In scope of Topic 606				
Deposit Service Fees	$708	$726	$1,486	$1,482
Debit Card Fees	177	486	402	927
Investment Commissions	619	383	942	833
Other	—	82	155	159
Noninterest Income (in-scope of Topic 606)	1,504	1,677	2,985	3,401
Noninterest Income (out-of-scope of Topic 606)	6,557	4,030	13,658	17,209
Total Noninterest Income	$8,061	$5,707	$16,643	$20,610

The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of June 30, 2018 and December 31, 2017, the Company did not have any significant contract balances. As of June 30, 2018, the Company did not capitalize any contract acquisition costs.

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NOTE 22 – RELATED-PARTY TRANSACTIONS

General. The Bank has granted loans to certain executive officers and directors and their related interests and to the Bank's affiliated entities. Excluding the loan amounts described in detail below, loans outstanding to persons who were executive officers and directors during the six months ended June 30, 2018 and the year ended December 31, 2017 and their related interests as well as to the Bank's affiliated entities amounted to $0 and $249 thousand, respectively, at June 30, 2018 and December 31, 2017, all of which were performing in accordance with their respective terms as of those dates. These loans were made in the ordinary course of business and on substantially the same terms and conditions, including interest rates and collateral, as those of comparable transactions with non-insiders prevailing at the time, in accordance with the Bank’s underwriting guidelines, and do not involve more than the normal risk of collectability or present other unfavorable features.

The Bank has an Employee Loan Program, which is available to all employees and offers executive officers, directors and principal stockholders that meet the eligibility requirements the opportunity to participate on the same terms as employees generally, provided that any loan to an executive officer, director or principal stockholder must be approved by the Bank’s Board of Directors. The sole benefit provided under the Employee Loan Program is a reduction in loan fees.

Deposits from executive officers, directors, and their related interests and the Bank's affiliated entities amounted to $12.4 million and $2.2 million at June 30, 2018 and December 31, 2017, respectively. There are certain deposits described below, which are not included in the foregoing amounts.

Transactions with Current Related Parties

The Company and the Bank have engaged in transactions described below with the Company’s directors, executive officers, and beneficial owners of more than 5 percent of the outstanding shares of the Company’s voting common stock and certain persons related to them.

Indemnification for Costs of Counsel in Connection with Special Committee Investigation, SEC Investigation and Related Matters. On November 3, 2016, in connection with an investigation by the Special Committee of the Company’s Board of Directors, the Company Board authorized and directed the Company to provide indemnification, advancement and/or reimbursement for the costs of separate independent counsel retained by any then-current officer or director, in their individual capacity, with respect to matters related to the investigation, and to advise them on their rights and obligations with respect to the investigation. At the direction of the Company Board, this indemnification, advancement and/or reimbursement is, to the extent applicable, subject to the indemnification agreement that each officer and director previously entered into with the Company, which includes an undertaking to repay any expenses advanced if it is ultimately determined that the officer or director was not entitled to indemnification under such agreements and applicable law. In addition, the Company is providing indemnification, advancement and/or reimbursement for costs related to (i) a formal order of investigation issued by the SEC on January 4, 2017 directed primarily at certain of the issues that the Special Committee reviewed and (ii) any related civil or administrative proceedings against the Company as well as officers currently or previously associated with the Company.

During the six months ended June 30, 2018, indemnification costs paid by the Company included $272 thousand incurred by director Halle J. Benett; $272 thousand incurred by director Jonah F. Schnel; and $272 thousand incurred by director Robert Sznewajs. Indemnification costs were paid on behalf of other executive officers and directors in lesser amounts for the six months ended June 30, 2018

During the year ended December 31, 2017, indemnification costs paid by the Company included $501 thousand incurred by the Company's General Counsel Emeritus John Grosvenor. Indemnification costs were paid on behalf of other executive officers and directors in lesser amounts for the year ended December 31, 2017.

During the year ended December 31, 2016, no indemnification costs were paid by the Company on behalf of its current executive officers and directors. For indemnification costs paid for former executive officers and former directors during the six months ended June 30, 2018, and the years ended December 31, 2017 and 2016, see Transactions with Former Related Parties below.

Company’s Sale of Shares to and Purchase of Shares from SECT. As reported in a Schedule 13G filed with the SEC on February 13, 2017, Evercore Trust Company, as trustee of the SECT (which was later succeeded as trustee by Newport Trust Company, N.A.), beneficially owned 2,500,000 shares of the Company’s voting common stock as of

December 31, 2016, which Evercore Trust Company stated represented more than 5 percent of the total number of shares of the Company's voting common stock outstanding as of that date. These shares were sold by the Company to the SECT on August 3, 2016 when the Company originally established the SECT. On December 28, 2017, in order to effectuate the early termination of the SECT, the Company purchased the 2,500,000 shares of voting common stock held by the SECT, as more fully described in Note 15. As reported in an amendment to the Schedule 13-G/A filed with the SEC on February 2, 2018, Evercore Trust Company reported that as of December 31, 2017, it no longer beneficially owned shares of the Company's voting common stock.

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Sabal Loan. On September 5, 2017, John A. Bogler became the Chief Financial Officer of the Company and the Bank. Mr. Bogler is a founding member, and since 2015 and up until his employment with the Company, was a board member and Chief Financial Officer, of Sabal Capital Partners, LLC. Sabal Capital Partners, LLC is the sole owner of Sabal Opportunities Fund I, LLC, which in turn is the sole owner of Sabal TL1, LLC (together, Sabal). Mr. Bogler remains a material owner of Sabal. Effective June 26, 2015, the Bank provided a $35.0 million committed revolving repurchase facility, which was increased to $40.0 million effective June 11, 2017, to Sabal TL1, LLC, with a maximum funding amount of $100.0 million in certain situations.

Under the Sabal repurchase facility, commercial mortgage loans originated by Sabal are purchased from Sabal by the Bank, together with a simultaneous agreement by Sabal to repurchase the commercial mortgage loans from the Bank at a future date. The advances under the Sabal repurchase facility are secured by commercial mortgage loans that have a market value in excess of the balance of the advances under the facility. During the six months ended June 30, 2018 and the year ended December 31, 2017, the largest aggregate amount of principal outstanding under the Sabal repurchase facility was $32.5 million and $94.7 million, respectively. The amount outstanding as of June 30, 2018 and December 31, 2017 was $0 and $23.6 million, respectively. Interest on the outstanding balance under the Sabal repurchase facility accrues at the six-month LIBOR rate plus a margin. $203.4 million and $600.4 million in principal, respectively, and $357 thousand and $1.1 million in interest, respectively, was paid by Sabal on the facility to the Bank during the six months ended June 30, 2018 and the year ended December 31, 2017.

Underwriting Services. Keefe, Bruyette & Woods, Inc., a Stifel company, acted as an underwriter of public offerings of the Company’s securities in 2016, and also acted as financial advisor for the Company's sale of its Commercial Equipment Finance Division in 2016. Halle J. Benett, a director of the Company and the Bank, was employed as a Managing Director and Head of the Diversified Financials Group at Keefe, Bruyette & Woods, Inc. until August 31, 2016 and is entitled to receive compensation for certain deals that close subsequent to August 31, 2016 that he originated or actively managed (none involving the Company or the Bank). In addition, Mr. Benett agreed to provide unpaid consulting services to Keefe, Bruyette & Woods, Inc., for a small number of transactions (none involving the Company or the Bank) through December 31, 2016.

The details of the financial advisory services are as follows:

- On October 27, 2016, the Company sold its Commercial Equipment Finance Division to Hanmi Bank, a wholly-owned subsidiary of Hanmi Financial Corporation (Hanmi). Beginning on February 1, 2016, Keefe, Bruyette & Woods provided financial advisory and investment banking services to the Company with respect the possible sale of the division and, contingent upon the closing of the sale, received a non-refundable contingent fee from the Company of $516 thousand (less expenses, the amount was $500 thousand).

The details of the underwritten public offerings are as follows:

- On March 8, 2016, the Company issued and sold 5,577,500 shares of its voting common stock. Pursuant to an underwriting agreement entered into with the Company for that offering on March 2, 2016, Keefe, Bruyette & Woods, Inc. received gross underwriting fees and commissions from the Company of approximately $1.0 million (less estimated expenses, the amount was $846 thousand).
- On February 8, 2016, the Company issued and sold 5,000,000 depositary shares (Series E Depositary Shares) each representing a 1/40th ownership interest in a share of 7.00 percent Non-Cumulative Perpetual Preferred Stock, Series E, with a liquidation preference of $1,000 per share (equivalent to $25 per depositary share). Pursuant to an underwriting agreement entered into with the Company for that offering on February 1, 2016, Keefe, Bruyette & Woods, Inc. received gross underwriting fees and commission from the Company of approximately $944 thousand (less estimated expenses, the amount was $849 thousand).

Legion Affiliates. As reported in an amendment to a Schedule 13D filed with the SEC on May 23, 2017, Legion Partners Asset Management, LLC (Legion Partners), Legion Partners, L.P. I, Legion and its affiliates (collectively, the Legion Group) beneficially owned 2,938,679 shares of the Company’s voting common stock as of May 19, 2017, which the Legion Group reported represented 5.6 percent of the Company’s total shares outstanding. As reported in an amendment to a Schedule 13D filed with the SEC on April 26, 2018, the Legion Group beneficially owned 2,439,751 shares of the Company’s voting common stock as of that date, which the Legion Group reported represented 4.8 percent of the Company’s total shares outstanding.

Cooperation Agreement. On March 13, 2017, the Company entered into a cooperation agreement with the Legion Group (the Legion Group Cooperation Agreement). Under the terms of such agreement, among other things:

- The Legion Group agreed to irrevocably withdraw its notice of director nomination and submission of a business proposal.

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- The Company agreed to conduct a search for two additional independent directors in collaboration with the Legion Group. In accordance with this provision, following a search initiated by the Company Board and (following entry into the Legion Group Cooperation Agreement) conducted in consultation with Legion Group, the Company Board appointed Mary A. Curran and Bonnie G. Hill as new independent directors, for terms that became effective on June 9, 2017 at the conclusion of the Company's 2017 Annual Meeting of Stockholders. Ms. Curran is serving as a Class I director, for a term to expire at the Company's 2019 Annual Meeting of Stockholders. Dr. Hill's initial term as a director expired at the Company's 2018 Annual Meeting of Stockholders, at which she was re-elected for a one-year term to expire at the Company's 2019 Annual Meeting of Stockholders. Simultaneously with the effectiveness of their appointment to the Company Board, each of Ms. Curran and Dr. Hill was appointed as a director of the Bank.
- From March 13, 2017 until June 10, 2017, the day after the Company's 2017 Annual Meeting, the Legion Group agreed to vote all the shares of the Company's voting common stock that it beneficially owned (i) in favor of the Company's slate of directors, (ii) against any stockholder's nominations for directors not approved and recommended by the Board and against any proposals or resolutions to remove any director and (iii) in accordance with the Board's recommendations on all other proposals of the Board set forth in the Company's proxy statement.
- The Legion Group agreed to certain standstill provisions that restricted the Legion Group and its affiliates, associates and representatives, from March 13, 2017 until June 10, 2017, from, among other things, acquiring additional voting securities of the Company that would result in the Legion Group having ownership or voting interest in 10 percent or more of the outstanding shares of voting common stock, engaging in proxy solicitations in an election contest, subjecting any shares to any voting arrangements except as expressly provided in the Legion Group Cooperation Agreement, making or being a proponent of a stockholder proposal, seeking to call a meeting of stockholders or solicit consents from stockholders, seeking to obtain representation on the Board except as otherwise expressly provided in the Legion Group Cooperation Agreement, seeking to remove any director from the Board, seeking to amend any provision of the governing documents of the Company, or proposing or participating in certain extraordinary corporate transactions involving the Company.
- The Company agreed to reimburse the Legion Group up to $100 thousand for its legal fees and expenses incurred in connection with its investment in the Company.

PL Capital Affiliates. As reported in an amendment to a Schedule 13D filed with the SEC on February 10, 2017, PL Capital Advisors, LLC (PL Capital Advisors) and certain of its affiliates (collectively, the PL Capital Group) owned 3,427,219 shares of the Company's voting common stock as of February 7, 2017, which the PL Capital Group reported represented 6.9 percent of the Company's total shares outstanding.

Cooperation Agreement. On February 7, 2017, Richard J. Lashley, a co-founder of PL Capital Advisors, LLC, was appointed to the Boards of Directors of the Company and the Bank, which appointments became effective February 16, 2017. Mr. Lashley was appointed as a Class I director of the Company, for a term that will expire at the Company's 2019 Annual Meeting of Stockholders. In connection with the appointment of Mr. Lashley to the Boards, on February 8, 2017, the PL Capital Group and Mr. Lashley entered into a cooperation agreement with the Company (PL Capital Cooperation Agreement), in which PL Capital Group agreed, among other matters:

- From February 8, 2017 until June 10, 2017 (PL Capital Restricted Period), the PL Capital Group agreed to vote all the shares of Common Stock that it beneficially owned (i) in favor of the Company's slate of directors, (ii) against any stockholder's nominations for directors not approved and recommended by the Company's Board and against any proposals or resolutions to remove any director and (iii) in accordance with the recommendations by the Company's Board on all other proposals of the Company's Board set forth in the Company's proxy statement.
- In addition, during the PL Capital Restricted Period, the PL Capital Group agreed to certain standstill provisions that restricted the PL Capital Group and its affiliates, associates and representatives, during the PL Capital Restricted Period, from, among other things, acquiring additional voting securities of the Company that would result in the PL Capital Group having ownership or voting interest in 10 percent or more of the outstanding shares of voting common stock, engaging in proxy solicitations in an election contest, subjecting any shares to any voting arrangements except as expressly provided in the PL Capital Cooperation Agreement, making or being a proponent of a stockholder proposal, seeking to call a meeting of stockholders or solicit consents from stockholders, seeking to obtain

representation on the Company's Board except as otherwise expressly provided in the PL Capital Cooperation Agreement, seeking to remove any director from the Company's Board, seeking to amend any provision of the governing documents of the Company, or proposing or participating in certain extraordinary corporate transactions involving the Company.

- Pursuant to the PL Capital Cooperation Agreement, during the three months ended March 31, 2017, the Company reimbursed PL Capital Group $150 thousand for a portion of its legal fees and expenses incurred in connection with its investment in the Company.

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Patriot Affiliates. As reported in a Schedule 13D amendment filed with the SEC on November 10, 2014, Patriot's last public filing reporting ownership of the Company's securities, Patriot Financial Partners, L.P. (together with its affiliates referred to as Patriot Partners) owned 3,100,564 shares of the Company's voting common stock as of November 7, 2014, which Patriot Partners reported represented 9.3 percent of the Company's outstanding voting common stock as of that date. For the details of the transaction in which Patriot Partners acquired certain of these shares, see "Securities Purchase Agreement with Patriot" below. In connection with the appointment of W. Kirk Wycoff, a managing partner of Patriot Partners, to the Boards of Directors of the Company and the Bank (described below), Mr. Wycoff filed a Form 3 with the SEC on February 24, 2017, which reported total holdings for Patriot Partners of 2,850,564 shares.

Director. On February 9, 2017, Mr. Wycoff was appointed to the Boards of Directors of the Company and the Bank, which appointment became effective on February 16, 2017. Mr. Wycoff was appointed as a Class III director of the Company, for an initial term that expired at the Company's 2018 Annual Meeting of Stockholders, at which Mr. Wycoff was re-elected for a one-year term to expire at the Company's 2019 Annual Meeting of Stockholders.

From 2010 to 2015, Mr. Wycoff was a director of, and Patriot Partners was a stockholder of, Square 1 Financial, Inc. (Square 1). Douglas H. Bowers, who became President and Chief Executive Officer of the Company and the Bank and a director of the Bank effective May 8, 2017 and a director of the Company on June 9, 2017 at the conclusion of the Company's 2017 Annual Meeting of Stockholders, served as President and Chief Executive Officer of Square 1 from 2011 to 2015. There are no arrangements or understandings between Mr. Bowers and either Mr. Wycoff or Patriot Partners pursuant to which Mr. Bowers was selected as a director and an officer of the Company.

Securities Purchase Agreement with Patriot. As noted above, as reported in a Schedule 13D amendment filed on November 10, 2014 with the SEC, Patriot Partners owned 3,100,564 shares of the Company's voting common stock as of November 7, 2014, which Patriot Partners reported represented 9.3 percent of the Company's total shares outstanding as of the dates set forth in the Schedule 13D. On April 22, 2014, the Company entered into a Securities Purchase Agreement (Patriot SPA) with Patriot Partners to raise a portion of the capital to be used to finance the acquisition of select assets and assumption of certain liabilities by the Bank from Banco Popular North America (BPNA) comprising BPNA's network of 20 California Branches (the BPNA Branch Acquisition), which was completed on November 8, 2014. The Patriot SPA was due to expire by its terms on October 31, 2014. Prior to such expiration, the Company and Patriot Partners entered into a Securities Purchase Agreement, dated as of October 30, 2014 (New Patriot SPA). Pursuant to the New Patriot SPA, substantially concurrently with the BPNA Branch Acquisition, Patriot Partners purchased from the Company (i) 1,076,000 shares of its voting common stock at a price of $9.78 per share and (ii) 824,000 shares of its voting common stock at a price of $11.55 per share, for an aggregate purchase price of $20.0 million. In consideration for Patriot Partners' commitment under the New SPA and pursuant the terms of the New SPA, on the closing of the sale of such shares on November 7, 2014, the Company paid Patriot Partners an equity support payment of $538 thousand and also reimbursed Patriot Partners $100 thousand in out-of-pocket expenses.

On October 30, 2014, concurrent with the execution of the New Patriot SPA, Patriot and the Company entered into a Settlement Agreement and Release (the Patriot Settlement Agreement) in order to resolve, without admission of any wrongdoing by either party, a prior dispute regarding, among other things, the proper interpretation of certain provisions of the SPA, including but not limited to the computation of the purchase price per share (the Dispute). Pursuant to the Patriot Settlement Agreement, Patriot and the Company released any claims they may have had against the other party with respect to the Dispute. In addition, Patriot and the Company agreed for the period beginning on the date of the Patriot Settlement Agreement and ending on December 31, 2016, that neither Patriot nor the Company would disparage the other party or its affiliates.

During the period beginning on the date of the Patriot Settlement Agreement and ending on December 31, 2016, Patriot also agreed not to:

- institute, solicit, assist or join, as a party, any proxy solicitation, consent solicitation, board nomination or director removal relating to the Company against or involving the Company or any of its subsidiaries, affiliates, successors, assigns, directors, officers, employees, agents, attorneys or financial advisors;
- take any action relative to the governance of the Company that would violate its passivity commitments or vote the shares of voting common stock held or controlled by it on any matters related to the election, removal or replacement of directors or the calling of any meeting related thereto, other than in accordance with management's recommendations included in the Company's proxy statement for any annual meeting or special meeting;
- form or join in a partnership, limited partnership, syndicate or other group, or solicit proxies or written consents of stockholders or conduct any other type of referendum (binding or non-binding) with respect to, or from the holders of, the voting common stock and any other securities of the Company entitled to vote in the election of directors, or securities convertible into, or exercisable or exchangeable for, voting common stock or such other securities (such other securities, together with the voting common stock, being referred to as Voting Securities), or become a participant in or assist, encourage or advise any person in any solicitation of any proxy, consent or other authority to vote any Voting Securities; or
- enter into any negotiations, agreements, arrangements or understandings with any person with respect to any of the foregoing or advise, assist, encourage or seek to persuade any person to take any action with respect to any of the foregoing.

The Company also agreed, during the same period, not to:

- institute, solicit, assist or join, as a party, any proxy solicitation, consent solicitation, board nomination or director removal relating to Patriot against or involving Patriot or any of its subsidiaries, affiliates, successors, assigns, officers, partners, principals, employees, agents, attorneys or financial advisors; or
- enter into any negotiations, agreements, arrangements or understandings with any person with respect to any of the foregoing or advise, assist, encourage or seek to persuade any person to take any action with respect to any of the foregoing.

Transactions with Former Related Parties

In addition to the transactions described above with former related parties, the Company and the Bank have engaged in transactions described below with the Company's then (now former) directors, executive officers, and beneficial owners of more than 5 percent of the outstanding shares of the Company's voting common stock and certain persons related to them.

Indemnification for Costs of Counsel for Former Executive Officers and Former Directors in Connection with Special Committee Investigation, SEC Investigation and Related Matters. On November 3, 2016, in connection with the investigation by the Special Committee of the Company's Board of Directors, the Company Board authorized and directed the Company to provide indemnification, advancement and/or reimbursement for the costs of separate independent counsel retained by any then-current officer or director, in their individual capacity, with respect to matters related to the investigation, and to advise them on their rights and obligations with respect to the investigation. At the direction of the Company Board, this indemnification, advancement and/or reimbursement is, to the extent applicable, subject to the indemnification agreement that each officer and director previously entered into with the Company, which includes an undertaking to repay any expenses advanced if it is ultimately determined that the officer or director was not entitled to indemnification under such agreements and applicable law. In addition, the Company is also providing indemnification, advancement and/or reimbursement for costs related to (i) a formal order of investigation issued by the SEC on January 4, 2017 directed primarily at certain of the issues that the Special Committee reviewed and (ii) any related civil or administrative proceedings against the Company as well as officers currently or previously associated with the Company.

During the six months ended June 30, 2018, indemnification costs paid by the Company included $2.0 million incurred by the Company's former Chair, President and Chief Executive Officer Steven A. Sugarman; $135 thousand, incurred by the Bank's former Management Vice Chair Jeffrey T. Seabold; $287 thousand incurred by the Bank's former director Cynthia Abercrombie; and $272 thousand incurred by the Company's former director Jeffrey Karish.

Indemnification costs were paid on behalf of other former executive officers and other former directors in lesser amounts for the six months ended June 30, 2018.

