Apollo Global Management LLC
Form S-1
April 08, 2008
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As filed with the Securities and Exchange Commission on April 8, 2008

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

APOLLO GLOBAL MANAGEMENT, LLC

(Exact name of registrant as specified in its charter)

Delaware	6282	20-8880053
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

Apollo Global Management, LLC

9 West 57th Street, 43rd Floor

New York, NY 10019

(212) 515-3200

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

John J. Suydam, Esq.

Chief Legal and Administrative Officer

Apollo Global Management, LLC

9 West 57th Street, 43rd Floor,

New York, NY 10019

(212) 515-3200

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of Communications to:

Monica K. Thurmond, Esq.

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7 Times Square

New York, New York 10036

(212) 326-2000

Approximate date of commencement of proposed sale to public: As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Class A shares, representing Class A limited liability company interests	29,824,540	$14.00	$417,543,560	$16,410

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(a) under the Securities Act of 1933, as amended. No exchange or over-the-counter market exists for the registrant s Class A shares, however, shares of the registrant s Class A shares issued to qualified institutional buyers in connection with its August 2007 exempt sale are traded through a private over-the-counter market for Tradable Unregistered Equity Securities, developed by Goldman, Sachs & Co., or the GSTrUE[SM] OTC market, under the symbol APOLLZ. The last sale of shares of the registrant s Class A shares that was effected on the GSTrUE[SM] OTC market, of which the registrant is aware, occurred on April 7, 2008 at a price of $14.00.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated April 8, 2008

PROSPECTUS

Apollo Global Management, LLC

29,824,540 Class A Shares

Representing Class A Limited Liability Company Interests

This prospectus relates solely to the resale of up to an aggregate of 29,824,540 Class A shares, representing Class A limited liability company interests of Apollo Global Management, LLC, by the selling shareholders identified in this prospectus (which term as used in this prospectus includes pledgees, donees, transferees or other successors-in-interest). The selling shareholders acquired the Class A shares in an exempt offering, which closed on August 8, 2007 and which we refer to as the Rule 144A Offering. We are registering the offer and sale of the Class A shares to satisfy registration rights we have granted to the selling shareholders.

The selling shareholders may offer the shares from time to time as they may determine through public or private transactions or through other means described in the section entitled Plan of Distribution at prevailing market prices, at prices different than prevailing market prices or at privately negotiated prices. The prices at which the selling shareholders may sell the Class A shares may be determined by the prevailing market price for the Class A shares at the time of sale, may be different than such prevailing market prices or may be determined through negotiated transactions with third parties.

We will not receive any of the proceeds from the sale of these Class A shares by the selling shareholders. We have agreed to pay all expenses relating to registering the securities. The selling shareholders will pay any brokerage commissions and/or similar charges incurred for the sale of these Class A shares.

Important observations for potential investors in our Class A shares:

Our investment style is value-oriented, emphasizes downside protection and is often contrarian in nature.

Investors should understand that we may significantly increase the pace of investment when the prevailing wisdom is to sell and may decrease the pace of investment or sell large portions of our funds portfolios when the prevailing wisdom is to buy.

A value-oriented, contrarian investment style is inherently long term in nature. There may be significant fluctuations in our financial results from quarter to quarter and year to year. Our Class A shares should only be purchased by investors who expect to remain shareholders for a number of years.

Prior to the date of this prospectus, there has been no public market for our Class A shares. Because all of the shares offered under this prospectus are being offered by the selling shareholders, we cannot currently determine the price or prices at which our Class A shares may be sold under this prospectus. However, certain qualified institutional buyers who purchased Class A shares in the Rule 144A Offering, have traded our Class A shares through a private over-the-counter market for Tradable Unregistered Equity Securities, developed by Goldman, Sachs & Co., or the GSTruE[SM] OTC market. The last trade of our Class A shares on the GSTruE OTC market, of which we are aware, was reported on April 7, 2008 at a price of $14.00 per Class A share. Future prices will likely vary from that price and these sales may not be indicative of prices at which our Class A shares will trade.