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During the year ended December 31, 2017 (excluding indemnification costs paid in January 2017), indemnification costs paid by the Company included $3.0 million incurred by Mr. Sugarman; $1.4 million incurred by Mr. Seabold; $631 thousand jointly incurred by the Company's former Interim Chief Financial Officer and Chief Strategy Officer J. Francisco A. Turner and the Company's former Chief Financial Officer James J. McKinney; and $509 thousand incurred by the Company's former director Chad Brownstein. Indemnification costs were paid on behalf of other former executive officers and other former directors in lesser amounts for the year ended December 31, 2017 (excluding fees paid in January 2017)

For the year ended December 31, 2016, indemnification costs incurred under the arrangement described above (which were paid in January 2017) included $573 thousand incurred by Mr. Sugarman; and $135 thousand incurred jointly by Messrs. Turner and McKinney. Indemnification costs were paid on behalf of other former executive officers and other former directors in lesser amounts for the year ended December 31, 2016 (which were paid in January 2017).

Settlement Agreement. On September 5, 2017, Jeffrey T. Seabold, the Bank's former Management Vice Chair, submitted a notice of termination of employment pursuant to his employment agreement with the Bank and, that same day, filed a complaint in the Superior Court of the State of California, County of Los Angeles, against the Company and the Bank and multiple unnamed defendants asserting claims for breach of contract, wrongful termination, retaliation and unfair business practices. On January 19, 2018, the parties reached a settlement in principle through mediation and a final settlement agreement was entered into by the Company, the Bank and Mr. Seabold on February 14, 2018 (the Settlement Agreement).

Under the Settlement Agreement, which provides for a mutual release of claims and the dismissal of Mr. Seabold's complaint with prejudice, Mr. Seabold received lump sum cash payments from the Company and the Bank aggregating $4.3 million, less applicable withholdings for the portions of such payments representing employee compensation. Included within this amount were cash payments totaling $576 thousand representing a benefit with respect to Mr. Seabold's unvested stock options and restricted stock awards. Mr. Seabold also received a cash payment of $38 thousand as reimbursement for his premiums for health care coverage for the period October 1, 2017 through March 2019. In addition, in accordance with the Settlement Agreement, the Bank paid $650 thousand of attorneys' fees incurred by Mr. Seabold in connection with his lawsuit and the Settlement Agreement. All the cash payments to Mr. Seabold under the Settlement Agreement were made during the three months ended March 31, 2018. The Settlement Agreement contains certain standstill provisions that, prior to December 31, 2018, generally restrict Mr. Seabold and his affiliates from, among other things, acquiring beneficial ownership of any shares of the Company's common stock or common stock equivalents to the extent this would result in Mr. Seabold beneficially owning in excess of 4.99 percent of the total number of shares of common stock outstanding, soliciting proxies in opposition to any matter not recommended by the Company's Board of Directors or in favor of any matter not approved by the Company's Board of Directors or initiating any stockholder proposal.

Banc of California Stadium Naming Rights and Sponsorship and Los Angeles Football Club Loans. Effective August 8, 2016, the Bank provided $40.3 million out of a $145.0 million committed construction line of credit (the Stadco Loan) to LAFC Stadium Co, LLC (Stadco) for the construction of a soccer-specific stadium for the LAFC in Los Angeles, California as well as to fund the interest and fees that become due under the Stadco Loan. LAFC is a Major League Soccer expansion franchise that debuted at the beginning of 2018. Also effective August 8, 2016, the Bank provided $9.7 million out of a $35.0 million committed senior secured line of credit (the Team Loan) to LAFC Sports, LLC (Team) to fund distributions to LAFC Partners, LLLP (Holdco) that will be used for stadium construction, funding interest and fees that become due under such Team Loan and to pay all other fees, costs and expenses payable by the Team in connection with project costs related to the stadium construction.

All of the outstanding equity interests in Stadco and Team are held by Holdco, and Holdco serves as sole guarantor of the Team Loan described above. At the time the Stadco Loan and Team Loan were underwritten, minority limited partnership interests in Holdco were held by, among others: (i) Jason Sugarman, who is the brother of the Company's and the Bank's then- (now former) Chairman, President and Chief Executive Officer, Steven A. Sugarman; and (ii) Jason Sugarman's father-in-law, who served during 2016 (and may continue to serve) as Executive Chairman and a member of Holdco's board of directors, which was (and may continue to be) appointed by Holdco's general partner and primarily functions in an advisory capacity. The foregoing statements are based primarily on information provided to

the Company by Holdco through its legal counsel.

As of June 30, 2018 and December 31, 2017, there were $33.6 million and $23.3 million outstanding advances, respectively, by the Bank under the Stadco Loan. During the six months ended June 30, 2018 and the year ended December 31, 2017, the largest amount of principal outstanding under the Stadco Loan was $33.8 million and $23.5 million, respectively. The Bank collected $59 thousand and $295 thousand, respectively, in unused loan fees during six months ended June 30, 2018 and the year ended December 31, 2017. Interest on the outstanding balance under the Stadco Loan accrues at LIBOR plus a margin. During the six months ended June 30, 2018 and the year ended December 31, 2017, $365 thousand and $325 thousand interest, respectively, was paid by Stadco to the Bank on the Stadco Loan.

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As of June 30, 2018 and December 31, 2017, there were $8.0 million and $5.4 million outstanding advances, respectively, by the Bank under the Team Loan. During the six months ended June 30, 2018 and the year ended December 31, 2017, the largest aggregate amount of principal outstanding under the Team Loan was $8.0 million and $5.5 million, respectively. The Bank collected $19 thousand and $140 thousand, respectively, in unused loan fees during the six months ended June 30, 2018 and the year ended December 31, 2017. Interest on the outstanding balance under the Team Loan accrues at LIBOR plus a margin. During the six months ended June 30, 2018 and the year ended December 31, 2017, $94 thousand and $83 thousand interest, respectively, was paid by Team to the Bank on the Team Loan.

Team obtained a corporate credit card with a $100 thousand line of credit from a third party unaffiliated with the Bank. Effective November 24, 2017, the Bank provided a guaranty for the card by obtaining a standby letter of credit issued by another institution unaffiliated with the Bank in the amount of $100 thousand for the benefit the issuer of the credit card. This letter of credit had not been drawn upon as of June 30, 2018.

Following the closing of the Stadco Loan and the Term Loan, the Bank on August 22, 2016 reached agreement with the Team concerning, among other things, the Bank's right to name the stadium to be operated by Stadco as "Banc of California Stadium." The August 22, 2016 agreement, which contemplated the negotiation and execution of more detailed definitive agreements between the Bank, on the one hand, and Stadco and the Team on the other hand (LAFC Transaction), also included a sponsorship relationship between the Bank and the Team with an initial term ending on the completion date of LAFC's 15th full Major League Soccer (MLS) season, and the Bank having a right of first offer to extend the term for an additional 10 years (LAFC Term). On February 28, 2017, the Bank executed more detailed definitive agreements with LAFC and Stadco relating to the LAFC Transaction, which are subject to MLS rules and/or approval (the LAFC Agreements).

The LAFC Agreements provide that, during the LAFC Term, the Bank has the exclusive right to name the Banc of California Stadium and has the right to be the exclusive provider of financial services to (and the exclusive financial services sponsor of) the Team and Stadco. In connection with its right to name the Banc of California Stadium, the Bank receives, among other rights, signage (including prominent exterior signage) and related branding rights throughout the exterior and interior of the Banc of California Stadium facility (including exclusive branding rights within certain designated areas and venues within the facility), receives the right to locate a Bank branch within the Banc of California Stadium facility, receives the exclusive right to install and operate ATMs in the Banc of California Stadium facility, and receives the exclusive right to process payments and provide other financial services (with certain exceptions) throughout the facility. In addition, the Bank receives suite access for LAFC and certain other events held at the Banc of California Stadium and receives certain hospitality, event, media and other rights ancillary to its naming rights relating to the Banc of California Stadium and its sponsorship rights relating to the Team. In conjunction with the LAFC Agreements, the Company decreased its other planned marketing and sponsorship expenses.

In exchange for the Bank's rights as set forth in the LAFC Agreements, the Bank (i) paid the Team $10.0 million on March 31, 2017 and (ii) has agreed to pay the following annual aggregate amounts: for the Team's 2018 MLS season, $5.3 million; for 2019, $5.4 million; for 2020, $5.5 million; for 2021, $5.6 million; for 2022, $5.7 million; for 2023, $5.8 million; for 2024, $5.9 million; for 2025, $6.0 million; for 2026, $6.1 million; for 2027, $6.2 million; for 2028, $6.3 million; for 2029, $6.4 million; for 2030, $6.5 million; for 2031, $6.6 million; and for 2032, $6.7 million. The advertising benefits of such rights are amortized on a straight-line basis and recorded as advertising expense beginning in 2018. During the six months ended June 30, 2018, the Bank paid $2.7 million for the Team's 2018 MLS season and the related advertising and promotion expense recorded was $3.3 million. As of June 30, 2018, the Bank has paid $12.7 million of the $100.0 million commitment. The prepaid commitment balance, net of amortization, was $9.3 million as of June 30, 2018, which was recognized as a prepaid asset and included in Other Assets in the Consolidated Statements of Financial Condition.

As of June 30, 2018 and December 31, 2017, the various entities affiliated with LAFC held $22.8 million and $33.1 million, respectively, of deposits at the Bank.

Legal Fees and Other Matters. During July 2017, the Company and the Bank became aware that the former Chair, President and Chief Executive Officer of the Company and the Bank, Steven A. Sugarman, became of counsel to

Michelman & Robinson, LLP, a law firm that previously provided legal services to the Bank. For legal services that were performed for the Bank over a period of more than four months, the Bank paid Michelman & Robinson, LLP approximately $330 thousand in fees during the three months ended March 31, 2017. No legal services were provided and $0 was paid to Michelman & Robinson, LLP from April 1, 2017 to June 30, 2018. Michelman & Robinson, LLP previously had three outstanding letters of credit with the Bank, which were issued under a line of credit that was originally extended to Michelman & Robinson, LLP prior to 2008. All three letters of credit were canceled in February 2018, and none were drawn upon as of December 31, 2017 or subsequent to that date. Michelman & Robinson, LLP elected to pay in full all outstanding borrowings under the line of credit in June 2017 and, thereafter, the line of credit was terminated. During the three months ended March 31, 2017, the Bank reimbursed Michelman & Robinson, LLP $100 thousand in connection with a matter concerning funds wired by a third party to a deposit account Michelman & Robinson, LLP held at the Bank.

Consulting Agreement for the Bank. On August 4, 2016, the Bank entered into a Management Services Agreement with Carlos Salas, who was, at the time, the Chief Executive Officer of COR Clearing LLC (COR Clearing) and Chief Financial Officer of COR Securities Holding, Inc. (CORSHI). Steven A. Sugarman, the then- (now former) Chairman, President and Chief Executive Officer of the Company and the Bank, is believed by the Company to be the Chief Executive Officer, as well as a controlling equity owner, of both COR Clearing and CORSHI. For management consulting and advisory services provided to the Bank through the termination of the Management Services Agreement on November 30, 2016, Mr. Salas earned $108 thousand in fees. On December 1, 2016, Mr. Salas became a full-time employee of the Bank and tendered his resignation from his positions as Chief Executive Officer of COR Clearing and Chief Financial Officer of CORSHI effective upon the orderly transition of his duties, but in no case later than March 31, 2017. Mr. Salas earned $17 thousand as a full time employee of the Bank during the year ended December 31, 2016. Mr. Salas separated from the Bank on February 1, 2017.

CS Financial Acquisition. Effective October 31, 2013, the Company acquired CS Financial, which was controlled by Jeffrey T. Seabold and in which certain relatives of Steven A. Sugarman (the then- (now former) Chairman, President and Chief Executive Officer of the Company and the Bank) directly or through their affiliated entities also owned certain minority, non-controlling interests. Mr. Seabold previously served as Management Vice Chair of the Bank and also held prior positions as a director of the Company and the Bank; on September 5, 2017, Mr. Seabold submitted a notice of termination of employment as Management Vice Chair of the Bank pursuant to his employment agreement with the Bank effective immediately. The Company's acquisition of CS Financial (the CS Financial Merger) was effected pursuant to an Agreement and Plan of Merger (the CS Financial Merger Agreement) with CS Financial, the stockholders of CS Financial (Sellers) and Mr. Seabold, as the Sellers' Representative.

Subject to the terms and conditions set forth in the CS Financial Merger Agreement, which was approved by the Board of Directors of each of the Company, the Bank and CS Financial, at the effective time of the CS Financial Merger, the outstanding shares of common stock of CS Financial were converted into the right to receive in the aggregate: (i) upon the closing of the CS Financial Merger, (a) 173,791 shares (Closing Date Shares) of voting common stock, par value $0.01 per share, of the Company, and (b) $1.5 million in cash and $3.2 million in the form of a noninterest-bearing note issued by the Company to Mr. Seabold that was due and paid by the Company on January 2, 2014; and (ii) upon the achievement of certain performance targets by the Bank's lending activities following the closing of the CS Financial Merger that are set forth in the CS Financial Merger Agreement, up to 92,781 shares (Performance Shares) of voting common stock ((i) and (ii), together, CS Financial Merger Consideration).

The Sellers under the CS Financial Merger Agreement included Mr. Seabold, and the following relatives of Steven A. Sugarman: Jason Sugarman (brother), Elizabeth Sugarman (sister-in-law), and Michael Sugarman (father), who each owned minority, non-controlling interests in CS Financial. Upon the closing of the CS Financial Merger and pursuant to the terms of the CS Financial Merger Agreement, the aggregate shares of voting common stock issued as the consideration to the Sellers was 173,791 shares, which was allocated by the Sellers and issued as follows: (i) 103,663 shares to Mr. Seabold; (ii) 16,140 shares to Jason Sugarman; (iii) 16,140 shares to Elizabeth Sugarman; (iv) 3,228 shares to Michael Sugarman; and (v) 34,620 shares to certain employees of CS Financial. Of the 103,663 shares to be issued to Mr. Seabold, as allowed under the CS Financial Merger Agreement and in consideration of repayment of a certain debt incurred by CS Financial owed to an entity controlled by Elizabeth Sugarman, Mr. Seabold requested the Company to issue all 103,663 shares directly to Elizabeth Sugarman, and such shares were so issued by the Company to Elizabeth Sugarman.

On October 31, 2014, certain of the Performance Shares were issued as follows: (i) 28,545 shares to Mr. Seabold; (ii) 1,082 shares to Jason Sugarman; (iii) 1,082 shares to Elizabeth Sugarman; and (iv) 216 shares to Michael Sugarman. An additional portion of the Performance Shares was issued on November 2, 2015 as follows: (i) 28,545 shares to Mr. Seabold; (ii) 1,082 shares to Jason Sugarman; (iii) 1,082 shares to Elizabeth Sugarman; and (iv) 216 shares to Michael Sugarman. The final tranche of the Performance Shares were issued on October 31, 2016 as follows: (i) 28,547 shares to Mr. Seabold; (ii) 1,083 shares to Jason Sugarman; (iii) 1,083 shares to Elizabeth Sugarman and (iv) 218 shares to Michael Sugarman.

All decisions and actions with respect to the CS Financial Merger Agreement and the CS Financial Merger (including without limitation the determination of the CS Financial Merger Consideration and the other material terms of the CS Financial Merger Agreement) were under the purview and authority of special committees of the Board of Directors of each of the Company and the Bank, each of which was composed exclusively of independent, disinterested directors of the Boards of Directors, with the assistance of outside financial and legal advisors. Mr. Sugarman abstained from the vote of each of the Boards of Directors of the Company and the Bank to approve the CS Financial Merger Agreement and the CS Financial Merger.

NOTE 23 – LITIGATION

From time to time we are involved as plaintiff or defendant in various legal actions arising in the normal course of business. In accordance with applicable accounting guidance, the Company establishes an accrued liability when those matters present loss contingencies that are both probable and estimable. The Company continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established. As of June 30, 2018, the Company accrued $1.1 million for various litigations filed against the Company and the Bank.

The Company was named as a defendant in several complaints filed in the United States District Court for the Central District of California in January 2017 alleging violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaints were brought as purported class actions on behalf of stockholders who purchased shares of the Company's common stock between varying dates, inclusive of August 7, 2015 through January 23, 2017. Those actions were consolidated, a lead plaintiff was appointed, and the lead plaintiff filed a Consolidated Amended Complaint on May 31, 2017. The defendants moved to dismiss the Consolidated Amended Complaint. On September 18, 2017, the district court granted in part and denied in part Defendants' motions to dismiss. Specifically, the court denied the defendants' motions as to the Company's April 15, 2016 Proxy Statement which listed the positions held by Steven A. Sugarman (the Company's then (now former) Chairman, President and Chief Executive Officer) with COR Securities Holdings Inc., COR Clearing LLC, and COR Capital LLC while omitting their alleged connections with Jason Galanis. Trial is currently set for October 21, 2019. The Company believes that the action is without merit and intends to vigorously contest it.

On September 26, 2017, a shareholder derivative action was filed in the United States District Court for the Central District of California against four of the Company's directors alleging that they breached their fiduciary duties to the Company. In that action, the Company was a nominal defendant. The complaint sought monetary and equitable relief on behalf of the Company. The Company believes that the shareholder was required to, but failed to, make a demand on the Company to bring such claims, and that this failure requires dismissal of the action. The Company filed a motion to dismiss on those grounds. Rather than oppose the Company's motion, plaintiff elected to file an amended complaint. The amended complaint was filed on February 6, 2018, which added Richard J. Lashley, Doug H. Bowers and John Grosvenor as individual defendants, and which added purported claims for gross negligence and unjust enrichment. The Company filed a motion to dismiss the amended complaint, which was set for hearing on June 18, 2018.The district court granted the Company's motion to dismiss, and the plaintiff dismissed the action on June 22, 2018.

On September 5, 2017, Jeffrey T. Seabold, a former officer of the Company and the Bank, filed a complaint in the Los Angeles Superior Court against the Company and multiple unnamed defendants asserting claims for breach of contract, wrongful termination, retaliation and unfair business practices. Mr. Seabold alleged that he was constructively terminated as a Company and Bank employee and sought in excess of $5 million in damages. On January 19, 2018, the parties reached a settlement in principle through mediation and a final settlement agreement was executed on February 14, 2018. The settlement did not have a material adverse effect on our financial condition, results of operations or liquidity. For additional information, including the terms of the settlement agreement, see Note 22.

NOTE 24 – SUBSEQUENT EVENTS

The Company evaluated events from the date of the consolidated financial statements on June 30, 2018 through the issuance of these consolidated financial statements included in this Quarterly Report on Form 10-Q and determined that no significant events were identified requiring recognition or disclosure in the consolidated financial statements.

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ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management’s discussion and analysis of the major factors that influenced our results of operations and financial condition as of and for the three and six months ended June 30, 2018. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017 and with the unaudited consolidated financial statements and notes thereto set forth in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018.

CRITICAL ACCOUNTING POLICIES

The Company's financial statements are prepared in accordance with GAAP and general practices within the banking industry. Within these financial statements, certain financial information contains approximate measurements of financial effects of transactions and impacts at the consolidated statements of financial condition dates and our results of operations for the reporting periods. As certain accounting policies require significant estimates and assumptions that have a material impact on the carrying value of assets and liabilities, the Company has established critical accounting policies to facilitate making the judgment necessary to prepare financial statements. The Company's critical accounting policies are described in Note 1 to Consolidated Financial Statements and in the “Critical Accounting Policies” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and in Note 1 Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements Not Yet Adopted: The following are recently issued accounting pronouncements applicable to the Company that have not yet been adopted:

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” The amendments in this Update require lessees to recognize the assets and liabilities that arise from leases, as well as define classification criteria for distinguishing between financing leases and operating leases. For financing leases, lessees are required to recognize a right-of-use asset and a lease liability in the statement of financial position, recognize interest on the lease liability in the statement of comprehensive income, and classify the principal portion of the lease liability within financing activities and payments of interest within operating activities in the statement of cash flows. For operating leases with terms of more than 12 months, lessees are required to recognize a right-of-use asset and a lease liability in the statement of financial position, recognize a single lease cost calculated so that the cost of the lease is allocated over lease term on a straight line basis, and classify all cash payments as operating activities in the statement of cash flows. Lessor accounting is largely unchanged, but does align the transfer of control principle for a sale in Topic 606 to leases. For example, whether a lease is similar to a sale of the underlying asset depends on whether the lessee, in effect, obtains control of the underlying asset as a result of the lease. This Update was further amended by ASU 2018-11 to provide lessors with a practical expedient, by class of underlying asset, to combine nonlease components with the associated lease component, provided that the nonlease components would otherwise be accounted for under the new revenue guidance in ASC 606 and certain conditions are met. For public business entities, this Update, as amended by ASU 2017-13 and ASU 2018-11, are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted. Entities are required to adopt the new leases standard either by using a modified retrospective transition method at the beginning of the earliest period presented in the financial statements or by applying the transition requirements in ASC 842 on its effective date, as amended by ASU 2018-11. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)." The amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects lifetime expected credit losses and requires consideration of a broader range of reasonable and supportable forecast information to measure credit loss estimates. For public business entities that are SEC filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

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In January 2017, the FASB issued ASU 2017-04, “Intangibles-Goodwill and Other (Topic 350).” The amendments in this Update eliminate Step 2 from the goodwill impairment test, reducing the cost and complexity of evaluating goodwill for impairment. Instead, an entity shall perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. For an impairment charge, an entity must recognize the amount by which the carrying amount exceeds the reporting unit’s fair value, but the loss recognized shall not exceed the total amount of goodwill allocated to that reporting unit. Furthermore, the amendment in this Update requires an entity to disclose the amount of goodwill allocated to each reporting unit with zero or negative carrying amount of net assets. Public business entities that are SEC filers must adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal year beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The amendments in this Update shorten the amortization period for certain callable debt securities acquired at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount, which continue to be amortized to maturity. Public business entities must prospectively apply the amendments in this Update to annual periods beginning after December 15, 2018, including interim periods. The Company believes the adoption of this guidance will not have a material impact on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12. “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” The amendments in this Update are to better reflect the economic results of hedging in the financial statements along with simplification of certain hedge accounting requirements. Specifically, the entire change in the fair value of the hedging instrument is required to be presented in the same income statement line as and in the same period that the earnings effect of the hedged item is recognized. Therefore, hedge ineffectiveness will not be reported separately or in a different period. In addition, hedge effectiveness can be determined qualitatively in periods following inception. The amendments permit an entity to measure the change in fair value of the hedged item on the basis of the benchmark rate component. They also permit an entity to measure the hedged item for a partial-term fair value hedge of interest rate risk by assuming the hedged item has a term that reflects only the designated cash flows being hedged. For a closed portfolio of prepayable financial assets, an entity is permitted to designate the amount that is not expected to be affected by prepayments or defaults as the hedged item. For public business entities, the new guidance is effective for fiscal years beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. The Company is in the process of evaluating the impact that the adoption of this guidance may have on its consolidated financial statements.

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SELECTED FINANCIAL DATA

The following table presents certain selected financial data as of the dates or for the periods indicated:

	As of or For the Three Months Ended June 30,		As of or For the Six Months Ended June 30,	
($ in thousands, except per share data)	2018	2017	2018	2017
Selected financial condition data:				
Total assets	$10,319,280	$10,365,768	$10,319,280	$10,365,768
Cash and cash equivalents	385,691	511,190	385,691	511,190
Loans and leases receivable, net	6,979,326	5,913,952	6,979,326	5,913,952
Loans held-for-sale	13,753	278,824	13,753	278,824
Other real estate owned, net	710	3,267	710	3,267
Securities available-for-sale	2,297,124	2,915,103	2,297,124	2,915,103
Bank owned life insurance	105,917	103,709	105,917	103,709
Time deposits in financial institutions	—	1,000	—	1,000
FHLB and other bank stock	75,737	63,438	75,737	63,438
Assets of discontinued operations	26,415	164,152	26,415	164,152
Deposits	7,135,794	8,044,911	7,135,794	8,044,911
Total borrowings	1,978,017	1,096,032	1,978,017	1,096,032
Liabilities of discontinued operation	—	17,229	—	17,229
Total stockholders' equity	988,688	1,006,292	988,688	1,006,292
Selected operations data:				
Total interest and dividend income	$105,185	$96,440	$203,892	$195,282
Total interest expense	32,421	20,940	59,690	39,301
Net interest income	72,764	75,500	144,202	155,981
Provision for loan and lease losses	2,653	2,503	22,152	5,086
Net interest income after provision for loan and lease losses	70,111	72,997	122,050	150,895
Total noninterest income	8,061	5,707	16,643	20,610
Total noninterest expense	62,539	76,319	122,339	166,215
Income from continuing operations before income taxes	15,633	2,385	16,354	5,290
Income tax expense (benefit)	1,779	(12,753)	(4,574)	(19,224)
Income from continuing operations	13,854	15,138	20,928	24,514
Income (loss) from discontinued operations before income taxes	1,281	(4,991)	3,325	8,357
Income tax expense (benefit)	355	(2,110)	915	3,413
Income (loss) from discontinued operations	926	(2,881)	2,410	4,944
Net income	14,780	12,257	23,338	29,458
Dividends paid on preferred stock	5,113	5,113	10,226	10,226
Net income available to common stockholders	9,667	7,144	13,112	19,232
Basic earnings per total common share				
Income from continuing operations	$0.17	$0.20	$0.20	$0.27
Income (loss) from discontinued operations	$0.02	$(0.06)	$0.05	$0.10
Net income	$0.19	$0.14	$0.25	$0.37
Diluted earnings per total common share				
Income from continuing operations	$0.16	$0.20	$0.20	$0.27
Income (loss) from discontinued operations	$0.02	$(0.06)	$0.05	$0.10
Net income	$0.18	$0.14	$0.25	$0.37
Performance ratios of consolidated operations: [1]				

Return on average assets	0.58	%	0.46	%	0.46	%	0.54	%
Return on average equity	5.92	%	4.85	%	4.66	%	5.89	%
Return on average tangible common equity [2]	6.03	%	4.51	%	4.18	%	6.11	%

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($ in thousands, except per share data)	As of or For the Three Months Ended June 30,				As of or For the Six Months Ended June 30,			
	2018		2017		2018		2017	
Dividend payout ratio (3)	68.42	%	92.86	%	104.00	%	70.27	%
Net interest spread	2.75	%	2.90	%	2.74	%	2.97	%
Net interest margin (4)	3.01	%	3.09	%	3.00	%	3.14	%
Ratio of noninterest expense to average total assets	2.45	%	3.68	%	2.41	%	4.11	%
Efficiency ratio (5)	76.17	%	100.10	%	74.52	%	92.25	%
Efficiency ratio, as adjusted (2), (5)	73.50	%	80.51	%	69.41	%	79.51	%
Average interest-earning assets to average interest-bearing liabilities	119.73	%	123.21	%	120.57	%	122.28	%
Asset quality ratios:								
ALLL	$56,678		$42,385		$56,678		$42,385	
Non-performing loans and leases	22,290		9,064		22,290		9,064	
Non-performing assets	23,000		12,331		23,000		12,331	
Non-performing assets to total assets	0.22	%	0.12	%	0.22	%	0.12	%
ALLL to non-performing loans and leases	254.28	%	467.62	%	254.28	%	467.62	%
ALLL to total loans and leases	0.81	%	0.71	%	0.81	%	0.71	%
Capital Ratios:								
Average equity to average assets	9.78	%	9.48	%	9.86	%	9.21	%
Total stockholders' equity to total assets	9.58	%	9.71	%	9.58	%	9.71	%
Tangible common equity to tangible assets (2)	6.57	%	6.68	%	6.57	%	6.68	%
Book value per common share	$14.24		$14.64		$14.24		$14.64	
Tangible common equity (TCE) per common share (2)	13.35		13.68		13.35		13.68	
Book value per common share and per common share issuable under purchase contracts	14.24		14.64		14.24		14.64	
TCE per common share and per common share issuable under purchase contracts (2)	13.35		13.68		13.35		13.68	
Banc of California, Inc.								
Total risk-based capital ratio	14.71	%	14.39	%	14.71	%	14.39	%
Tier 1 risk-based capital ratio	13.83	%	13.72	%	13.83	%	13.72	%
Common equity tier 1 capital ratio	9.90	%	9.83	%	9.90	%	9.83	%
Tier 1 leverage ratio	9.30	%	8.93	%	9.30	%	8.93	%
Banc of California, NA								
Total risk-based capital ratio	16.63	%	16.13	%	16.63	%	16.13	%
Tier 1 risk-based capital ratio	15.74	%	15.45	%	15.74	%	15.45	%
Common equity tier 1 capital ratio	15.74	%	15.45	%	15.74	%	15.45	%
Tier 1 leverage ratio	10.58	%	10.05	%	10.58	%	10.05	%

(1) Consolidated operations include both continuing and discontinued operations.
(2) Non-GAAP measure. See Non-GAAP Financial Measures for reconciliation of the calculation.
(3) Ratio of dividends declared per common share to basic earnings per common share.
(4) Net interest income divided by average interest-earning assets.
(5) Efficiency ratio represents noninterest expense as a percentage of net interest income plus noninterest income.

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Non-GAAP Financial Measures

Under Item 10(e) of SEC Regulation S-K, public companies disclosing financial measures in filings with the SEC that are not calculated in accordance with GAAP must also disclose, along with each non-GAAP financial measure, certain additional information, including a presentation of the most directly comparable GAAP financial measure, a reconciliation of the non-GAAP financial measure to the most directly comparable GAAP financial measure, as well as a statement of the reasons why the company's management believes that presentation of the non-GAAP financial measure provides useful information to investors regarding the company's financial condition and results of operations and, to the extent material, a statement of the additional purposes, if any, for which the company's management uses the non-GAAP financial measure.

Return on average tangible common equity and efficiency ratio, as adjusted, tangible common equity to tangible assets, and tangible common equity per common share and tangible common equity per common share and per common share issuable under purchase contracts constitute supplemental financial information determined by methods other than in accordance with GAAP. These non-GAAP measures are used by management in its analysis of the Company's performance.

Tangible common equity is calculated by subtracting preferred stock, goodwill, and other intangible assets from stockholders' equity. Tangible assets is calculated by subtracting goodwill and other intangible assets from total assets. Banking regulators also exclude goodwill and other intangible assets from stockholders' equity when assessing the capital adequacy of a financial institution.

Adjusted efficiency ratio is calculated by subtracting loss on investments in alternative energy partnerships from noninterest expense and adding total pre-tax return, which includes the loss on investments in alternative energy partnerships, to the sum of net interest income and noninterest income (total revenue). Management believes the presentation of these financial measures adjusting the impact of these items provides useful supplemental information that is essential to a proper understanding of the financial results and operating performance of the Company.

This disclosure should not be viewed as a substitute for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

The following tables provide reconciliations of the non-GAAP measures with financial measures defined by GAAP.

Return on Average Tangible Common Equity

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2018	2017	2018	2017
Average total stockholders' equity	$1,000,856	$1,014,267	$1,010,355	$1,008,060
Less average preferred stock	(269,071)	(269,071)	(269,071)	(269,071)
Less average goodwill	(37,144)	(37,144)	(37,144)	(38,177)
Less average other intangible assets	(8,110)	(11,808)	(8,539)	(12,495)
Average tangible common equity	$686,531	$696,244	$695,601	$688,317
Net income	$14,780	$12,257	$23,338	$29,458
Less preferred stock dividends	(5,113)	(5,113)	(10,226)	(10,226)
Add amortization of intangible assets	827	1,056	1,670	2,146
Add impairment on intangible assets	—	—	—	336
Less tax effect on amortization and impairment of intangible assets	(174)	(370)	(351)	(869)
Adjusted net income	$10,320	$7,830	$14,431	$20,845
Return on average equity	5.92%	4.85%	4.66%	5.89%
Return on average tangible common equity	6.03%	4.51%	4.18%	6.11%
Statutory tax rate utilized for calculating tax effect on amortization and impairment of intangible assets	21.00%	35.00%	21.00%	35.00%

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Efficiency ratio as adjusted to include the pre-tax effect of investments in alternative energy partnerships

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2018	2017	2018	2017
Noninterest expense	$62,554	$98,216	$122,366	$222,831
Loss on investments in alternative energy partnerships	(1,808)	(9,761)	(1,774)	(18,443)
Total adjusted noninterest expense	$60,746	$88,455	$120,592	$204,388
Net interest income	$72,953	$78,296	$144,577	$162,043
Noninterest income	9,168	19,817	19,620	79,521
Total revenue	82,121	98,113	164,197	241,564
Tax credit from investments in alternative energy partnerships	1,912	15,681	9,235	24,510
Deferred tax expense on investments in alternative energy partnerships	(211)	(2,744)	(980)	(4,289)
Tax effect on tax credit and deferred tax expense	631	8,584	3,053	13,724
Loss on investments in alternative energy partnerships	(1,808)	(9,761)	(1,774)	(18,443)
Total pre-tax adjustments for investments in alternative energy partnerships	524	11,760	9,534	15,502
Total adjusted revenue	$82,645	$109,873	$173,731	$257,066
Efficiency ratio	76.17 %	100.10 %	74.52 %	92.25 %
Efficiency ratio as adjusted to include the pre-tax effect of investments in alternative energy partnerships	73.50 %	80.51 %	69.41 %	79.51 %
Effective tax rate utilized for calculating tax effect on tax credit and deferred tax expense	27.07 %	39.89 %	27.00 %	40.43 %

Tangible Common Equity to Tangible Assets and Tangible Common Equity Per Common Share and Per Common Share Issuable under Purchase Contracts

	June 30,	
($ in thousands)	2018	2017
Total stockholders' equity	$988,688	$1,006,292
Less goodwill	(37,144)	(37,144)
Less other intangible assets	(7,683)	(11,135)
Less preferred stock	(269,071)	(269,071)
Tangible common equity	$674,790	$688,942
Total assets	$10,319,280	$10,365,768
Less goodwill	(37,144)	(37,144)
Less other intangible assets	(7,683)	(11,135)
Tangible assets	$10,274,453	$10,317,489
Total stockholders' equity to total assets	9.58 %	9.71 %
TCE to tangible assets	6.57 %	6.68 %
Common shares outstanding	50,142,955	49,991,395
Class B non-voting non-convertible common shares outstanding	403,778	355,173
Total common shares outstanding	50,546,733	50,346,568
Total common shares outstanding and shares issuable under purchase contracts	50,546,733	50,346,568
Book value per common share	$14.24	$14.64
TCE per common share	$13.35	$13.68
Book value per common share and per common share issuable under purchase contracts	$14.24	$14.64
TCE per common share and per common share issuable under purchase contracts	$13.35	$13.68

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Executive Overview

The Company is focused on California and core banking products and services designed to cater to the unique needs of California's diverse private businesses, entrepreneurs and communities through its 34 full service branches in San Diego, Orange, Santa Barbara, and Los Angeles Counties. The Company offers a variety of financial products and services designed around its target client in order to serve all of their banking and financial needs.

Financial Highlights

For the three months ended June 30, 2018 and 2017, net income from continuing operations was $13.9 million and $15.1 million, respectively. Diluted earnings from continuing operations per total common share were $0.16 and $0.20, respectively, for the three months ended June 30, 2018 and 2017. For the six months ended June 30, 2018 and 2017, net income from continuing operations was $20.9 million and $24.5 million, respectively. Diluted earnings from continuing operations per total common share were $0.20 and $0.27, respectively, for the six months ended June 30, 2018 and 2017. The decrease in net income from continuing operations for the three months ended June 30, 2018 compared to same period last year was due mainly to a decrease in net interest income and income tax benefit, partially offset by an increase in noninterest income and a decrease in noninterest expense. The decrease in net income from continuing operations for the six months ended June 30, 2018 compared to same period last year was due mainly to decreases in net interest income, noninterest income and income tax benefit and an increase in provision for loan losses, partially offset by a decrease in noninterest expense.

Total assets were $10.32 billion at June 30, 2018, a decrease of $8.6 million from $10.33 billion at December 31, 2017. The decrease was mainly due to decreases in investment securities, loans held-for-sale, servicing rights and assets in discontinued operations, partially offset by an increase in loans and leases held-for-investment.

Significant financial highlights include:

- Securities available-for-sale were $2.30 billion at June 30, 2018, a decrease of $278.3 million, or 10.8 percent, from $2.58 billion at December 31, 2017. The Company repositioned its securities available-for-sale portfolio to navigate a volatile rate environment by reducing the overall duration of the portfolio as a result of selling longer-duration corporate debt securities. The proceeds from such sales were primarily used to fund loan originations.
- Loans and leases receivable, net of ALLL, were $6.98 billion at June 30, 2018, an increase of $369.3 million, or 5.6 percent, from $6.61 billion at December 31, 2017. The increase was due mainly to originations during the six months ended June 30, 2018, partially offset by an increase of $7.3 million in the ALLL.
- Total deposits were $7.14 billion at June 30, 2018, a decrease of $157.1 million, or 2.2 percent, from $7.29 billion at December 31, 2017. The Company reduced its reliance on high-rate and high-volatility deposits and brokered deposits by replacing them with more predictable advances from FHLB and increasing core deposits to fund new loan originations.

RESULTS OF OPERATIONS

Condensed Statements of Continuing Operations, Discontinued Operations and Consolidated Operations

The following table presents condensed statements of continuing operations, discontinued operations and consolidated operations for the period indicated:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
($ in thousands)	Continuing Operations	Discontinued Operations	Consolidated Operations	Continuing Operations	Discontinued Operations	Consolidated Operations
Interest and dividend income	$105,185	$ 189	$ 105,374	$203,892	$ 375	$ 204,267
Interest expense	32,421	—	32,421	59,690	—	59,690
Net interest income	72,764	189	72,953	144,202	375	144,577
Provision for loan and lease losses	2,653	—	2,653	22,152	—	22,152
Noninterest income	8,061	1,107	9,168	16,643	2,977	19,620
Noninterest expense	62,539	15	62,554	122,339	27	122,366
Income from continuing operations before income taxes	15,633	1,281	16,914	16,354	3,325	19,679

Income tax expense (benefit)	1,779	355	2,134	(4,574)	915	(3,659)
Net income	$13,854	$ 926	$ 14,780	$20,928	$ 2,410	$ 23,338

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Net Interest Income

The following table presents interest income, average interest-earning assets, interest expense, average interest-bearing liabilities, and their correspondent yields and costs expressed both in dollars and rates, on a consolidated operations basis, for the three months ended June 30, 2018 and 2017:

	Three Months Ended June 30,					
	2018			2017		
($ in thousands)	Average Balance	Interest	Yield/Cost	Average Balance	Interest	Yield/Cost
Interest-earning assets:						
Total loans and leases [1]	$7,055,079	$81,496	4.63 %	$6,639,666	$72,457	4.38 %
Securities	2,279,416	21,455	3.78 %	3,004,551	24,996	3.34 %
Other interest-earning assets [2]	392,342	2,423	2.48 %	517,349	1,783	1.38 %
Total interest-earning assets	9,726,837	105,374	4.35 %	10,161,566	99,236	3.92 %
ALLL	(54,903)			(42,896)		
BOLI and non-interest earning assets [3]	565,224			578,333		
Total assets	$10,237,158			$10,697,003		
Interest-bearing liabilities:						
Savings	$1,055,693	3,886	1.48 %	$1,002,797	2,262	0.90 %
Interest-bearing checking	1,822,856	4,182	0.92 %	2,013,751	3,609	0.72 %
Money market	1,134,280	3,689	1.30 %	2,359,173	5,482	0.93 %
Certificates of deposit	2,079,932	8,558	1.65 %	1,606,270	3,589	0.90 %
Total interest-bearing deposits	6,092,761	20,315	1.34 %	6,981,991	14,942	0.86 %
FHLB advances	1,827,307	9,539	2.09 %	990,780	2,774	1.12 %
Securities sold under repurchase agreements	29,907	211	2.83 %	34,298	180	2.11 %
Long term debt and other interest-bearing liabilities	174,296	2,356	5.42 %	240,201	3,044	5.08 %
Total interest-bearing liabilities	8,124,271	32,421	1.60 %	8,247,270	20,940	1.02 %
Noninterest-bearing deposits	1,004,502			1,261,338		
Non-interest-bearing liabilities	107,529			174,128		
Total liabilities	9,236,302			9,682,736		
Total stockholders' equity	1,000,856			1,014,267		
Total liabilities and stockholders' equity	$10,237,158			$10,697,003		
Net interest income/spread		$72,953	2.75 %		$78,296	2.90 %
Net interest margin [4]			3.01 %			3.09 %

(1) Total loans and leases are net of deferred fees, related direct costs and discounts, but exclude the allowance for loan and lease losses. Non-accrual loans and leases are included in the average balance. Net accretion of deferred loan fees and costs of $106 thousand and $372 thousand and accretion of discount on purchased loans of $552 thousand and $2.2 million for the three months ended June 30, 2018 and 2017, respectively, are included in interest income.

(2) Includes average balance of FHLB and other bank stock at cost and average time deposits with other financial institutions.

(3) Includes average balance of bank-owned life insurance of $105.6 million and $103.3 million for the three months ended June 30, 2018 and 2017, respectively.

(4) Annualized net interest income divided by average interest-earning assets.

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The following table presents interest income, average interest-earning assets, interest expense, average interest-bearing liabilities, and their correspondent yields and costs expressed both in dollars and rates, on a consolidated operations basis, for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30,					
	2018			2017		
($ in thousands)	Average Balance	Interest	Yield/Cost	Average Balance	Interest	Yield/Cost
Interest-earning assets:						
Total loans and leases [1]	$6,930,867	$156,594	4.56 %	$6,711,938	$145,230	4.36 %
Securities	2,401,639	43,086	3.62 %	3,189,596	52,235	3.30 %
Other interest-earning assets [2]	399,662	4,587	2.31 %	508,784	3,879	1.54 %
Total interest-earning assets	9,732,168	204,267	4.23 %	10,410,318	201,344	3.90 %
ALLL	(52,095)			(42,095)		
BOLI and non-interest earning assets [3]	570,050			573,323		
Total assets	$10,250,123			$10,941,546		
Interest-bearing liabilities:						
Savings	$1,055,516	7,186	1.37 %	$1,022,305	4,555	0.90 %
Interest-bearing checking	1,899,085	8,291	0.88 %	2,011,303	7,023	0.70 %
Money market	1,105,359	6,523	1.19 %	2,546,452	10,173	0.81 %
Certificates of deposit	1,993,723	15,110	1.53 %	1,770,916	7,151	0.81 %
Total interest-bearing deposits	6,053,683	37,110	1.24 %	7,350,976	28,902	0.79 %
FHLB advances	1,769,520	16,931	1.93 %	902,105	4,197	0.94 %
Securities sold under repurchase agreements	74,477	961	2.60 %	18,300	186	2.05 %
Long term debt and other interest-bearing liabilities	174,360	4,688	5.42 %	242,110	6,016	5.01 %
Total interest-bearing liabilities	8,072,040	59,690	1.49 %	8,513,491	39,301	0.93 %
Noninterest-bearing deposits	1,030,457			1,221,530		
Non-interest-bearing liabilities	137,271			198,465		
Total liabilities	9,239,768			9,933,486		
Total stockholders' equity	1,010,355			1,008,060		
Total liabilities and stockholders' equity	$10,250,123			$10,941,546		
Net interest income/spread		$144,577	2.74 %		$162,043	2.97 %
Net interest margin [4]			3.00 %			3.14 %

(1) Total loans and leases are net of deferred fees, related direct costs and discounts, but exclude the allowance for loan and lease losses. Non-accrual loans and leases are included in the average balance. Net accretion of deferred loan fees and costs of $228 thousand and $161 thousand and accretion of discount on purchased loans of $562 thousand and $4.2 million for the six months ended June 30, 2018 and 2017, respectively, are included in interest income.

(2) Includes average balance of FHLB and other bank stock at cost and average time deposits with other financial institutions.

(3) Includes average balance of bank-owned life insurance of $105.3 million and $103.0 million for the three months ended June 30, 2018 and 2017, respectively.

(4) Annualized net interest income divided by average interest-earning assets.

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Rate/Volume Analysis

The following table presents the changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. Information is provided on changes attributable to: (i) changes in volume multiplied by the prior rate; and (ii) changes in rate multiplied by the prior volume. Changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Three Months Ended June 30, 2018 vs. 2017			Six Months Ended June 30, 2018 vs 2017		
	Increase (Decrease) Due to		Net Increase	Increase (Decrease) Due to		Net Increase
(In thousands)	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
Interest and dividend income:						
Total loans and leases	$4,727	$4,312	$ 9,039	$4,722	$6,642	$ 11,364
Securities	(6,555)	3,014	(3,541)	(13,839)	4,690	(9,149)
Other interest-earning assets	(511)	1,151	640	(954)	1,662	708
Total interest and dividend income	$(2,339)	$8,477	$ 6,138	$(10,071)	$12,994	$ 2,923
Interest expense:						
Savings	$123	$1,501	$ 1,624	$154	$2,477	$ 2,631
Interest-bearing checking	(365)	938	573	(414)	1,682	1,268
Money market	(3,479)	1,686	(1,793)	(7,242)	3,592	(3,650)
Certificates of deposit	1,299	3,670	4,969	987	6,972	7,959
FHLB advances	3,340	3,425	6,765	6,077	6,657	12,734
Securities sold under repurchase agreements	(25)	56	31	713	62	775
Long term debt and other interest-bearing liabilities	(881)	193	(688)	(1,789)	461	(1,328)
Total interest expense	12	11,469	11,481	(1,514)	21,903	20,389
Net interest income	$(2,351)	$(2,992)	$ (5,343)	$(8,557)	$(8,909)	$ (17,466)

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

Net interest income was $73.0 million for the three months ended June 30, 2018, a decrease of $5.3 million, or 6.8 percent, from $78.3 million for the three months ended June 30, 2017. The decrease in net interest income from the prior period was largely due to higher average cost of interest-bearing liabilities and lower average balances of securities, partially offset by higher average yield from interest-earning assets and lower average balances of interest-bearing deposits.

Interest income on total loans and leases was $81.5 million for the three months ended June 30, 2018, an increase of $9.0 million, or 12.5 percent, from $72.5 million for the three months ended June 30, 2017. The increase in interest income on loans and leases was due to a $415.4 million increase in the average balance of total loans and leases and a 25 basis points (bps) increase in average yield. The increase in average balance was due mainly to increased loan originations, partially offset by sales of seasoned SFR mortgage loan pools during the three months ended September 30, 2017. The increase in average yield was mainly due to higher interest rates on new loans and loans with variable interest rates from a rising interest rate environment, partially offset by a decrease in seasoned SFR mortgage loan pools, the discounts of which generated additional interest income during the three months ended June 30, 2017.

Interest income on securities was $21.5 million for the three months ended June 30, 2018, a decrease of $3.5 million, or 14.2 percent, from $25.0 million for the three months ended June 30, 2017. The decrease in interest income on securities was due to a $725.1 million decrease in average balance, partially offset by a 44 bps increase in average yield. The decrease in average balance was mainly due to sales of certain longer-duration and fixed-rate mortgage-backed securities and corporate debt securities to navigate a volatile rate environment during 2017 and 2018 and remix of our earning assets from investment securities to loans. The increase in average yield was due to higher interest rates on newly purchased investment securities and investment securities with variable interest rates from a rising interest rate environment.

Dividends and interest income on other interest-earning assets was $2.4 million for the three months ended June 30, 2018, an increase of $640 thousand, or 35.9 percent, from $1.8 million for the three months ended June 30, 2017. The increase in dividends and interest income on other interest-earning assets was due to a 110 bps increase in average yield, partially offset by a $125.0 million decrease in average balance. The increase in average yield was mainly due to higher interest rates on interest-earning deposits in financial institutions from a rising interest rate environment. The decrease in average balance was mainly due to reduced cash balance from decreases in deposits and an increase in total loans and leases, partially offset by a decrease in securities and increases in other borrowings.

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Interest expense on interest-bearing deposits was $20.3 million for the three months ended June 30, 2018, an increase of $5.4 million, or 36.0 percent, from $14.9 million for the three months ended June 30, 2017. The increase in interest expense on interest-bearing deposits was due to a 48 bps increase in average cost, partially offset by a $889.2 million decrease in average balance. The increase in average cost was mainly due to a rising interest rate environment. The decrease in average balance was mainly due to the Company's strategic reduction of brokered and other high-rate and high-volatility deposits.

Interest expense on FHLB advances was $9.5 million for the three months ended June 30, 2018, an increase of $6.8 million, or 243.9 percent, from $2.8 million for the three months ended June 30, 2017. The increase was due mainly to a 97 bps increase in average cost and a $836.5 million increase in average balance. The increase in average cost was mainly due to a rising interest rate environment. The increase in average balance was mainly due to additional term advances, primarily two- to six-year duration, which were obtained as a result of asset and liability management activities to offset the decrease in deposits.

Interest expense on securities sold under repurchase agreements was $211 thousand for the three months ended June 30, 2018, an increase of $31 thousand, from $180 thousand for the three months ended June 30, 2017. The Company utilized an increased amount of repurchase agreements to diversify its funding sources during the three months ended June 30, 2018.

Interest expense on long term debt and other interest-bearing liabilities was $2.4 million for the three months ended June 30, 2018, a decrease of $688 thousand, or 22.6 percent, from $3.0 million for the three months ended June 30, 2017. The decrease was mainly due to the maturity of amortizing debt during the three months ended June 30, 2017 and the utilization of a line of credit with an unaffiliated third party financial institution during the three months ended March 31, 2017, which was voluntarily terminated by the Company on June 30, 2017.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Net interest income was $144.6 million for the six months ended June 30, 2018, a decrease of $17.5 million, or 10.8 percent, from $162.0 million for the six months ended June 30, 2017. The decrease in net interest income from the prior period was largely due to higher average cost of interest-bearing liabilities and lower average balances of securities and other interest-earning assets, partially offset by higher average yield from interest-earning assets and lower average balances of interest-bearing deposits.

Interest income on total loans and leases was $156.6 million for the six months ended June 30, 2018, an increase of $11.4 million, or 7.8 percent, from $145.2 million for the six months ended June 30, 2017. The increase in interest income on loans and leases was due to a $218.9 million increase in the average balance of total loans and leases and a 20 bps increase in average yield. The increase in average balance was due mainly to increased loan originations, partially offset by sales of seasoned SFR mortgage loan pools during three months ended September 30, 2017. The increase in average yield was mainly due to higher interest rates on new loans and loans with variable interest rates from a rising interest rate environment, partially offset by a decrease of seasoned SFR mortgage loan pools, the discounts of which generated additional interest income during the six months ended June 30, 2017.

Interest income on securities was $43.1 million for the six months ended June 30, 2018, a decrease of $9.1 million, or 17.5 percent, from $52.2 million for the six months ended June 30, 2017. The decrease in interest income on securities was due to a $788.0 million decrease in average balance, partially offset by a 32 bps increase in average yield. The decrease in average balance was mainly due to sales of certain longer-duration and fixed-rate mortgage-backed securities and corporate debt securities to navigate a volatile rate environment during 2017 and 2018 and remix of our earning assets from investment securities to loans. The increase in average yield was due to higher interest rates on newly purchased investment securities and investment securities with variable interest rates from a rising interest rate environment.

Dividends and interest income on other interest-earning assets was $4.6 million for the six months ended June 30, 2018, an increase of $708 thousand, or 18.3 percent, from $3.9 million for the six months ended June 30, 2017. The increase in dividends and interest income on other interest-earning assets was due to a 77 bps increase in average yield, partially offset by a $109.1 million decrease in average balance. The increase in average yield was mainly due to higher interest rates on interest-earning deposits in financial institutions from a rising interest rate environment. The decrease in average balance was mainly due to reduced cash balance from decreases in deposits and an increase in

total loans and leases, partially offset by a decrease in securities and increases in other borrowings.
Interest expense on interest-bearing deposits was $37.1 million for the six months ended June 30, 2018, an increase of $8.2 million, or 28.4 percent, from $28.9 million for the six months ended June 30, 2017. The increase in interest expense on interest-bearing deposits was due to a 45 bps increase in average cost, partially offset by a $1.30 billion decrease in average balance. The increase in average cost was mainly due to a rising interest rate environment. The decrease in average balance was mainly due to the Company's strategic reduction of brokered and other high-rate and high-volatility deposits.

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Interest expense on FHLB advances was $16.9 million for the six months ended June 30, 2018, an increase of $12.7 million, or 303.4 percent, from $4.2 million for the six months ended June 30, 2017. The increase was due mainly to a 99 bps increase in average cost and a $867.4 million increase in average balance. The increase in average cost was mainly due to a rising interest rate environment. The increase in average balance was mainly due to additional term advances, primarily two- to six-year duration, which were obtained as a result of asset and liability management activities to offset the decrease in deposits.

Interest expense on securities sold under repurchase agreements was $961 thousand for the six months ended June 30, 2018, an increase of $775 thousand, or 416.7 percent, from $186 thousand for the six months ended June 30, 2017. The Company utilized an increased amount of repurchase agreements to diversify its funding sources during the six months ended June 30, 2018.

Interest expense on long term debt and other interest-bearing liabilities was $4.7 million for the six months ended June 30, 2018, a decrease of $1.3 million, or 22.1 percent, from $6.0 million for the six months ended June 30, 2017. The decrease was mainly due to the maturity of amortizing debt during the three months ended June 30, 2017 and the utilization of a line of credit with an unaffiliated third party financial institution during the three months ended March 31, 2017, which was voluntarily terminated by the Company on June 30, 2017.

Provision for Loan and Lease Losses

The provision for loan and lease losses is charged to operations to adjust the allowance for loan and lease losses to the level required to cover estimated credit losses inherent in the loan and lease portfolio. The Company recorded provisions for loan and lease losses of $2.7 million and $2.5 million, respectively, for the three months ended June 30, 2018 and 2017, and $22.2 million and $5.1 million, respectively, for the six months ended June 30, 2018 and 2017. The increase in the provision during the six months ended June 30, 2018 compared to same period in 2017 was mainly due to an additional provision for a charge-off of $13.9 million on a line of credit determined to have been fraudulently obtained and a downgrade of a commercial and industrial loan with a carrying value of $28.5 million from Special Mention to Substandard, as well as an increase in loan balances during the six months ended June 30, 2018.

See further discussion in "Allowance for Loan and Lease Losses."

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Noninterest Income

The following table presents the breakdown of non-interest income for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2018	2017	2018	2017
Customer service fees	$1,491	$1,669	$3,083	$3,292
Loan servicing income	948	132	3,259	2,888
Income from bank owned life insurance	533	616	1,066	1,197
Net gain on sale of securities available-for-sale	278	1,099	5,519	4,455
Net gain on sale of loans	821	983	780	5,002
Net loss on sale of mortgage servicing rights	(155)	—	(2,450)	—
Other income	4,145	1,208	5,386	3,776
Total noninterest income	$8,061	$5,707	$16,643	$20,610

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

Noninterest income was $8.1 million for the three months ended June 30, 2018, an increase of $2.4 million, or 41.2 percent, from $5.7 million for the three months ended June 30, 2017. The increase in noninterest income was mainly due to increases in loan servicing income and other income, partially offset by decreases in net gain on sale of loans and net gain on sale of securities available-for-sale and a net loss on sale of mortgage servicing rights.

Customer service fees were $1.5 million for the three months ended June 30, 2018, a decrease of $178 thousand, or 10.7 percent, from $1.7 million for the three months ended June 30, 2017. The decrease was mainly due to the decreases in average balances of noninterest-bearing checking accounts.

Loan servicing income was $948 thousand for the three months ended June 30, 2018, an increase of $816 thousand, or 618.2 percent, from $132 thousand for the three months ended June 30, 2017. On a consolidated operations basis, total income from servicing rights was $948 thousand and $132 thousand, respectively, for the three months ended June 30, 2018 and 2017. The increase was mainly due to higher losses on the fair value of mortgage servicing rights during the three months ended June 30, 2017, partially offset by sales of MSRs during the first half of 2018. Gains (losses) on fair value and runoff of servicing assets were $39 thousand and $(4.5) million for the three months ended June 30, 2018 and 2017, respectively. Servicing fees were $909 thousand and $4.6 million for the three months ended June 30, 2018 and 2017, respectively.

Net gain on sale of securities available-for-sale was $278 thousand for the three months ended June 30, 2018, compared to $1.1 million for the three months ended June 30, 2017. The Company sold securities available-for-sale of $201.4 million and $431.1 million, respectively, during the three months ended June 30, 2018 and 2017. The Company further repositioned its securities available-for-sale portfolio to reduce duration by selling longer-duration and fixed rate mortgage-backed securities during the three months ended June 30, 2018.

Net gain on sale of loans was $821 thousand for the three months ended June 30, 2018, a decrease of $162 thousand, or 16.5 percent, from $1.0 million for the three months ended June 30, 2017. During the three months ended June 30, 2018, the Company sold jumbo SFR mortgage loans of $133.2 million with a gain of $204 thousand, SBA loans of $5.3 million with a gain of $430 thousand and multifamily loans of $71.3 million with a gain of $187 thousand. During the three months ended June 30, 2017, the Company sold jumbo SFR mortgage loans of $271.5 million with a gain of $96 thousand, SBA loans of $9.5 million with a gain of $887 thousand, and multifamily loans of $6.6 million with a gain of $0.

Net loss on sale of mortgage servicing rights was $155 thousand for the three months ended June 30, 2018. During the three months ended June 30, 2018, the Company sold $2.6 million of MSRs on $334.1 million in unpaid principal balances of conventional mortgage loans. This transaction resulted in a loss on sale of MSRs of $155 thousand, primarily related to transaction costs, provision for early repayments of loans and expected repurchase obligations under standard representations and warranties.

Other income was $4.1 million for the three months ended June 30, 2018, an increase of $2.9 million, or 243.1 percent, from $1.2 million for the three months ended June 30, 2017. The increase was mainly due to proceeds from a legal settlement of $2.1 million received during the three months ended June 30, 2018.

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Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Noninterest income was $16.6 million for the six months ended June 30, 2018, a decrease of $4.0 million, or 19.2 percent, from $20.6 million for the six months ended June 30, 2017. The decrease in noninterest income was mainly due to decreases in net gain on sale of loans and a net loss on sale of mortgage servicing rights, partially offset by increases in net gain on sale of securities available-for-sale, loan servicing income and other income.

Customer service fees were $3.1 million for the six months ended June 30, 2018, a decrease of $209 thousand, or 6.3 percent, from $3.3 million for the six months ended June 30, 2017. The decrease was mainly due to the decreases in average deposit balances.

Loan servicing income was $3.3 million for the six months ended June 30, 2018, an increase of $371 thousand, or 12.8 percent, from $2.9 million for the six months ended June 30, 2017. On a consolidated operations basis, total income from servicing rights was $3.3 million and $4.4 million, respectively, for the six months ended June 30, 2018 and 2017. The decrease was mainly due to the decreased volume of loans sold with servicing retained as a result of discontinued operations and sales of MSRs during the first half of 2018. Losses on fair value and runoff of servicing assets were $881 thousand and $6.4 million for the six months ended June 30, 2018 and 2017, respectively. Servicing fees were $4.1 million and $10.8 million for the six months ended June 30, 2018 and 2017, respectively.

Net gain on sale of securities available-for-sale was $5.5 million for the six months ended June 30, 2018, an increase of $1.1 million, or 23.9 percent, from $4.4 million for the six months ended June 30, 2017. The Company sold securities available-for-sale of $381.5 million and $806.3 million, respectively, during the six months ended June 30, 2018 and 2017. The Company further repositioned its securities available-for-sale portfolio to reduce duration by selling longer-duration and fixed rate mortgage-backed securities and corporate debt securities during the six months ended June 30, 2018.

Net gain on sale of loans was $780 thousand for the six months ended June 30, 2018, a decrease of $4.2 million from $5.0 million for the six months ended June 30, 2017. During the six months ended June 30, 2018, the Company sold jumbo SFR mortgage loans of $135.4 million with a loss of $179 thousand and multifamily and other consumer loans of $75.7 million with a gain of $171 thousand. During the six months ended June 30, 2017, the Company sold jumbo SFR mortgage loans of $616.7 million with a gain of $2.9 million, SBA loans of $18.5 million with a gain of $1.8 million, and multifamily loans of $14.6 million with a gain of $421 thousand.

Net loss on sale of mortgage servicing rights was $2.5 million for the six months ended June 30, 2018. During the six months ended June 30, 2018, the Company sold $28.5 million of MSRs on $3.55 billion in unpaid principal balances of conventional mortgage loans. This transaction resulted in a loss on sale of MSRs of $2.5 million, primarily related to transaction costs, provision for early repayments of loans and expected repurchase obligations under standard representations and warranties.

Other income was $5.4 million for the six months ended June 30, 2018, an increase of $1.6 million, or 42.6 percent, from $3.8 million for the six months ended June 30, 2017. The increase was mainly due to proceeds of a legal settlement of $2.1 million received during the three months ended June 30, 2018, partially offset by a decrease in loan brokerage income of $1.1 million as the Company did not have any brokered loans activity during the six months ended June 30, 2018.

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Noninterest Expense

The following table presents the breakdown of noninterest expense for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2018	2017	2018	2017
Salaries and employee benefits	29,440	33,348	60,555	65,791
Occupancy and equipment	7,883	9,776	15,570	20,444
Professional fees	6,303	11,794	15,480	26,867
Outside service fees	413	1,119	2,959	3,002
Data processing	1,678	2,246	3,334	4,425
Advertising	2,864	1,117	6,141	2,842
Regulatory assessments	2,196	1,140	4,288	3,581
Reversal of provision for loan repurchases	(218)	(403)	(2,006)	(728)
Amortization of intangible assets	827	1,056	1,670	2,146
Impairment on intangible assets	—	—	—	336
Restructuring expense	3,983	82	3,983	5,369
All other expense	5,362	5,283	8,591	13,697
Noninterest expense before loss on investments in alternative energy partnerships	60,731	66,558	120,565	147,772
Loss on investments in alternative energy partnerships	1,808	9,761	1,774	18,443
Total noninterest expense	$62,539	$76,319	$122,339	$166,215

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

Noninterest expense was $62.5 million for the three months ended June 30, 2018, a decrease of $13.8 million, or 18.1 percent, from $76.3 million for the three months ended June 30, 2017. The decrease was mainly due to overall expense reductions from the Company's effort to manage its expenses and a decrease in loss on investments in alternative energy partnerships, partially offset by increases in restructuring expense, regulatory assessments and advertising expense.

Salaries and employee benefits expense was $29.4 million for the three months ended June 30, 2018, a decrease of $3.9 million, or 11.7 percent, from $33.3 million for the three months ended June 30, 2017. The decrease was mainly due to decreases in number of employees, commissions, and temporary staff expenses.

Occupancy and equipment expenses were $7.9 million for the three months ended June 30, 2018, a decrease of $1.9 million, or 19.4 percent, from $9.8 million for the three months ended June 30, 2017. The decrease was mainly due to the higher building and maintenance costs associated with the move to the new headquarters building in Santa Ana and remaining lease payments for the previous headquarters building in Irvine, during the three months ended June 30, 2017.

Professional fees were $6.3 million for the three months ended June 30, 2018, a decrease of $5.5 million, or 46.6 percent, from $11.8 million for the three months ended June 30, 2017. The decrease was mainly due to insurance recoveries of $5.4 million received during the three months ended June 30, 2018 and higher audit fees related to the special committee investigation for the three months ended June 30, 2017, partially offset by expenses related to loan fraud investigation, ongoing expenses related to the SEC investigation, and various other litigation during the three months ended June 30, 2018.

Outside service fees were $413 thousand for the three months ended June 30, 2018, a decrease of $706 thousand, or 63.1 percent, from $1.1 million for the three months ended June 30, 2017. The decrease was mainly due to decreases in loan sub-servicing expense for seasoned SFR mortgage loan pools and sale of MSRs, partially offset by an increase in recruiting fees and expenses related to foreclosure activities.

Data processing expense was $1.7 million for the three months ended June 30, 2018, a decrease of $568 thousand, or 25.3 percent, from $2.2 million for the three months ended June 30, 2017. The decrease was mainly due to a decreased volume of transactions from the lower deposit average balances during the three months ended June 30, 2018.

Advertising costs were $2.9 million for the three months ended June 30, 2018, an increase of $1.7 million, or 156.4 percent, from $1.1 million for the three months ended June 30, 2017. The increase was mainly due to $1.7 million of the LAFC naming rights commitment being expensed to marketing and advertising expenses during the three months ended June 30, 2018.

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Regulatory assessments were $2.2 million for the three months ended June 30, 2018, an increase of $1.1 million, or 92.6 percent, from $1.1 million for the three months ended June 30, 2017. The increase was mainly due to an increased assessment rate as a result of lower average balance of core deposits over total liabilities during the three months ended June 30, 2018

Loss on investments in alternative energy partnerships was $1.8 million for the three months ended June 30, 2018, a decrease of $8.0 million, or 81.5%, from a loss of $9.8 million for the three months ended June 30, 2017. The decrease in loss was mainly due to lower HLBV loss resulting from less new equipment being placed into service.

Reversal of provision for loan repurchases was $218 thousand and $403 thousand for the three months ended June 30, 2018 and 2017, respectively. Additionally, the Company recorded an initial provision for loan repurchases of $53 thousand and $673 thousand during the three months ended June 30, 2018 and 2017, respectively. As a result, total provision (reversal) for loan repurchases was $(165) thousand and $270 thousand for the three months ended June 30, 2018 and 2017, respectively. The decrease was mainly due to the portfolio run-off and repurchase settlement activities as well as methodology and data enhancements.

Amortization of intangible assets was $827 thousand for the three months ended June 30, 2018, a decrease of $229 thousand, or 21.7 percent, from $1.1 million for the three months ended June 30, 2017. The decrease was mainly due to a normal amount of amortization of intangible assets during the period with no new additional intangible assets between the periods.

Restructuring expense was $4.0 million for the three months ended June 30, 2018, an increase of $3.9 million, from $82 thousand for the three months ended June 30, 2017. The increase was primarily due to one-time severance-related costs in the second quarter of 2018 of $4.0 million, pre-tax, as a result of the reduction in force.

All other expenses were $5.4 million for the three months ended June 30, 2018, an increase of $79 thousand, or 1.5 percent, from $5.3 million for the three months ended June 30, 2017. The decrease was mainly due to overall expense reductions from the Company's effort to manage its expenses on supplies, business travel, directors' fees and other administrative expenditures, and a reversal of provision for unfunded loan commitments.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Noninterest expense was $122.3 million for the six months ended June 30, 2018, a decrease of $43.9 million, or 26.4 percent, from $166.2 million for the six months ended June 30, 2017. The decrease was mainly due to overall expense reductions from the Company's effort to manage its expenses and a decrease in loss on investments in alternative energy partnerships, partially offset by an increase in advertising expense.

Salaries and employee benefits expense was $60.6 million for the six months ended June 30, 2018, a decrease of $5.2 million, or 8.0 percent, from $65.8 million for the six months ended June 30, 2017. The decrease was mainly due to decreases in number of employees, commissions, and temporary staff expenses, partially offset by a $7.8 million excess bonus accrual reversal due to a change in estimate during the three months ended March 31, 2017.

Occupancy and equipment expenses were $15.6 million for the six months ended June 30, 2018, a decrease of $4.9 million, or 23.8 percent, from $20.4 million for the six months ended June 30, 2017. The decrease was mainly due to decreased rent and other equipment expenses from the sale of the Banc Home Loan division on March 30, 2017 and expiration of the lease contract of previous headquarters building in Irvine in December 2017.

Professional fees were $15.5 million for the six months ended June 30, 2018, a decrease of $11.4 million, or 42.4 percent, from $26.9 million for the six months ended June 30, 2017. The decrease was mainly due to insurance recoveries of $6.5 million received during the three months ended June 30, 2018 and higher expenses related to the special committee investigation, pending SEC investigation, various other litigation and higher audit fees for the six months ended June 30, 2017.

Outside service fees were $3.0 million for the six months ended June 30, 2018, a decrease of $43 thousand, or 1.4 percent, from $3.0 million for the six months ended June 30, 2017. The decrease was mainly due to decreases in loan sub-servicing expense for seasoned SFR mortgage loan pools and sale of MSRs, partially offset by an increase in recruiting fees and expenses related to foreclosure activities.

Data processing expense was $3.3 million for the six months ended June 30, 2018, a decrease of $1.1 million, or 24.7 percent, from $4.4 million for the six months ended June 30, 2017. The decrease was mainly due to a decreased volume of transactions from the lower deposit average balances during the six months ended June 30, 2018.

Advertising costs were $6.1 million for the six months ended June 30, 2018, an increase of $3.3 million, or 116.1 percent, from $2.8 million for the six months ended June 30, 2017. The increase was mainly due to $3.3 million of LAFC naming rights commitment being expensed to marketing and advertising expenses during the six months ended June 30, 2018.

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Regulatory assessments were $4.3 million for the six months ended June 30, 2018, an increase of $707 thousand, or 19.7 percent, from $3.6 million for the six months ended June 30, 2017. The increase was mainly due to an increased assessment rate as a result of lower average balance of core deposits over total liabilities during the six months ended June 30, 2018.

Loss on investments in alternative energy partnerships was $1.8 million for the six months ended June 30, 2018, a decrease of $16.7 million, or 90.4 percent, from a loss of $18.4 million for the six months ended June 30, 2017. The decrease in loss was mainly due to lower HLBV loss resulting from less new equipment being placed into service.

Reversal of provision for loan repurchases was $2.0 million and $728 thousand for the six months ended June 30, 2018 and 2017, respectively. Additionally, the Company recorded an initial provision for loan repurchases of $55 thousand and $1.5 million during the six months ended June 30, 2018 and 2017, respectively. As a result, total provision (reversal) for loan repurchases were $(2.0) million and $787 thousand for the six months ended June 30, 2018 and 2017, respectively. The decrease was mainly due to the portfolio run-off and repurchase settlement activities as well as methodology and data enhancements.

Amortization of intangible assets was $1.7 million for the six months ended June 30, 2018, a decrease of $476 thousand, or 22.2 percent, from $2.1 million for the six months ended June 30, 2017. The decrease was mainly due to an impairment on the customer relationship intangible related to RenovationReady due to the sale of specific assets and activities related to the Company's Banc Home Loans division to Caliber during the three months ended March 31, 2017 and no new additional intangible assets between the periods.

Restructuring expense was $4.0 million for the six months ended June 30, 2018, a decrease of $1.4 million, from $5.4 million for the six months ended June 30, 2017. In connection with the sale of the Banc Home Loans division and additional cost reduction initiatives during the three months ended March 31, 2017, the Company restructured certain aspects of its infrastructure and back office operations by realigning back office staffing and amending certain system contracts in order to improve the Company's efficiency. Such expense was higher than one-time severance-related costs in the second quarter of 2018 of $4.0 million, pre-tax, as a result of the reduction in force.

All other expenses were $8.6 million for the six months ended June 30, 2018, a decrease of $5.1 million, or 37.3 percent, from $13.7 million for the six months ended June 30, 2017. The decrease was mainly due to overall expense reductions from the Company's effort to manage its expenses on supplies, business travel, directors' fees and other administrative expenditures, a decrease in provision for unfunded loan commitments, and insurance recoveries from previous accrued legal settlement expense.

Income Tax Expense

For the three months ended June 30, 2018 and 2017, income tax expense (benefit) of continuing operations was $1.8 million and $(12.8) million, respectively, and the effective tax rate was 11.4 percent and (534.7) percent, respectively. For the six months ended June 30, 2018 and 2017, income tax benefit of continuing operations was $(4.6) million and $(19.2) million, respectively, and the effective tax rate was (28.0) percent and (363.4) percent, respectively. The Company recognized lower income tax benefits for 2018 periods due mainly to the reduction in year-to-date tax credits from the investments in alternative energy partnerships. The recognition of year-to-date tax credits from the investments in alternative energy partnerships was $1.9 million and $15.7 million, respectively, for the three months ended June 30, 2018 and 2017 and $9.2 million and $24.5 million, respectively, for the six months ended June 30, 2018 and 2017. The reduction in tax credits received by the Company on the investments in alternative energy partnerships was due to less new equipment being placed into service by the investments. The lower income tax benefit was partially offset by the decrease in the federal statutory tax rate from 35% to 21% as a result of the Tax Cuts and Jobs Act, which became effective on January 1, 2018. The Company uses the flow-through income statement method to account for the investment tax credits earned on the solar investments. Under this method, the investment tax credits are recognized as a reduction to income tax expense and the initial book-tax difference in the basis of the investments are recognized as additional tax expense in the year they are earned.

For additional information, see Note 11 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

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Discontinued Operations

During the three months ended March 31, 2017, the Company completed the sale of the Banc Home Loans division, which largely represented the Company's Mortgage Banking segment. In accordance with ASC 205-20, the Company determined that the sale of the Banc Home Loans division and certain other mortgage banking related assets and liabilities that were to be sold or settled separately within one year met the criteria to be classified as a discontinued operation and its operating results and financial condition have been presented as discontinued operations in the consolidated financial statements. Certain components of the Company's Mortgage Banking segment including MSRs on certain conventional government SFR mortgage loans that were not sold as part of the Banc Home Loans sale, and the repurchase reserves related to previously sold loans, have been classified as continuing operations in the financial statements as they will continue to be part of the Company's ongoing operations.

The Banc Home Loans division originated conforming SFR mortgage loans and sold these loans in the secondary market. The amount of net revenue on mortgage banking activities was a function of mortgage loans originated for sale and the fair value adjustments of these loans and related derivatives. Net revenue on mortgage banking activities included mark to market pricing adjustments on loan commitments and forward sales contracts, and initial capitalized value of MSRs. For additional information, see Note 2 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

Interest Income

Interest income of discontinued operations was $189 thousand for the three months ended June 30, 2018, a decrease of $2.6 million, or 93.2 percent, from $2.8 million for the three months ended June 30, 2017. For the six months ended June 30, 2018, interest income of discontinued operations was $375 thousand, a decrease of $5.7 million, or 93.8 percent, from $6.1 million for the six months ended June 30, 2017. The decrease was mainly due to a decrease in the average balance of loans held-for-sale from discontinued operations.

Noninterest Income

Noninterest income of discontinued operations was $1.1 million for the three months ended June 30, 2018, a decrease of $13.0 million, or 92.2 percent, from $14.1 million for the three months ended June 30, 2017. For the six months ended June 30, 2018, noninterest income of discontinued operations was $3.0 million, a decrease of $55.9 million, or 94.9 percent, from $58.9 million for the six months ended June 30, 2017. The decrease was mainly due to a decrease in net revenue from discontinued operations in 2018 periods.

Net gain on disposal of discontinued operations was $272 thousand and $236 thousand, respectively, for the three months ended June 30, 2018 and 2017 and $1.3 million and $13.5 million, respectively, for the six months ended June 30, 2018 and 2017.

Loan servicing income was $0 for the six months ended June 30, 2018, compared to $1.6 million for the six months ended June 30, 2017. As all MSRs in discontinued operations were sold during the three months ended March 31, 2017, the Company did not recognize any loan servicing income in discontinued operations subsequent to the sale of Banc Home Loans division.

Net revenue on mortgage banking activities was $56 thousand and $288 thousand for the three and six months ended June 30, 2018, compared to $13.6 million and $43.1 million, respectively, for the three and six months ended June 30, 2017. During the three months ended June 30, 2018, there were no sales of loans. During the six months ended June 30, 2018, the Bank sold $2.8 million of conforming SFR mortgage loans in the secondary market. The net gain was $288 thousand for the six months ended June 30, 2018. During the three and six months ended June 30, 2017, the Bank originated $575.5 million and $1.51 billion and sold $814.1 million and $1.75 billion, respectively, of conforming SFR mortgage loans in the secondary market. The net gain and margin were $11.4 million and 1.98 percent, respectively, and loan origination fees were $2.3 million for the three months ended June 30, 2017. For the six months ended June 30, 2017, the net gain and margin were $37.6 million and 2.49 percent, respectively, and loan origination fees were $5.4 million. Included in the net gain is the initial capitalized value of our MSRs, which totaled $3.8 million and $11.1 million, respectively, on loans sold to Fannie Mae, Freddie Mac and Ginnie Mae (GNMA) for the three and six months ended June 30, 2017.

Noninterest Expense

Noninterest expense of discontinued operations was $15 thousand and $27 thousand, respectively, for the three and six months ended June 30, 2018, compared to $21.9 million and $56.6 million, respectively, for the three and six months ended June 30, 2017. Noninterest expense decreased significantly as the Company wound down the mortgage banking activities in discontinued operations.

For additional information, see Note 2 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

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FINANCIAL CONDITION

Investment Securities

Investment securities that the Company has the ability and the intent to hold to maturity are classified as held-to-maturity. All other securities are classified as available-for-sale. Investment securities classified as held-to-maturity are carried at amortized cost. Investment securities classified as available-for-sale are carried at their estimated fair values with the changes in fair values recorded in accumulated other comprehensive income, net of tax, as a component of stockholders' equity. At June 30, 2018, all of the Company's investment securities were classified as available-for-sale.

The primary goal of our investment securities portfolio is to provide a relatively stable source of interest income while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk and interest rate risk. Certain investment securities provide a source of liquidity as collateral for FHLB advances, repurchase agreements, certain public funds deposits, and for Federal Reserve Discount Window availability.

The following table presents the amortized cost and fair value of the investment securities portfolio as of the dates indicated:

	June 30, 2018			December 31, 2017		
($ in thousands)	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Securities available-for-sale:						
SBA loan pool securities	$982	$967	$(15)	$1,056	$1,058	$2
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	485,503	456,790	(28,713)	492,255	476,929	(15,326)
Non-agency residential mortgage-backed securities	483	496	13	741	756	15
Non-agency commercial mortgage-backed securities	160,970	158,358	(2,612)	305,172	310,511	5,339
Collateralized loan obligations	1,676,611	1,680,513	3,902	1,691,455	1,702,318	10,863
Corporate debt securities	—	—	—	76,714	83,897	7,183
Total securities available-for-sale	$2,324,549	$2,297,124	$(27,425)	$2,567,393	$2,575,469	$8,076

During the three months ended June 30, 2017, the Company evaluated its securities held-to-maturity and determined that certain securities no longer adhered to the Company's strategic focus and could be sold or reinvested to potentially improve the Company's liquidity position or duration profile. Accordingly, the Company was no longer able to assert that it had the intent to hold these securities until maturity. As a result, the Company transferred all $740.9 million of its securities held-to-maturity to securities available-for-sale, which resulted in a pre-tax increase to accumulated other comprehensive income of $22.0 million as of June 30, 2017. Due to the transfer, the Company's ability to assert that it has the intent and ability to hold to maturity debt securities will be limited for the foreseeable future.

Securities available-for-sale were $2.30 billion at June 30, 2018, a decrease of $278.3 million, or 10.8 percent, from $2.58 billion at December 31, 2017. The decrease was mainly due to sales of $381.5 million, calls and pay-offs of $220.4 million and principal payments of $20.5 million, partially offset by purchases of $380.1 million.

During the three months ended March 31, 2018, the Company completed the sale of all remaining corporate debt securities, totaling $76.8 million, to reposition its securities available-for-sale portfolio. The Company repositioned its securities available-for-sale portfolio throughout the six months ended June 30, 2018 to navigate a volatile rate environment by reducing the overall duration by selling certain longer-duration and fixed-rate non-agency mortgage-backed securities and corporate debt securities and redeploy the net proceeds from the sale of securities to loan growth.

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Collateralized loan obligations (CLOs) totaled $1.68 billion and $1.69 billion, respectively, in amortized cost basis at June 30, 2018 and December 31, 2017. CLOs are floating rate debt securities backed by pools of senior secured commercial loans to a diverse group of companies across a broad spectrum of industries. Underlying loans are generally secured by a company's assets such as inventory, equipment, property, and/or real estate. CLOs are structured to diversify exposure to a broad sector of industries. The payments on these commercial loans support interest and principal on the CLOs across classes that range from AAA rated to equity tranches. The Company believes that its CLO portfolio, consisting entirely of variable rate securities, supports the Company's interest rate risk management strategy by lowering the extension risk and duration risk inherent to certain fixed rate investment securities. At June 30, 2018, the Company owned AAA and AA rated CLOs and did not own CLOs rated below AA. As all CLOs are also rated above investment grade credit ratings and were diversified across issuers, the Company believes that these CLOs enhance the Company's liquidity position. The Company also maintains pre-purchase due diligence and ongoing review processes by a dedicated credit administration team. The ongoing review process includes monitoring of performance factors including external credit ratings, collateralization levels, collateral concentration levels and other performance factors. The Company only acquires CLOs that it believes are Volcker Rule compliant.

The Company did not record OTTI for investment securities for the three and six months ended June 30, 2018 or 2017. The Company monitors its securities portfolio to ensure it has adequate credit support. As of June 30, 2018, the Company believed there was no OTTI and did not have the intent to sell securities with fair value below amortized cost at June 30, 2018 . The Company considers the lowest credit rating for identification of potential OTTI. As of June 30, 2018, all of the Company's investment securities in an unrealized loss position received an investment grade credit rating.

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The following table presents the composition of the repricing and yield information, at amortized cost, of the investment securities portfolio as of June 30, 2018:

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
($ in thousands)	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
Securities available-for-sale:										
SBA loan pools securities	$—	— %	$—	— %	$—	— %	$982	2.72 %	$982	2.72 %
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	327	1.62 %	4,417	1.81 %	—	— %	480,759	2.56 %	485,503	2.55 %
Non-agency residential mortgage-backed securities	171	3.74 %	34	3.32 %	—	— %	278	5.49 %	483	4.72 %
Non-agency commercial mortgage-backed securities	15,237	4.24 %	—	— %	89,382	3.76 %	56,351	3.73 %	160,970	3.79 %
Collateralized loan obligations	1,676,611	4.17 %	—	— %	—	— %	—	— %	1,676,611	4.17 %
Corporate debt securities	—	— %	—	— %	—	— %	—	— %	—	— %
Total securities available-for-sale	$1,692,346	4.17 %	$4,451	1.82 %	$89,382	3.76 %	$538,370	2.68 %	$2,324,549	3.81 %

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Loans Held-for-Sale

Total loans held-for-sale on a consolidated operations basis were $40.2 million and $105.8 million, respectively, at June 30, 2018 and December 31, 2017. Loans held-for-sale consisted of two components; loans held-for-sale carried at fair value and loans held-for-sale carried at lower of cost or fair value.

As of June 30, 2018, loans held-for-sale carried at fair value were mainly repurchased conforming SFR mortgage loans that were previously sold. As of December 31, 2017, loans held-for-sale carried at fair value were mainly repurchased conforming SFR mortgage loans that were previously sold and loans previously sold to GNMA that are delinquent more than 90 days and subject to a repurchase option by the Company. Loans held-for-sale carried at fair value on a consolidated operations basis were $38.7 million and $105.3 million, respectively, at June 30, 2018 and December 31, 2017. The $66.6 million, or 63.2 percent, decrease was mainly due to a net decrease of $65.7 million in GNMA loans delinquent more than 90 days, which were subject to a repurchase option held by the Company, as a result of the sale of related MSRs, as well as sales of $2.8 million of loans, partially offset by repurchases of $11.1 million of loans.

During the three months ended March 31, 2017, the Company completed the sale of its Banc Home Loans division, which largely represented the Company's Mortgage Banking segment, and determined that this met the criteria to be classified as a discontinued operation. Loans held-for-sale carried at fair value related to the Banc Home Loans division were transferred to Assets of Discontinued Operations on the Consolidated Statements of Financial Condition. Such loans totaled $26.4 million and $38.7 million, respectively, at June 30, 2018 and December 31, 2017.

Loans held-for-sale carried at the lower of cost or fair value are mainly non-conforming jumbo mortgage loans and SBA loans. Loans held-for-sale carried at the lower of cost or fair value on a consolidated operations basis were $1.4 million and $466 thousand, respectively, at June 30, 2018 and December 31, 2017. The $953 thousand, or 204.5 percent, increase was due mainly to loans transferred from loans and leases receivable of $211.8 million and originations of $6.3 million, partially offset by sales of $216.3 million.

During the three months ended June 30, 2017, the Company transferred all of its seasoned SFR mortgage loans with an aggregate unpaid principal balance and aggregate carrying value of $168.3 million and $147.9 million, respectively, to loans held-for-sale in order to improve the credit quality of the loan portfolio and provide additional liquidity. The Company transferred these loans at lower of cost or fair value and recorded a fair value adjustment of $1.8 million against its ALLL. All of these loans were sold during the three months ended September 30, 2017. On the date of sale, the aggregate unpaid principal balance and aggregate carrying value were $165.7 million and $144.2 million, respectively, and the Company recognized a gain on sale of $4.7 million.

Loans and Leases Receivable, Net

The following table presents the composition of the Company’s loan and lease portfolio as of the dates indicated:

($ in thousands)	June 30, 2018	December 31, 2017	Amount Change	Percentage Change
Commercial:				
Commercial and industrial	$1,742,559	$1,701,951	$40,608	2.4 %
Commercial real estate	793,855	717,415	76,440	10.7 %
Multifamily	1,959,965	1,816,141	143,824	7.9 %
SBA	78,092	78,699	(607)	(0.8)%
Construction	211,110	182,960	28,150	15.4 %
Lease financing	—	13	(13)	(100.0)%
Consumer:				
Single family residential mortgage	2,174,183	2,055,649	118,534	5.8 %
Other consumer	76,240	106,579	(30,339)	(28.5)%
Total loans and leases	7,036,004	6,659,407	376,597	5.7 %
ALLL	(56,678)	(49,333)	(7,345)	14.9 %
Loans and leases receivable, net	$6,979,326	$6,610,074	$369,252	5.6 %

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Non-Traditional Mortgage Portfolio

The Company’s NTM portfolio is comprised of three interest only products: Green Loans, Interest Only loans and a small number of additional loans with the potential for negative amortization. As of June 30, 2018 and December 31, 2017, the NTM portfolio totaled $818.9 million, or 11.6 percent of the total gross loan portfolio, and $806.9 million, or 12.1 percent of the total gross loan portfolio, respectively. The total NTM portfolio increased by $11.9 million, or 1.5 percent during the period. The increase was primarily due to originations of $132.1 million, partially offset by paydowns and amortization of $70.8 million and loans transferred to held-for-sale of $41.0 million.

The initial credit guidelines for the NTM portfolio were established based on the borrower's Fair Isaac Corporation (FICO) score, LTV ratio, property type, occupancy type, loan amount, and geography. Additionally, from an ongoing credit risk management perspective, the Company has determined that the most significant performance indicators for NTMs are LTV ratios and FICO scores. The Company reviews the NTM loan portfolio periodically, which includes refreshing FICO scores on the Green Loans and HELOCs and ordering third party automated valuation models (AVMs) to confirm collateral values.

Green Loans

The Company discontinued the origination of Green Loan products in 2011. Green Loans are SFR first and second mortgage lines of credit with a linked checking account that allows all types of deposits and withdrawals to be performed. The loans are generally interest only with a 15-year balloon payment due at maturity. The Company initiated the Green Loan products in 2005 and proactively refined underwriting and credit management practices and credit guidelines in response to changing economic environments, competitive conditions and portfolio performance. The Company continues to manage credit risk, to the extent possible, throughout the borrower’s credit cycle.

Green Loans totaled $76.2 million at June 30, 2018, a decrease of $9.6 million, or 11.1 percent from $85.8 million at December 31, 2017, primarily due to reductions in principal balances and payoffs. At June 30, 2018 and December 31, 2017, none of the Company’s Green Loans were non-performing. As a result of their unique payment feature, Green Loans possess higher credit risk due to the potential of negative amortization; however, management believes the risk is mitigated through the Company’s loan terms and underwriting standards, including its policies on loan-to-value ratios and the Company’s contractual ability to curtail loans when the value of underlying collateral declines.

The Green Loans are similar to HELOCs in that they are collateralized primarily by the equity in the borrower's home. However, some Green Loans differ from HELOCs relating to certain characteristics including one-action laws. Similar to Green Loans, HELOCs allow the borrower to draw down on the credit line based on an established loan amount for a period of time, typically 10 years, requiring an interest only payment with an option to pay principal at any time. A typical HELOC provides that at the end of the term the borrower can continue to make monthly principal and interest payments based on the loan balance until the maturity date. The Green Loan is an interest only loan with a maturity of 15 years, at which time the loan becomes due and payable with a balloon payment at maturity. The unique payment structure also differs from a traditional HELOC in that payments are made through the direct linkage of a personal checking account to the loan through a nightly sweep of funds into the Green Loan Account. This reduces any outstanding balance on the loan by the total amount deposited into the checking account. As a result, every time a deposit is made, effectively a payment to the Green Loan is made. HELOCs typically do not cause the loan to be paid down by a borrower’s depositing of funds into their checking account at the same bank.

Credit guidelines for Green Loans were established based on borrower FICO scores, property type, occupancy type, loan amount, and geography. Property types include single family residences and second trust deeds where the Company owned the first liens, owner occupied as well as non-owner occupied properties. The Company utilized its underwriting guidelines for first liens to underwrite the Green Loan secured by second trust deeds as if the combined loans were a single Green Loan. For all Green Loans, the loan income was underwritten using either full income documentation or alternative income documentation.

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The following table presents the Company's Green Loans first lien portfolio at June 30, 2018 by FICO scores that were obtained during the quarter ended June 30, 2018, compared to the FICO scores for those same loans that were obtained during the quarter ended December 31, 2017:

	June 30, 2018								
	By FICO Scores Obtained During the Quarter Ended June 30, 2018			By FICO Scores Obtained During the Quarter Ended December 31, 2017			Change		
($ in thousands)	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
FICO Score									
800+	17	$10,360	14.2 %	12	$7,595	10.4 %	5	$2,765	3.8 %
700-799	57	40,578	55.8 %	52	33,070	45.5 %	5	7,508	10.3 %
600-699	16	13,689	18.8 %	23	23,465	32.3 %	(7)	(9,776)	(13.5)%
<600	3	4,328	6.0 %	5	4,685	6.4 %	(2)	(357)	(0.4)%
No FICO	3	3,765	5.2 %	4	3,905	5.4 %	(1)	(140)	(0.2)%
Totals	96	$72,720	100.0%	96	$72,720	100.0%	—	$—	— %

Interest Only Loans

Interest only loans are primarily SFR mortgage loans with payment features that allow interest only payment in initial periods before converting to a fully amortizing loan. Interest only loans totaled $739.1 million at June 30, 2018, an increase of $21.6 million, or 3.0 percent, from $717.5 million at December 31, 2017. The increase was primarily due to originations of $132.1 million, partially offset by paydowns and amortization of $61.1 million and loans transferred to held-for-sale of $41.0 million. As of June 30, 2018 and December 31, 2017, $1.5 million and $1.2 million of the interest only loans were non-performing, respectively.

Loans with the Potential for Negative Amortization

Negative amortization loans other than Green Loans totaled $3.6 million at June 30, 2018, a decrease of $73 thousand, or 2.0 percent, from $3.7 million as of December 31, 2017. The Company discontinued origination of negative amortization loans in 2007. At June 30, 2018 and December 31, 2017, none of the loans that had the potential for negative amortization were non-performing. These loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization; however, management believes the risk is mitigated through the loan terms and underwriting standards, including the Company's policies on loan-to-value ratios.

NTM Loan Credit Risk Management

The Company performs detailed reviews of collateral values on loans collateralized by residential real property including its NTM portfolio based on appraisals or estimates from third party AVMs to analyze property value trends periodically. AVMs are used to identify loans that have experienced potential collateral deterioration. Once a loan has been identified that may have experienced collateral deterioration, the Company will obtain updated drive by or full appraisals in order to confirm the valuation. This information is used to update key monitoring metrics such as LTV ratios. Additionally, FICO scores are obtained in conjunction with the collateral analysis. In addition to LTV ratios and FICO scores, the Company evaluates the portfolio on a specific loan basis through delinquency and portfolio charge-offs to determine whether any risk mitigation or portfolio management actions are warranted. The borrowers may be contacted as necessary to discuss material changes in loan performance or credit metrics.

The Company's risk management policy and credit monitoring includes reviewing delinquency, FICO scores, and collateral values on the NTM loan portfolio. The Company also continuously monitors market conditions for our geographic lending areas. The Company has determined that the most significant performance indicators for NTM are LTV ratios and FICO scores. The loan review provides an effective method of identifying borrowers who may be experiencing financial difficulty before they fail to make a loan payment. Upon receipt of the updated FICO scores, an exception report is run to identify loans with a decrease in FICO score of 10 percent or more and a resulting FICO score of 620 or less. The loans are then further analyzed to determine if the risk rating should be downgraded, which may require an increase in the ALLL the Company needs to establish for potential losses. A report is prepared and regularly monitored.

On the interest only loans, the Company projects future payment changes to determine if there will be an increase in payment of 3.50 percent or greater and then monitors the loans for possible delinquencies. The individual loans are monitored for possible downgrading of risk rating, and trends within the portfolio are identified that could affect other interest only loans scheduled for payment changes in the near future.

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As these loans are revolving lines of credit, the Company, based on the loan agreement and loan covenants of the particular loan, as well as applicable rules and regulations, could suspend the borrowing privileges or reduce the credit limit at any time the Company reasonably believes that the borrower will be unable to fulfill their repayment obligations under the agreement or certain other conditions are met. In many cases, the decrease in FICO score is the first red flag that the borrower may have difficulty in making their future payment obligations.
As a result, the Company proactively manages the portfolio by performing a detailed analysis with emphasis on the non-traditional mortgage portfolio. The Company's Management Credit Committee (MCC), formally known as Internal Asset Review Committee, conducts regular meetings to review the loans classified as special mention, substandard, or doubtful and determines whether suspension or reduction in credit limit is warranted. If the line has been suspended and the borrower would like to have their credit privileges reinstated, they would need to provide updated financials showing their ability to meet their payment obligations. From the most recent review completed during the six months ended June 30, 2018, the Company made no curtailment in available commitments on Green Loans.
Consumer and NTM loans may entail greater risk than do traditional SFR mortgage loans, particularly in the case of consumer loans that are secured by rapidly depreciable assets, such as automobiles and recreational vehicles. In these cases, any repossessed collateral for a consumer and NTM loan are more dependent on the borrower's continued financial stability and, thus, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy.

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Loan-to-Value Ratio

LTV ratio represents estimated current loan to value ratio, determined by dividing current unpaid principal balance by latest estimated property value received per the Company policy. The table below represents the Company’s single family residential NTM first lien portfolio by LTV ratios as of the dates indicated:

	Green			Interest Only			Negative Amortization			Total		
($ in thousands)	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
June 30, 2018												
< 61%	63	$44,253	60.8 %	265	$455,497	61.6 %	10	$ 3,442	95.6 %	338	$503,192	61.7 %
61-80%	27	23,744	32.7 %	229	282,913	38.3 %	1	159	4.4 %	257	306,816	37.6 %
81-100%	6	4,723	6.5 %	1	643	0.1 %	—	—	— %	7	5,366	0.7 %
> 100%	—	—	— %	—	—	— %	—	—	— %	—	—	— %
Total	96	$72,720	100.0%	495	$739,053	100.0%	11	$ 3,601	100.0%	602	$815,374	100.0%
December 31, 2017												
< 61%	60	$51,241	62.3 %	242	$407,810	56.8 %	9	$ 2,826	76.9 %	311	$461,877	57.5 %
61-80%	33	25,072	30.5 %	220	300,500	41.9 %	2	848	23.1 %	255	326,420	40.6 %
81-100%	8	5,884	7.2 %	6	9,174	1.3 %	—	—	— %	14	15,058	1.9 %
> 100%	—	—	— %	—	—	— %	—	—	— %	—	—	— %
Total	101	$82,197	100.0%	468	$717,484	100.0%	11	$ 3,674	100.0%	580	$803,355	100.0%

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Seasoned SFR Mortgage Loans

The Company did not have any outstanding seasoned SFR mortgage loan pools at June 30, 2018 or December 31, 2017.

During the three months ended June 30, 2017, the Company transferred all of its seasoned SFR mortgage loans with an aggregate unpaid principal balance and aggregate carrying value of $168.3 million and $147.9 million, respectively, to loans held-for-sale in order to improve the credit quality of the loan portfolio and provide additional liquidity. The Company transferred these loans at lower of cost or fair value and recorded a fair value adjustment of $1.8 million against its ALLL. This transfer included PCI loans with an aggregate unpaid principal balance and aggregate carrying value of $147.5 million and $128.4 million, respectively, and recorded a fair value adjustment of $274 thousand. All of these loans were sold during the three months ended September 30, 2017. On the date of sale settlement, the aggregate unpaid principal balance and aggregate carrying value were $165.7 million and $144.2 million, respectively, and the Company recognized a gain on sale of $4.7 million.

The Company did not purchase any seasoned SFR mortgage loan pools during the three and six months ended June 30, 2018 or the year ended December 31, 2017.

Non-Performing Assets

The following table presents a summary of total non-performing assets, excluding loans held-for-sale, as of the dates indicated:

($ in thousands)	June 30, 2018	December 31, 2017	Amount Change	Percentage Change
Loans past due 90 days or more still on accrual	$—	$ —	$—	NM
Non-accrual loans and leases	22,290	19,382	2,908	15.0 %
Total non-performing loans	22,290	19,382	2,908	15.0 %
Other real estate owned	710	1,796	(1,086)	(60.5)%
Total non-performing assets	$23,000	$ 21,178	$1,822	8.6 %
Performing restructured loans [1]	$5,648	$ 5,646	$2	— %
Total non-performing loans and leases to total loans and leases	0.32 %	0.29 %		
Total non-performing assets to total assets	0.22 %	0.21 %		
ALLL to non-performing loans and leases	254.28 %	254.53 %		

(1) Excluded from non-performing loans

Loans are generally placed on non-accrual status when they become 90 days past due, unless management believes the loan is well secured and in the process of collection. Past due loans may or may not be adequately collateralized, but collection efforts are continuously pursued. Loans may be restructured by management when a borrower experiences changes to their financial condition, causing an inability to meet the original repayment terms, and where we believe the borrower will eventually overcome those circumstances and repay the loan in full.

Additional income of approximately $346 thousand and $622 thousand would have been recorded during the three and six months ended June 30, 2018, had these loans been paid in accordance with their original terms throughout the periods indicated.

Troubled Debt Restructurings

Loans that the Company modifies or restructures where the debtor is experiencing financial difficulties and makes a concession to the borrower in the form of changes in the amortization terms, reductions in the interest rates, the acceptance of interest only payments and, in limited cases, reductions in the outstanding loan balances are classified as TDRs. TDRs are loans modified for the purpose of alleviating temporary impairments to the borrower's financial condition. A workout plan between a borrower and the Company is designed to provide a bridge for the cash flow shortfalls in the near term. If the borrower works through the near term issues, in most cases, the original contractual terms of the loan will be reinstated.

At June 30, 2018 and December 31, 2017, the Company had 14 and 12 loans, respectively, with an aggregate balance of $8.3 million and $8.3 million, respectively, classified as TDRs. When a loan becomes a TDR the Company ceases accruing interest, and classifies it as non-accrual until the borrower demonstrates that the loan is again performing.

At June 30, 2018, of the 14 loans classified as TDRs, 12 loans totaling $5.6 million that were making payments according to their modified terms and were less than 90-days delinquent under the modified terms were on accruing status. At December 31, 2017, of the 12 loans classified as TDRs, 11 loans totaling $5.6 million that were making payments according to their modified terms and were less than 90-days delinquent under the modified terms were on accruing status.

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Allowance for Loan and Lease Losses

The Company maintains an ALLL to absorb probable incurred losses inherent in the loan and lease portfolio at the balance sheet date. The ALLL is based on an ongoing assessment of the estimated probable losses inherent in the loan and lease portfolio. In evaluating the level of the ALLL, management considers the types of loans and leases and the amount of loans and leases in the portfolio, peer group information, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This methodology takes into account many factors, including the Company's own historical and peer loss trends, loan and lease-level credit quality ratings, loan and lease specific attributes along with a review of various credit metrics and trends. The process involves subjective as well as complex judgments. In addition, the Company uses adjustments for numerous factors including those found in the federal banking agencies' joint Interagency Policy Statement on ALLL, which include current economic conditions, loan and lease seasoning, underwriting experience, and collateral value changes among others. The Company evaluates all impaired loans and leases individually using guidance from ASC 310 primarily through the evaluation of cash flows or collateral values. The following table provides a summary of the allocation of the ALLL by loan and lease category as well as loans and leases receivable for each category as of the dates indicated:

	June 30, 2018		December 31, 2017	
($ in thousands)	ALLL	Loans and Leases Receivable	ALLL	Loans and Leases Receivable
Commercial:				
Commercial and industrial	$16,864	$1,742,559	$14,280	$1,701,951
Commercial real estate	5,732	793,855	4,971	717,415
Multifamily	14,630	1,959,965	13,265	1,816,141
SBA	1,840	78,092	1,701	78,699
Construction	3,419	211,110	3,318	182,960
Lease financing	—	—	—	13
Consumer:				
Single family residential mortgage	13,236	2,174,183	10,996	2,055,649
Other consumer	957	76,240	802	106,579
Total	$56,678	$7,036,004	$49,333	$6,659,407

The following table presents the ALLL allocation among loan and lease origination types as of the dates indicated:

($ in thousands)	June 30, 2018	December 31, 2017	Amount Change	Percentage Change
Loan breakdown by ALLL evaluation type:				
Originated loans and leases	$6,446,127	$5,988,101	$458,026	7.6 %
Acquired loans not impaired at acquisition	589,877	671,306	(81,429)	(12.1)%
Total loans	$7,036,004	$6,659,407	$376,597	5.7 %
ALLL breakdown:				
Originated loans and leases	$55,534	$48,110	$7,424	15.4 %
Acquired loans not impaired at acquisition	1,144	1,223	(79)	(6.5)%
Total ALLL	$56,678	$49,333	$7,345	14.9 %
Discount on purchased/acquired Loans:				
Acquired loans not impaired at acquisition	$12,932	$14,943	$(2,011)	(13.5)%
Total discount	$12,932	$14,943	$(2,011)	(13.5)%
Percentage of ALLL to:				
Originated loans and leases	0.86 %	0.80 %	0.06 %	
Originated loans and leases and acquired loans not impaired at acquisition	0.81 %	0.74 %	0.07 %	
Total loans and leases	0.81 %	0.74 %	0.07 %	

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The following table provides information regarding activity in the ALLL during the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2018	2017	2018	2017
ALLL at beginning of period	$54,763	$42,736	$49,333	$40,444
Charge-offs:				
Commercial and industrial	(276)	(132)	(347)	(382)
Commercial real estate	—	(113)	—	(113)
Multifamily	(8)	—	(8)	—
SBA	(302)	(293)	(683)	(293)
Construction	—	(29)	—	(29)
Single family residential mortgage	(364)	(2,331)	(479)	(2,412)
Other consumer	—	—	(14,072)	(26)
Total charge-offs	(950)	(2,898)	(15,589)	(3,255)
Recoveries:				
Commercial and industrial	36	—	97	—
SBA	167	31	232	74
Lease financing	5	10	9	29
Single family residential mortgage	—	—	436	1
Other consumer	4	3	8	6
Total recoveries	212	44	782	110
Provision for loan and lease losses	2,653	2,503	22,152	5,086
ALLL at end of period	$56,678	$42,385	$56,678	$42,385
Average total loans and leases held-for-investment	$7,000,288	$6,062,392	$6,855,041	$6,073,804
Total loans and leases held-for-investment at end of period	$7,036,004	$5,956,337	$7,036,004	$5,956,337
Ratios:				
Annualized net charge-offs to average total loans and leases held-for-investment	0.04%	0.19%	0.43%	0.10%
ALLL to total loans and leases held-for-investment	0.81%	0.71%	0.81%	0.71%

During the three months ended March 31, 2018, the Company recorded a charge-off of $13.9 million, which reflected the outstanding balance under a $15.0 million line of credit that was originated during the three months ended March 31, 2018. Subsequent to the granting of the line of credit, representations from the borrower in applying for the line of credit were determined by the Bank to be false, and bank account statements provided by the borrower to secure the line of credit were found to be fraudulent. The line of credit was granted after the borrower appeared to have satisfied a pre-condition that the line of credit be fully cash collateralized and secured by a bank account at a third party financial institution pledged to the Bank. As part of the Bank's credit review and portfolio management process, the line of credit and disbursements were reviewed subsequent to closing and compliance with the borrower's covenants was monitored. As part of this process, on March 9, 2018, the Bank received information that caused it to believe the existence of the pledged bank account had been misrepresented by the borrower and that the account had previously been closed. The Bank filed an action in federal court pursuing the borrower and other parties and is also considering other available sources of collection and other potential means of mitigating the loss; however, no assurance can be given that it will be successful in this regard. Upon review of the underwriting process for this loan, the Bank determined that this loan was the result of an isolated event of external fraud.

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Servicing Rights

Total mortgage and SBA servicing rights were $3.9 million and $33.7 million at June 30, 2018 and December 31, 2017, respectively. The fair value of the MSRs amounted to $2.1 million and $31.9 million and the amortized cost of the SBA servicing rights was $1.8 million and $1.9 million at June 30, 2018 and December 31, 2017, respectively. The Company retains servicing rights from certain of its sales of SFR mortgage loans and SBA loans.

The aggregate principal balance of the loans underlying our total MSRs and SBA servicing rights was $233.2 million and $100.7 million, respectively, at June 30, 2018 and $3.94 billion and $101.0 million, respectively, at December 31, 2017. The recorded amount of the MSRs and SBA servicing rights as a percentage of the unpaid principal balance of the loans we are servicing was 0.88 percent and 1.80 percent, respectively, at June 30, 2018 as compared to 0.81 percent and 1.84 percent, respectively, at December 31, 2017.

During the three and six months ended June 30, 2018, the Company sold $2.6 million and $28.5 million, respectively, of MSRs on approximately $334.1 million and $3.55 billion, respectively, in unpaid balances of conventional agency mortgage loans, subject to adjustment under certain circumstances. The transactions resulted in a net loss of sale of MSRs of $155 thousand and $2.5 million for the three and six months ended June 30, 2018, respectively, primarily related to transaction costs, provision for early repayments of loans and expected repurchase obligations under standard representations and warranties.

During the three months ended March 31, 2017, the Company sold $37.8 million of MSRs as a part of discontinued operations.

For additional information, see Note 6 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

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Alternative Energy Partnerships

The Company invests in certain alternative energy partnerships (limited liability companies) formed to provide sustainable energy projects that are designed to generate a return primarily through the realization of federal tax credits (energy tax credits) and other tax benefits. The investment helps promote the development of renewable energy sources and help lower the cost of housing for residents by lowering homeowners' monthly utility costs.

As the Company's respective investments in these entities are more than minor, the Company has significant influence, but not control, over the investee's activities that most significantly impact its economic performance. As a result, the Company is required to apply the equity method of accounting, which generally prescribes applying the percentage ownership interest to the investee's GAAP net income in order to determine the investor's earnings or losses in a given period. However, because the liquidation rights, tax credit allocations and other benefits to investors can change upon the occurrence of specified events, application of the equity method based on the underlying ownership percentages would not accurately represent the Company's investment. As a result, the Company applies the HLBV method of the equity method of accounting.

The HLBV method is a balance sheet approach where a calculation is prepared at each balance sheet date to estimate the amount that the Company would receive if the equity investment entity were to liquidate all of its assets (as valued in accordance with GAAP) and distribute that cash to the investors based on the contractually defined liquidation priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period, after adjusting for capital contributions and distributions, is the Company's share of the earnings or losses from the equity investment for the period.

The following table presents the activity related to the Company's investment in alternative energy partnerships for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2018	2017	2018	2017
Balance at beginning of period	$48,344	$47,633	$48,826	$25,639
New funding	—	13	—	30,940
Return of unused Capital	(1,027)	—	(1,027)	—
Cash distribution from investments	(703)	(280)	(1,219)	(531)
Loss on investments using HLBV method	(1,808)	(9,761)	(1,774)	(18,443)
Balance at end of period	$44,806	$37,605	$44,806	$37,605
Unfunded equity commitments	$—	$111,719	$—	$111,719

The Company's investments in alternative energy partnerships are primarily returned through the realization of energy tax credits and other tax benefits rather than through distributions or through the sale of the investment. During the three and six months ended June 30, 2018, the Company recognized energy tax credits of $1.9 million and $9.2 million, respectively, offset by $211 thousand and $980 thousand, respectively, of deferred tax expenses in connection with new equipment being placed into service as well as income tax benefits of $488 thousand and $479 thousand, respectively, (based on a current effective tax rate of 27.07 percent and 27.00 percent, respectively, which excludes the foregoing energy tax credits and related deferred tax expense) related to the recognition of its loss through its HLBV application. During the three and six months ended June 30, 2017, the Company recognized energy tax credits of $15.7 million and $24.5 million, respectively, offset by $2.7 million and $4.3 million, respectively, of deferred tax expenses in connection with new equipment being placed into service as well as income tax benefits of $3.9 million and $7.5 million, respectively, (based on an effective tax rate of 39.89 percent and 40.43 percent, respectively, which excludes the foregoing energy tax credits and related deferred tax expense) related to the recognition of its loss through its HLBV application.

The HLBV losses for the periods were largely driven by accelerated tax depreciation on equipment and the recognition of energy tax credits which reduces the amount distributable by the investee in a hypothetical liquidation under the contractual liquidation provisions.

For additional information, see Note 17 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

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Deposits

The following table shows the composition of deposits by type as of the dates indicated:

($ in thousands)	June 30, 2018	December 31, 2017	Amount Change	Percentage Change
Noninterest-bearing deposits	$1,005,032	$ 1,071,608	$(66,576)	(6.2)%
Interest-bearing demand deposits	1,778,400	2,089,016	(310,616)	(14.9)%
Money market accounts	1,136,335	1,146,859	(10,524)	(0.9)%
Savings accounts	1,175,275	1,059,628	115,647	10.9 %
Certificates of deposit of $250,000 or less	1,314,309	1,365,452	(51,143)	(3.7)%
Certificates of deposit of more than $250,000	726,443	560,340	166,103	29.6 %
Total deposits	$7,135,794	$ 7,292,903	$(157,109)	(2.2)%

Total deposits were $7.14 billion at June 30, 2018, a decrease of $157.1 million, or 2.2 percent, from $7.29 billion at December 31, 2017. The decrease was mainly due to the completion of the Company's strategic reduction of high-rate and high-volatility deposits during the three months ended March 31, 2018. Brokered deposits were $1.09 billion at June 30, 2018, a decrease of $363.4 million, or 25.0 percent, from $1.46 billion at December 31, 2017.

Borrowings

The Company utilizes FHLB advances and securities sold under repurchase agreements to leverage its capital base, to provide funds for its lending activities, as a source of liquidity, and to enhance its interest rate risk management. The Company also maintains additional borrowing availabilities from Federal Reserve Discount Window and unsecured federal funds lines of credit.

FHLB advances totaled $1.81 billion and $1.70 billion, respectively, at June 30, 2018 and December 31, 2017. The Company did not utilize repurchase agreements at June 30, 2018 or December 31, 2017.

On June 30, 2017, the Company voluntarily terminated a line of credit of $75.0 million that it maintained at the holding company level with an unaffiliated financial institution. The line had a maturity date of July 17, 2017. The Company had $50.0 million of borrowings outstanding under the line, which were repaid in connection with the termination of the line.

For additional information, see Note 9 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

Long Term Debt

The following table presents the Company's long term debt as of the dates indicated:

($ in thousands)	June 30, 2018		December 31, 2017	
	Par Value	Unamortized Debt Issuance Cost and Discount	Par Value	Unamortized Debt Issuance Cost and Discount
5.25% senior notes due April 15, 2025	$175,000	$ (1,983)	$175,000	$ (2,059)
Total	$175,000	$ (1,983)	$175,000	$ (2,059)

On May 15, 2017, the Company made the final installment payment on its 7.50 percent junior subordinated amortizing notes due May 15, 2017.

For additional information, see Note 10 to Consolidated Financial Statements (unaudited) included Part I of this Quarterly Report on Form 10-Q.

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Reserve for Unfunded Loan Commitments

The Company maintains a reserve for unfunded loan commitments at a level that is considered adequate to cover the estimated and known inherent risks. The probability of usage of the unfunded loan commitments and credit risk factors are determined based on outstanding loans that share similar credit risk exposure. As of June 30, 2018 and December 31, 2017, the reserve for unfunded loan commitments was $4.0 million and $3.7 million, respectively. The increase was mainly due to an increase in expected utilization of unfunded loan commitments and methodology enhancements.

The following table presents a summary of activity in the reserve for unfunded loan commitments for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2018	2017	2018	2017
Balance at beginning of period	$4,293	$3,218	$3,716	$2,385
Provision (reversal) for unfunded loan commitments	(262)	796	315	1,629
Balance at end of period	$4,031	$4,014	$4,031	$4,014

Reserve for Loss on Repurchased Loans

When the Company sells residential mortgage loans into the secondary mortgage market, the Company makes customary representations and warranties to the purchasers about various characteristics of each loan, such as the manner of origination, the nature and extent of underwriting standards applied and the types of documentation being provided. Typically, these representations and warranties are in place for the life of the loan. If a defect in the origination process is identified, the Company may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. If there are no such defects, generally the Company has no liability to the purchaser for losses it may incur on such loan. In addition, the Company has the option to buy out severely delinquent loans at par from GNMA loan pools for which the Company is the servicer and issuer of the pool. The Company maintains a reserve for losses on repurchased loans to account for the expected losses related to loans the Company might be required to repurchase (or the indemnity payments the Company may have to make to purchasers). The reserve takes into account both the estimate of expected losses on loans sold during the current accounting period, as well as adjustments to the previous estimates of expected losses on loans sold. In each case, these estimates are based on the most recent data available, including data from third parties, regarding demand for loan repurchases, actual loan repurchases, and actual credit losses on repurchased loans, among other factors.

Reserve for loss on repurchased loans totaled $3.1 million at June 30, 2018, a decrease of $3.2 million, or 50.1 percent, from $6.3 million at December 31, 2017. Approximately $1.4 million of the decrease was due to portfolio run-off and repurchase settlement activities, and approximately $1.7 million of the decrease was due to methodology and data enhancements. The methodology and data enhancements were primarily a result of additional insights gained through the due diligence process pertaining to the MSR sale during the three months ended March 31, 2018 and utilization of the Company's actual run-off and historical loss data as opposed to industry data.

Provisions added to the reserve for loss on repurchased loans are initially recorded against net revenue on mortgage banking activities at the time of sale, and any subsequent increase or decrease in the provision is then recorded under noninterest expense on the Consolidated Statements of Operations as an increase or decrease to provision for loan repurchases. Initial provisions for loan repurchases were $53 thousand and $673 thousand, respectively, and subsequent changes in the provision were $(218) thousand and $(403) thousand, respectively, for the three months ended June 30, 2018 and 2017. Initial provision for loan repurchases were $55 thousand and $1.5 million, respectively, and subsequent changes in the provision were $(2.0) million and $(728) thousand, respectively, for the six months ended June 30, 2018 and 2017.

The Company believes that all repurchase demands received were adequately reserved for at June 30, 2018. For additional information, see Note 12 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

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Liquidity Management
The Company is required to maintain sufficient liquidity to ensure a safe and sound operation. Liquidity may increase or decrease depending upon availability of funds and comparative yields on investments in relation to the return on loans. Historically, the Company has maintained liquid assets above levels believed to be adequate to meet the requirements of normal operations, including potential deposit outflows, and dividend payments. Cash flow projections are regularly reviewed and updated to ensure that adequate liquidity is maintained.
Banc of California, N.A.
The Bank's liquidity, represented by cash and cash equivalents and securities available-for-sale, is a product of its operating, investing, and financing activities. The Bank's primary sources of funds are deposits, payments and maturities of outstanding loans and investment securities; and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and investment securities, and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. In addition, the Bank invests excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements. The Bank also generates cash through borrowings. The Bank mainly utilizes FHLB advances and securities sold under repurchase agreements to leverage its capital base, to provide funds for its lending activities, as a source of liquidity, and to enhance its interest rate risk management. The Bank also has the ability to obtain brokered deposits and collect deposits through wholesale and treasury operations. Liquidity management is both a daily and long-term function of business management. Any excess liquidity is typically invested in federal funds or investment securities. On a longer-term basis, the Bank maintains a strategy of investing in various lending products. The Bank uses its sources of funds primarily to meet its ongoing loan and other commitments, and to pay maturing certificates of deposit and savings withdrawals.
Banc of California, Inc.
The primary sources of funds for Banc of California, Inc., on a stand-alone holding company basis, are dividends and intercompany tax payments from the Bank, outside borrowing, and its ability to raise capital and issue debt securities. Dividends from the Bank are largely dependent upon the Bank's earnings and are subject to restrictions under the certain regulations that limit its ability to transfer funds to the holding company. OCC regulations impose various restrictions on the ability of a bank to make capital distributions, which include dividends, stock redemptions or repurchases, and certain other items. Generally, a well-capitalized bank may make capital distributions during any calendar year equal to up to 100 percent of net income for the year-to-date plus retained net income for the two preceding years without prior OCC approval. During the three months ended June 30, 2018, the Bank, as part of its continuous evaluation of dividend policy, determined that it was appropriate to change the methodology to better align with OCC regulations. The Bank previously calculated its dividend limitation based on net income, instead of retained net income, for the two preceding years, and changed its calculation methodology starting at June 30, 2018 to use retained net income for the two preceding years, consistent with OCC regulations. At June 30, 2018, the Bank had $167.2 million available to pay dividends to Banc of California, Inc. without prior OCC approval. However, any dividend granted by the Bank would be limited by the need to maintain its well capitalized status plus the capital buffer in order to avoid additional dividend restrictions. During the six months ended June 30, 2018, the Bank paid dividends of $36.0 million to Banc of California, Inc. At June 30, 2018, Banc of California, Inc. had $38.9 million in cash, all of which was on deposit at the Bank.
On a consolidated basis, the Company maintained $385.7 million of cash and cash equivalents, which was 3.7 percent of total assets at June 30, 2018. The Company's cash and cash equivalents decreased by $2.0 million, or 0.5 percent, from $387.7 million, or 3.8 percent of total assets, at December 31, 2017. The decrease was mainly due to increases in loans and decreases in deposits, partially offset by an increase in FHLB advances and a decrease in securities. The Company exited the high-rate and high-volatility institutional deposits and reduced the reliance on brokered deposits by replacing them with more predictable advances from FHLB with the goal of increasing core deposits to fund new loan originations. The Company also strategically decreased its securities portfolio to navigate a volatile rate environment by reducing overall duration by selling longer-duration and fixed rate mortgage-backed securities and corporate debt securities. All of these strategic actions were taken in order to expand core lending activities across the

organization, while reducing risk on the Company's balance sheet.
At June 30, 2018, the Company had available unused secured borrowing capacities of $804 million from FHLB and $61.7 million from Federal Reserve Discount Window, as well as $210.0 million from unused unsecured federal funds lines of credit. The Company also maintained repurchase agreements and had no outstanding securities sold under repurchase agreements at June 30, 2018. Availabilities and terms on repurchase agreements are subject to the counterparties' discretion and pledging additional investment securities. The Company also had unpledged securities available-for-sale of $1.77 billion at June 30, 2018.

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The Company believes that its liquidity sources are stable and are adequate to meet its day-to-day cash flow requirements. As of June 30, 2018, the Company believes that there are no events, uncertainties, material commitments, or capital expenditures that were reasonably likely to have a material effect on its liquidity position.

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Commitments and Contractual Obligations

The following table presents the Company's commitments and contractual obligations as of June 30, 2018:

	Commitments and Contractual Obligations				
($ in thousands)	Total Amount Committed	Less Than One Year	More Than One Year Through Three Years	More Than Three Year Through Five Years	Over Five Years
Commitments to extend credit	$322,210	$56,013	$147,649	$67,842	$ 50,706
Unused lines of credit	1,215,170	910,420	106,224	72,209	126,317
Standby letters of credit	10,932	8,988	1,849	75	20
Total commitments	$1,548,312	$975,421	$255,722	$140,126	$ 177,043
FHLB advances	$1,805,000	$1,000,000	$294,000	$191,000	$ 320,000
Long-term debt	239,313	9,188	18,375	18,375	193,375
Operating and capital lease obligations	31,227	7,385	11,449	4,967	7,426
Certificate of deposits	2,040,752	1,673,487	361,147	6,118	—
Total contractual obligations	$4,116,292	$2,690,060	$684,971	$220,460	$ 520,801

During the three months ended March 31, 2017, the Bank entered into certain definitive agreements which grant the Bank the exclusive naming rights to the Banc of California Stadium, a soccer stadium of LAFC, as well as the right to be the official bank of LAFC. In exchange for the Bank's rights as set forth in the agreements, the Bank agreed to pay LAFC $100.0 million over a period of 15 years, beginning in 2017 and ending in 2032. The advertising benefits of such rights are amortized on a straight-line basis and recorded as advertising and promotion expense beginning in 2018. As of June 30, 2018, the Bank has paid $12.7 million of the $100.0 million commitment. The prepaid commitment balance, net of amortization, was $9.3 million as of June 30, 2018, which was recognized as a prepaid asset and included in Other Assets in the Consolidated Statements of Financial Condition. See Note 22 for additional information.

The Company had unfunded commitments of $14.0 million, $10.7 million, and $501 thousand for Affordable Housing Fund Investment, SBIC, and Other Investments including investments in alternative energy partnerships, at June 30, 2018, respectively.

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Capital

In order to maintain adequate levels of capital, the Company continuously assesses projected sources and uses of capital to support projected asset growth, operating needs and credit risk. The Company considers, among other things, earnings generated from operations and access to capital from financial markets. In addition, the Company performs capital stress tests on an annual basis to assess the impact of adverse changes in the economy on the Company's capital base.

Regulatory Capital

The Company and the Bank are subject to the regulatory capital adequacy guidelines that are established by the Federal banking regulators. In July 2013, the Federal banking regulators approved a final rule to implement the revised capital adequacy standards of the Basel III and to address relevant provisions of the Dodd-Frank Act. The final rule strengthens the definition of regulatory capital, increases risk-based capital requirements, makes selected changes to the calculation of risk-weighted assets, and adjusts the prompt corrective action thresholds. The Company and the Bank became subject to the new rule on January 1, 2015 and certain provisions of the new rule will be phased in through 2019. For additional information on BASEL III capital rules, see Note 16 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q. The following table presents the regulatory capital ratios for the Company and the Bank as of dates indicated:

	Banc of California, Inc.		Banc of California, NA		Minimum Regulatory Requirements		Well Capitalized Requirements (Bank)	
June 30, 2018								
Total risk-based capital ratio	14.71	%	16.63	%	8.00	%	10.00	%
Tier 1 risk-based capital ratio	13.83	%	15.74	%	6.00	%	8.00	%
Common equity tier 1 capital ratio	9.90	%	15.74	%	4.50	%	6.50	%
Tier 1 leverage ratio	9.30	%	10.58	%	4.00	%	5.00	%
December 31, 2017								
Total risk-based capital ratio	14.56	%	16.56	%	8.00	%	10.00	%
Tier 1 risk-based capital ratio	13.79	%	15.78	%	6.00	%	8.00	%
Common equity tier 1 capital ratio	9.92	%	15.78	%	4.50	%	6.50	%
Tier 1 leverage ratio	9.39	%	10.67	%	4.00	%	5.00	%

The Dodd-Frank Act requires publicly-traded bank holding companies with assets of $10 billion or more to perform capital stress testing and establish a risk committee responsible for enterprise-wide risk management practices, comprised of independent directors, including one risk management expert. These provisions become applicable if the average of the total consolidated assets of the bank holding company, as reported in its quarterly Consolidated Financial Statements for Bank Holding Companies, for the four most recent consecutive quarters exceed $10 billion. The “Dodd-Frank Act Stress Test” or “DFAST” is designed to determine whether the capital planning of the Company, assessment of its capital adequacy and risk management practices adequately protect it and its affiliates in the event of an economic downturn. As the Company and the Bank exceeded the $10 billion threshold for four consecutive quarters during the year ended December 31, 2017, the Company and the Bank were subject to the DFAST regime on January 1, 2018 and were required to submit their first DFAST results as of December 31, 2017 by July 31, 2018 to the Federal Reserve and the OCC, respectively, and publicly disclose and consider the results as part of broader capital planning and risk management.

On May 24, 2018, "the Economic Growth, Regulatory Relief, and Consumer Protection Act" (the EGRRCPA), was signed into law. Among other things, the EGRRCPA amended the Dodd-Frank Act to immediately exempt bank holding companies with less than $100 billion in total consolidated assets from DFAST. While EGRRCPA does not statutorily exempt banks with less than $100 billion in total assets from DFAST until November 25, 2019, the federal banking agencies issued a joint statement on July 6, 2018 extending the deadline for compliance with DFAST by banks with less than $100 billion in assets until the statutory exemption takes effect on November 25, 2019. Therefore, both the Company and the Bank are no longer subject to DFAST requirements, and no DFAST submission

was made by the Company or the Bank for 2018.

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ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our Risk When Interest Rates Change. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is our most significant market risk.

How We Measure Our Risk of Interest Rate Changes. As part of our attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we have established asset/liability committees to monitor our interest rate risk. In monitoring interest rate risk we continually analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities and/or prepayments, and their sensitivity to actual or potential changes in market interest rates.

We maintain both a management asset/liability committee (Management ALCO), comprised of select members of senior management, and a joint asset/liability committee of the Boards of Directors of the Company and the Bank (Board ALCO, together with Management ALCO, ALCOs). In order to manage the risk of potential adverse effects of material and prolonged increases in interest rates on our results of operations, we have adopted asset/liability management policies to align maturities and repricing terms of interest-earning assets to interest-bearing liabilities. The asset/liability management policies establish guidelines for the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs, while the ALCOs monitor adherence to those guidelines. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk, and profitability goals. The ALCOs meet periodically to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate risk exposure limits versus current projections pursuant to our net present value of equity analysis.

In order to manage our assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, we evaluate various strategies including:

- Originating and purchasing adjustable rate mortgage loans,
- Selling longer duration fixed or hybrid mortgage loans,
- Originating shorter-term consumer loans,
- Managing the duration of investment securities,
- Managing our deposits to establish stable deposit relationships,
- Using FHLB advances and/or certain derivatives such as swaps to align maturities and repricing terms, and
- Managing the percentage of fixed rate loans in our portfolio.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the ALCOs may decide to increase the Company’s interest rate risk position within the asset/liability tolerance set forth by the Company's Board of Directors.

As part of its procedures, the ALCOs regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity, which is defined as the net present value of an institution’s existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and market value of portfolio equity.

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Interest Rate Sensitivity of Economic Value of Equity and Net Interest Income

The following table presents the projected change in the Bank's net portfolio value at June 30, 2018 that would occur upon an immediate change in interest rates based on independent analysis, but without giving effect to any steps that management might take to counteract that change:

	Change in Interest Rates in Basis Points (bps) [1]					
	Economic Value of Equity			Net Interest Income		
($ in thousands)	Amount	Amount Change	Percentage Change	Amount	Amount Change	Percentage Change
June 30, 2018						
+200 bps	$1,199,080	$(63,298)	(5.0)%	$302,078	$6,411	2.2%
+100 bps	1,241,298	(21,080)	(1.7)%	299,353	3,686	1.2%
0 bp	1,262,378			295,667		
-100 bps	1,258,390	(3,988)	(0.3)%	290,280	(5,387)	(1.8)%

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, if interest rates change, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the table.

At June 30, 2018, the Company did not maintain any securities for trading purposes or engage in trading activities. Interest rate risk is the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange risk and commodity price risk, do not arise in the normal course of the Company's business activities and operations.

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Act) as of June 30, 2018 was carried out under the supervision and with the participation of the Company's Principal Executive Officer, Principal Financial Officer and other members of the Company's senior management. The Company's Principal Executive Officer and Principal Financial Officer concluded that, as of June 30, 2018, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is: (i) accumulated and communicated to the Company's management (including the Principal Executive Officer and Principal Financial Officer) to allow timely decisions regarding required disclosure; and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the three and six months ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all errors and fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed

in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

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PART II — OTHER INFORMATION
ITEM 1 - LEGAL PROCEEDINGS
From time to time we are involved as plaintiff or defendant in various legal actions arising in the normal course of business.
On January 23, 2017, the first of three putative class action lawsuits, Garcia v. Banc of California, et al., Case No. 8:17-cv-00118, was filed against Banc of California, James J. McKinney, Ronald J. Nicolas, Jr., and Steven A. Sugarman in the United States District Court for the Central District of California. Thereafter, two related putative class action lawsuits were filed in the United States District Court for the Central District of California: (1) Malak v. Banc of California, et al., Case No. 8:17-cv-00138 (January 26, 2017), asserting claims against Banc of California, James J. McKinney, and Steven A. Sugarman, and (2) Cardona v. Banc of California, et al., Case No. 2:17-cv-00621 (January 26, 2017), asserting claims against Banc of California, James J. McKinney, Ronald J. Nicolas, Jr., and Steven A. Sugarman. Those actions were consolidated, a lead plaintiff was appointed, and the lead plaintiff filed a Consolidated Amended Complaint against Banc of California, Steve A. Sugarman and James J. McKinney on May 31, 2017 alleging that the defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In general, the Consolidated Amended Complaint alleges that the purported concealment of the defendants' alleged relationship with Jason Galanis caused various statements made by the defendants to be false and misleading. The defendants moved to dismiss the Consolidated Amended Complaint. The plaintiff thereafter dismissed Mr. McKinney, leaving the Company and Mr. Sugarman as the remaining defendants. On September 18, 2017, the district court granted in part and denied in part the defendants' motions to dismiss. Specifically, the court denied the defendants' motions as to the Company's April 15, 2016 Proxy Statement which listed Mr. Sugarman's positions with COR Securities Holdings Inc., COR Clearing LLC, and COR Capital LLC while omitting their alleged connections with Jason Galanis. The lawsuits purport to be brought on behalf of stockholders who purchased stock in the Company between varying dates, inclusive of August 15, 2016 through January 23, 2017. The lawsuits seek class certification, an award of unspecified compensatory and punitive damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. Trial is currently set for October 21, 2019. The Company believes that the consolidated action is without merit and intends to vigorously contest it.
On September 26, 2017, a shareholder derivative action captioned Gordon v. Sznewajs, Case No. 17-CV-1678, was filed in the U.S. District Court for the Central District of California against four of the Company's directors (Robert D. Sznewajs, Halle J. Benett, Jonah F. Schnel and now former director Jeffrey Karish) alleging that they breached their fiduciary duties to the Company. In that action, the Company is a nominal defendant. The complaint sought monetary and equitable relief on behalf of the Company. The Company believes that the shareholder was required to, but failed to, make a demand on the Company to bring such claims, and that the failure of the shareholder to make a demand required dismissal of the action. The Company filed a motion to dismiss on the grounds that the plaintiff was required to, but did not, make a demand on the Company. Rather than oppose the Company's motion, plaintiff elected to file an amended complaint. The amended complaint was filed on February 6, 2018, which added Richard J. Lashley, Doug H. Bowers and John Grosvenor as individual defendants, and which added purported claims for gross negligence and unjust enrichment. The Company filed a motion to dismiss the amended complaint, which was set for hearing on June 18, 2018. The district court granted the Company's motion to dismiss, and the plaintiff dismissed the action on June 22, 2018.
On September 5, 2017, Jeffrey T. Seabold, a former officer of the Company and the Bank, filed a complaint in the Los Angeles Superior Court (Case No. BC 624694) against the Company, the Bank and multiple unnamed defendants asserting claims for breach of contract, wrongful termination, retaliation and unfair business practices. Mr. Seabold alleged that he was constructively terminated as a Company and Bank employee and sought in excess of $5 million in damages. On January 19, 2018, the parties reached a settlement in principle through mediation and a final settlement agreement was entered into on February 14, 2018. The settlement did not have a material adverse effect on our financial condition, results of operations or liquidity. For additional information, including the terms of the settlement agreement, see Note 25 to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.
On August 15, 2017, COR Securities Holdings, Inc., and COR Clearing LLC filed an action in the United States District Court for the Central District of California, captioned COR Securities Holdings, Inc., et al. v. Banc of

California, N.A., et al., Case No. 8:17-cv-01403 DOC JCGx), against the Bank and Hugh F. Boyle, the Company's and the Bank's Chief Risk Officer. The lawsuit asserts claims under various state and federal statutes related to computer fraud and abuse, as well as a claim of common law fraud. The plaintiffs allege that the Bank inappropriately gained access to their confidential and privileged documents on a cloud storage site. On October 2, 2017, the defendants filed a motion to dismiss. On February 2, 2018, the court granted in part and denied in part that motion to dismiss. The Bank believes that the action is without merit and intends to vigorously contest it.

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On August 11, 2017, Carlos P. Salas, the Bank's former Chief of Staff, filed an action in the Los Angeles Superior Court, captioned Carlos P. Salas v. Banc of California, Inc., et al., Case No. BC672208, against the Company and the Bank asserting claims for breach of contract, breach of the covenant of good faith and fair dealing, breach of an implied in fact contract, promissory estoppel, promissory fraud, declaratory relief, fraud/intentional misrepresentation, unfair business practices, wrongful termination, violation of the right to privacy and violation of California's Investigative Consumer Reporting Agencies Act. In general, Mr. Salas alleges that he was constructively terminated as a Bank employee and suffered damages in excess of $4 million. He seeks both compensatory and punitive damages. On September 18, 2017, the Company and the Bank filed a motion to compel arbitration, as required by Mr. Salas' written agreement with the Bank, On January 17, 2018, the court granted the motion to compel arbitration and stayed the court action. Mr. Salas has commenced arbitration. Arbitration is scheduled for February 2019. The Company believes that the action is without merit and continues to vigorously contest it.

On December 7, 2017, Heather Endresen filed an action in the Los Angeles Superior Court, captioned Heather Endresen v. Banc of California, Inc.; Banc of California, N.A., Case No. BC685641. Endresen's complaint purports to state claims for retaliation, wrongful termination, breach of contract, breach of the implied covenant of good faith and fair dealing, and various statutory claims. Endresen dismissed the action without prejudice. On May 23, 2018, Endresen filed an action in the United States District Court for the Central District of California, captioned Heather Endresen v. Banc of California, Inc. and Banc of California, N.A., Case No. 8:18-cv-00899, asserting the claims she had made in the state court action and adding a claim for violation of the Sarbanes-Oxley Act. The complaint does not specify any amount of alleged damages. Banc of California, Inc. and Banc of California, N.A. intend to file a motion to compel Endresen's claims to arbitration pursuant to Endresen's binding arbitration agreement. The Company believes that the claims are without merit and intends to vigorously contest them.

On February 2, 2018, Colleen Witmer, a shareholder, filed a shareholder derivative complaint in the Central District of California, Case No. 8:18-cv-00246-CJC (DFMx), against the Company, as a nominal defendant, and Steven Sugarman, Ronald Nicolas, Jr., Robert Sznewajs, Halle Benett, Douglas Bowers, Jeffrey Karish, Richard Lashley, Jonah Schnel, Eric Holoman, Fran Turner, and Jeffrey Seabold. Witmer filed a First Amended Complaint on July 12, 2018. Witmer's First Amended Complaint seeks to assert claims on behalf of the Company against the individual defendants for breach of fiduciary duty, unjust enrichment, and waste. Witmer alleges that she made a demand on the Company to assert those claims and that the Company refused that demand. The Company intends to file a motion to dismiss on the grounds that it did not refuse to consider Witmer's demand.

ITEM 1A - RISK FACTORS

Except as set forth below, there have been no material changes to the risk factors that appeared under "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

We are reducing the size of our organization, and we may encounter difficulties in managing our business as a result of this reduction or attrition that may follow this reduction. In addition, we may not achieve anticipated savings from the reduction.

On June 26, 2018, we began implementing a reduction in force to reduce our workforce by approximately 9% of total staffing. The reduction in force resulted in the loss of some longer-term employees, the loss of institutional knowledge and expertise and the reallocation and combination of certain roles and responsibilities across the organization, all of which could adversely affect our operations. Given the complexity and nature of our business, we must continue to implement and improve our managerial, operational and financial systems, manage our facilities and continue to recruit and retain qualified personnel. This could be made more challenging by the reduction in force and additional measures we may take to reduce costs, including our planned reduction in use of third party advisors. As a result, our management may need to divert a disproportionate amount of its attention away from our day-to-day strategic and operational activities and devote a substantial amount of time to managing these organizational changes. Further, the restructuring and additional cost containment measures may have unintended consequences, such as attrition beyond our intended reduction in force and reduced employee morale. Employees who were not affected by the reduction in force may seek alternate employment, which could require us to obtain contract support at unplanned additional expense.

We expect to recognize annual savings of approximately $15.0 million from the reduction in force and planned reduction in use of third party advisors. We incurred one-time severance-related costs in the second quarter of 2018 of $4.0 million, pre-tax, as a result of the reduction in force, and additional one-time severance costs may be recognized in the third and fourth quarters of 2018. These amounts are estimates, and it is possible that the actual savings we realize from the reduction in force and our planned reduction in use of third party advisors will be less than anticipated and the costs associated with the reduction in force will be greater than anticipated.

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ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

	Purchase of Equity Securities by the Issuer			
	Total Number of Shares	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Total Number of Shares That May Yet be Purchased Under the Plan
From April 1, 2018 to April 30, 2018	—	$ —	—	—
From May 1, 2018 to May 31, 2018	—	$ —	—	—
From June 1, 2018 to June 30, 2018	—	$ —	—	—
Total	—	$ —	—	

During the three months ended June 30, 2018, the Company did not purchase any equity securities. On October 18, 2016, the Company announced that its Board of Directors approved a share buyback program under Rule 10b-18 authorizing the Company to buy back, from time to time during the 12 months ending on October 18, 2017, an aggregate amount representing up to 10 percent of the Company's currently outstanding common shares. The Company did not purchase any shares under this share buyback program, and the program has expired.

The Company has a practice of buying back stock for tax purposes pertaining to employee benefit plans, and does not count these purchases toward the allotment of the shares. The Company did not purchase any shares during the three months ended June 30, 2018 related to tax liability sales for employee stock benefit plans.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable

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ITEM 5 - OTHER INFORMATION

On August 8, 2018, the Boards of Directors of Banc of California, Inc. (the "Company") and Bank of California, N.A., a wholly owned subsidiary of the Company (the "Bank"), appointed Mike Smith, age 51, as Chief Accounting Officer of the Company and the Bank, effective September 4, 2018. As previously reported in the Current Report on Form 8-K filed by the Company on June 28, 2018, the Company's current Chief Accounting Officer, Lawrence Gee, gave notice of resignation, effective August 10, 2018. John A. Bogler, Executive Vice President and Chief Financial Officer of the Company and the Bank, will assume the additional role of principal accounting officer on an interim basis following Mr. Gee's resignation and until Mr. Smith's appointment becomes effective.

Prior to joining the Company and the Bank, Mr. Smith was, since 2014, the Chief Accounting Officer for loanDepot, a nonbank mortgage lender. Before that, he served as Chief Accounting Officer of several other companies in the financial services industry, including CapitalSource, Inc. (2012 to 2014) and its subsidiary bank, CapitalSource Bank (2008 to 2012), and Fremont Investment & Loan (2004 to 2008). Mr. Smith began his career in the audit practices of Deloitte & Touche LLP and Grant Thornton LLP.

Mr. Smith will receive an annual base salary of $275,000, an annual target bonus of 50% of salary, a guaranteed bonus for 2018 of $60,000, a sign-on bonus of $50,000 and an equity inducement award valued at $175,000 at the time of grant.

Mr. Smith has no direct or indirect material interest in any transaction required to be disclosed pursuant to Item 404(a) of Regulation S-K, has no arrangement or understanding between him and any other person required to be disclosed pursuant to Item 401(b) of Regulation S-K and has no family relationships required to be disclosed pursuant to Item 401(d) of Regulation S-K.

Mr. Smith is expected to enter into the same form of indemnification agreement with the Company as the Company's directors and certain of the Company's other officers, which agreement supplements the indemnification provisions of the Company's charter by contractually obligating the Company to indemnify, and to advance expenses to, such persons to the fullest extent permitted by applicable law.

On August 8, 2018, the Company's Board of Directors granted Patriot Financial Partners II, L.P. and Patriot Financial Partners Parallel II, L.P. (collectively, "Patriot Fund II"), which Company director W. Kirk Wycoff controls as managing partner of Patriot Fund II's general partner, a waiver from compliance with the provision of the Company's Insider Trading Policy that prohibits the Company's directors, officers and employees from holding Company securities in a margin account or pledging Company securities as collateral for a loan. The waiver was granted to enable Patriot Fund II to pledge shares of the Company's common stock it owns, along with other securities it owns, as collateral for a working line of credit facility.

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ITEM 6 - EXHIBITS

2.1	Agreement and Plan of Merger, dated as of October 25, 2013, by and among the Registrant, Banc of California, National Association, CS Financial, Inc., the Sellers named therein and the Sellers' Representative named therein	Footnote 1
2.2	Purchase and Assumption Agreement, dated as of April 22, 2014, by and between Banco Popular North America and Banc of California, National Association	Footnote 2
2.3	Asset Purchase Agreement, dated February 28, 2017, by and between Banc of California, N. A. and Caliber Home Loans, Inc.	Footnote 3
2.4	Bulk Servicing Rights Purchase and Sale Agreement, dated February 28, 2017, by and between Banc of California, N. A. and Caliber Home Loans, Inc.	Footnote 3
3.1	Second Articles of Restatement of the charter of the Registrant	Footnote 41
3.2	Fifth Amended and Restated Bylaws of the Registrant	Footnote 4
4.1	Warrant to purchase up to 1,395,000 shares of the Registrant common stock originally issued on November 1, 2010	Footnote 5
4.2	Senior Debt Securities Indenture, dated as of April 23, 2012, between the Registrant and U.S. Bank National Association, as Trustee	Footnote 6
4.3	Supplemental Indenture, dated as of April 23, 2012, between the Registrant and U.S. Bank National Association, as Trustee, relating to the Registrant's 7.50% Senior Notes due April 15, 2020 and form of 7.50% Senior Notes due April 15, 2020	Footnote 6
4.4	Second Supplemental Indenture, dated as of April 6, 2015, between the Registrant and U.S. Bank National Association, as Trustee, relating to the Registrant's 5.25% Senior Notes due April 15, 2025 and form of 5.25% Senior Notes due April 15, 2025	Footnote 7
4.5	Deposit Agreement, dated as of June 12, 2013, among the Registrant, Registrar and Transfer Company, as Depositary and the holders from time to time of the depositary receipts described therein	Footnote 8
4.6	Deposit Agreement, dated as of April 8, 2015, among the Registrant, Computershare Inc. and Computershare Trust Company, N.A., collectively as Depositary, and the holders from time to time of the depositary receipts described therein	Footnote 9
4.7	Purchase Contract Agreement, dated May 21, 2014, between the Company and U.S. Bank National Association	Footnote 10
4.8	Indenture, dated May 21, 2014, between the Company and U.S. Bank National Association	Footnote 10
4.9	First Supplemental Indenture, dated May 21, 2014, between the Company and U.S. Bank National Association relating to the Registrant's 8% Tangible Equity Units due May 15, 2017	Footnote 10

4.10	Deposit Agreement, dated as of February 8, 2016, among the Registrant, Computershare Inc. and Computershare Trust Company, N.A., collectively as Depositary, and the holders from time to time of the depositary receipts described therein.	Footnote 5
10.1	Employment Agreement, dated as of April 24, 2017, by and between the Registrant and Douglas H. Bowers	Footnote 12
10.2	Employment Agreement, dated as of August 30 2017, by and between the Registrant and John A. Bogler	Footnote 13
10.3	Employment Agreement, dated as of September 17, 2013, by and among the Registrant and Hugh F. Boyle	Footnote 14
10.3A	First Amendment to Employment Agreement, dated as of January 1, 2016 by and between Registrant and Hugh F. Boyle	Footnote 15
10.3B	Compensation arrangement, dated March 8, 2018, by and among Registrant, Banc of California, National Association, and Hugh F. Boyle	Footnote 40
10.4	Employment Agreement, dated as of August 22, 2012, by and among the Registrant and John C. Grosvenor	Footnote 16
10.4A	First Amendment to Employment Agreement, dated January 1, 2016, by and between the Registrant and John C. Grosvenor	Footnote 15
10.8	Employment Agreement, dated as of August 21, 2012, by and between the Registrant and Steven A. Sugarman	Footnote 16
10.8A	Stock Appreciation Right Grant Agreement between the Registrant and Steven A. Sugarman dated August 21, 2012	Footnote 16
10.8B	Amendment dated December 13, 2013 to Stock Appreciation Right Grant Agreement between the Registrant and Steven Sugarman dated August 21, 2012	Footnote 17
10.8C	Letter Agreement, dated as of May 23, 2014, by and between the Registrant and Steven A. Sugarman, relating to Stock Appreciation Rights issued with respect to Tangible Equity Units	Footnote 18

10.8D	Letter Agreement, dated as of March 2, 2016, by and between the Registrant and Steven A. Sugarman	Footnote 19
10.8E	Amended and Restated Employment Agreement, dated as of March 24, 2016, by and among the Registrant, Banc of California, National Association, and Steven A. Sugarman	Footnote 20
10.8F	Letter Agreement, dated as of March 24, 2016, by and between the Registrant and Steven A. Sugarman	Footnote 20
10.8G	Employment Separation Agreement and Release, dated as of January 23, 2017, by and among the Registrant, Banc of California, N.A. and Steven A. Sugarman	Footnote 21
10.9	Employment Agreement, dated as of March 24, 2016, by and between the Registrant and Brian Kuelbs	Footnote 20
10.9A	Settlement Agreement and Release dated as of December 6, 2017, by and between the Registrant and Brian Kuelbs	Footnote 39
10.10	Employment Agreement, dated as of May 13, 2013, by and among Pacific Trust Bank and Jeffrey T. Seabold	Footnote 23
10.10A	Amended and Restated Employment Agreement, effective as of April 1, 2015, by and among Banc of California, National Association, and Jeffrey T. Seabold	Footnote 24
10.10B	First Amendment to Amended and Restated Employment Agreement, dated effective as of January 1, 2016, by between Banc of California, National Association and Jeffrey T. Seabold	Footnote 15
10.10C	Long-Form Settlement Agreement, dated as of February 14, 2018, by and among the Registrant, Banc of California, N.A. and Jeffrey Seabold	Footnote 39
10.11	Employment Agreement, dated as of January 6, 2014, by and among Banc of California, National Association and J. Francisco A. Turner	Footnote 15
10.11A	Amended and Restated Employment Agreement, dated as of March 24, 2016, by and between Banc of California, National Association, and J. Francisco A. Turner	Footnote 20
10.11B	Employment Separation Agreement and Release, dated as of June 12, 2017, by and among the Registrant, Banc of California, N.A. and J. Francisco A. Turner	Footnote 25
10.12	Separation Agreement and Release, dated as of February 7, 2017, by and between the Registrant and Chad T. Brownstein	Footnote 3
10.13	Registrant's 2003 Stock Option and Incentive Plan	Footnote 26
10.14	Registrant's 2003 Recognition and Retention Plan	Footnote 26
10.15	Registrant's 2011 Omnibus Incentive Plan	

		Footnote 27
10.15A	Form of Incentive Stock Option Agreement under 2011 Omnibus Incentive Plan	Footnote 28
10.15B	Form of Non-Qualified Stock Option Agreement under 2011 Omnibus Incentive Plan	Footnote 28
10.15C	Form of Restricted Stock Agreement Under 2011 Omnibus Incentive Plan	Footnote 28
10.16	Registrant's 2013 Omnibus Stock Incentive Plan	Footnote 29
10.16A	Form of Incentive Stock Option Agreement under 2013 Omnibus Stock Incentive Plan	Footnote 30
10.16B	Form of Non-Qualified Stock Option Agreement under 2013 Omnibus Stock Incentive Plan	Footnote 3
10.16C	Form of Restricted Stock Agreement under 2013 Omnibus Stock Incentive Plan	Footnote 30
10.16D	Form of Restricted Stock Unit Agreement under 2013 Omnibus Stock Incentive Plan	Footnote 31
10.16E	Form of Restricted Stock Unit Agreement for Employee Equity Ownership Program under 2013 Omnibus Stock Incentive Plan	Footnote 31
10.16F	Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under 2013 Omnibus Stock Incentive Plan	Footnote 18
10.16G	Form of Restricted Stock Agreement for Non-Employee Directors under 2013 Omnibus Stock Incentive Plan	Footnote 18
10.16H	Form of Performance Unit Agreement under 2013 Omnibus Stock Incentive Plan	Footnote 24
10.16I	Form of Performance-Based Incentive Stock Option Agreement under the 2013 Omnibus Stock Incentive Plan	Footnote 24
10.16J	Form of Performance-Based Non-Qualified Stock Option Agreement under the 2013 Omnibus Stock Incentive Plan	Footnote 24
10.16K	Form of Performance-Based Restricted Stock Agreement under the 2013 Omnibus Stock Incentive Plan.	Footnote 24

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10.16L	Form of Restricted Stock Unit Agreement for Non-Employee Directors under 2013 Omnibus Stock Incentive Plan	Footnote 39
10.17	Registrant's 2018 Omnibus Stock Incentive Plan	Footnote 42
10.18	Common Stock Share Exchange Agreement, dated as of May 29, 2013, by and between the Registrant and TCW Shared Opportunity Fund V, L.P.	Footnote 32
10.18A	Assignment and Assumption Agreement, dated as of December 10, 2014, by and among Crescent Special Situations Fund (Investor Group), L.P., Crescent Special Situations Fund (Legacy V), L.P., TCW Shared Opportunity Fund V, L.P. and the Registrant.	Footnote 33
10.19	Securities Purchase Agreement, dated as of April 22, 2014, by and between the Registrant and OCM BOCA Investor, LLC	Footnote 2
10.19A	Acknowledgment and Amendment to Securities Purchase Agreement, dated as of October 28, 2014 by and between the Registrant and OCM BOCA Investor, LLC.	Footnote 34
10.20	Securities Purchase Agreement, dated as of October 30, 2014, by and among the Registrant, Patriot Financial Partners, L.P. and Patriot Financial Partners Parallel L.P., Patriot Financial Partners II, L.P., and Patriot Financial Partners Parallel II, L.P.	Footnote 13
10.21	Agreement of Purchase and Sale, dated as of October 2, 2015, by and between Banc of California, National Association and The Realty Associates Fund IX, L.P.	Footnote 35
10.22	Form Director and Executive Officer Indemnification Agreement	Footnote 15
10.23	Trust Agreement, dated as of August 3, 2016, by and between the Registrant and Evercore Trust Company, N.A., as trustee.	Footnote 36
10.23A	Common Stock Purchase Agreement, dated as of August 3, 2016, by and between the Registrant and Banc of California Capital and Liquidity Enhancement Employee Compensation Trust.	Footnote 36
10.24	Cooperation Agreement, dated as of February 8, 2017, by and between the Registrant and PL Capital Advisors, LLC	Footnote 37
10.25	Cooperation Agreement, dated as of March 13, 2017, by and between the Registrant and Legion Partners Asset Management, LLC, Legion Partners, L.P. I, Legion Partners, L.P. II, Legion Partners Special Opportunities, L.P. I, Legion Partners Special Opportunities, L.P. V, Legion Partners, LLC, Legion Partners Holdings, LLC, Bradley S. Vizi, Christopher S. Kiper and Raymond White.	Footnote 38
11.0	Statement regarding computation of per share earnings	Footnote 43
31.1	Rule 13a-14(a) Certification (Principal Executive Officer)	31.1
31.2	Rule 13a-14(a) Certification (Principal Financial Officer)	31.2

32.0	Rule 13a-14(b) and 18 U.S.C. 1350 Certification	32.0
101.0	The following financial statements and footnotes from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements.	101.0

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(1) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on October 31, 2013 and incorporated herein by reference.
(2) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 25, 2014 and incorporated herein by reference.
(3) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.
(4) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 30, 2017 and incorporated herein by reference.
(5) Filed as an exhibit to the Registrant's Current Report on Form 8-K/A filed on November 16, 2010 and incorporated herein by reference.
(6) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 23, 2012 and incorporated herein by reference.
(7) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 6, 2015 and incorporated herein by reference.
(8) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 12, 2013 and incorporated herein by reference.
(9) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 8, 2015 and incorporated herein by reference.
(10) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on May 21, 2014 and incorporated herein by reference.
(11) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on February 8, 2016 and incorporated herein by reference.
(12) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on April 27, 2017 and incorporated herein by reference.
(13) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 and incorporated herein by reference.
(14) Field as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and incorporated herein by reference.
(15) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.
(16) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 and incorporated herein by reference.
(17) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 and incorporated herein by reference.
(18) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 and incorporated herein by reference.
(19) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on March 8, 2016 and incorporated herein by reference.
(20) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on March 25, 2016 and incorporated herein by reference.
(21) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on January 25, 2017 and incorporated herein by reference.
(22) Reserved.
(23) Field as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 and incorporated herein by reference.
(24) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and incorporated herein by reference.
(25) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 14, 2017 and incorporated herein by reference.

(26) Filed as an appendix to the Registrant’s definitive proxy statement filed on March 21, 2003 and incorporated herein by reference.

(27) Filed as an appendix to the Registrant’s definitive proxy statement filed on April 25, 2011 and incorporated herein by reference.

(28) Filed as an exhibit to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2011 and incorporated herein by reference.

(29) Filed as an appendix to the Registrant’s definitive proxy statement filed on June 11, 2013 and incorporated herein by reference.

(30) Filed as an exhibit to the Registrant’s Registration Statement on Form S-8 filed on July 31, 2013 and incorporated herein by reference.

(31) Filed as an exhibit to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2013 and incorporated herein by reference.

(32) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on June 4, 2013 and incorporated herein by reference.

(33) Filed as an exhibit to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2014 and incorporated herein by reference.

(34) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on October 30, 2014 and incorporated herein by reference.

(35) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on October 2, 2015 and incorporated herein by reference.

(36) Filed as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 and incorporated herein by reference.

(37) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on February 8, 2017 and incorporated herein by reference.

(38) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on March 14, 2017 and incorporated herein by reference.

(39) Filed as an exhibit to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2017 and incorporated herein by reference.

(40) Files as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 and incorporated herein by reference.

(41) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on June 5, 2018 and incorporated herein by reference.

(42) Included as an appendix to the Registrant’s definitive proxy statement filed on April 19, 2018 and incorporated herein by reference.

(43) Refer to Note 18 of the Notes to Consolidated Financial Statements contained in Item 1 of Part I of this report.

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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.

	BANC OF CALIFORNIA, INC.
Date: August 8, 2018	/s/ Douglas H. Bowers Douglas H. Bowers President/Chief Executive Officer (Principal Executive Officer)
Date: August 8, 2018	/s/ John A. Bogler John A. Bogler Executive Vice President/Chief Financial Officer (Principal Financial Officer)
Date: August 8, 2018	/s/ Lawrence Gee Lawrence Gee Senior Vice President/Chief Accounting Officer (Principal Accounting Officer)