We intend to apply to list our Class A shares on the New York Stock Exchange, or the NYSE, under the symbol . The listing is subject to approval of our application.

Investing in our Class A shares involves risks. You should read the section entitled Risk Factors beginning on page 28 for a discussion of certain risk factors that you should consider before investing in our Class A shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Prospectus dated , 2008.

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THE SECURITIES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This prospectus is solely an offer with respect to Class A shares, and is not an offer directly or indirectly of any securities of any of our funds.

The distribution of this prospectus and the offering and sale of the Class A shares in certain jurisdictions may be restricted by law. We require persons into whose possession this prospectus comes to inform themselves about and to observe any such restrictions. This prospectus does not constitute an offer of, or an invitation to purchase, any of the Class A shares in any jurisdiction in which such offer or invitation would be unlawful.

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VALUATION AND RELATED DATA

This prospectus contains valuation data relating to the Apollo funds and related data that have been derived from such funds. When considering the valuation and related data presented in this prospectus, you should bear in mind that the historical results of the private equity and capital markets funds that Apollo has managed or sponsored in the past are not indicative of the future results that you should expect from the Apollo funds or from us.

TERMS USED IN THIS PROSPECTUS

When used in this prospectus, unless the context otherwise requires:

AAA refers to AP Alternative Assets, L.P., a Guernsey limited partnership that generally invests alongside our private equity funds and directly in our capital markets funds and in other transactions that we sponsor and manage; the common units of AAA are listed on Euronext Amsterdam N.V., which we refer to as Euronext Amsterdam ;

AAA Investments refers to AAA Investments, L.P., a Guernsey limited partnership through which AAA s investments are made;

AAOF refers to Apollo Asia Opportunity Master Fund, L.P., together with its feeder funds;

ACLF refers to Apollo Credit Liquidity Fund, L.P.;

AIC refers to Apollo Investment Corporation, our publicly traded business development company;

AIE refers to AP Investment Europe Limited;

Apollo, we, us, our and the company refer collectively to Apollo Global Management, LLC and its subsidiaries, including the Ap Operating Group (as defined below) and all of its subsidiaries;

Apollo funds and our funds refer to the private funds and alternative asset companies that are managed by the Apollo Operating Group;

Apollo Operating Group refers to (i) the limited partnerships through which our managing partners currently operate our businesses and (ii) one or more limited partnerships formed for the purpose of, among other activities, holding certain of our gains or losses on our principal investments in the funds, which we refer to as our principal investments ;

Apollo Real Estate refers to the entities that manage the Apollo Real Estate Investment Funds, a series of private real estate oriented funds initially established in 1993; our managing partners maintain a minority interest in Apollo Real Estate, but neither they nor we exert any managerial control;

Ares refers to Ares Corporate Opportunity Fund, which Apollo established in 1997 to invest predominantly in capital markets-based securities, including senior bank loans and high-yield and mezzanine debt, and other related funds; our managing partners maintain a minority interest in Ares, but neither they nor we exert any managerial control;

Artus refers to Apollo/Artus Investors 2007-1, L.P.;

Assets Under Management, or AUM, refers to the assets we manage or with respect to which we have control, including capital we have the right to call from our investors pursuant to their capital commitments to various funds. Our AUM equals the sum of:

(i) the fair value of our private equity investments plus the capital that we are entitled to call from our investors pursuant to the terms of their capital commitments plus non-recallable capital to the extent a fund is within the commitment period in which management fees are calculated based on total commitments to the fund;

(ii) the net asset value, or NAV, of our capital markets funds, other than collateralized senior credit opportunity funds (such as Artus, which we measure by using the mark-to-market value of the aggregate principal amount of the underlying collateralized loan obligations) plus used or available leverage and/or capital commitments; and

(iii) the fair value of any other assets that we manage plus unused credit facilities and/or capital commitments available for investment that are not otherwise included in clauses (i) or (ii) above.

We earn management fees from the funds that we manage pursuant to management agreements on a basis that varies from Apollo fund to Apollo fund (*e.g.,* any of net asset value, gross assets, adjusted cost of all unrealized portfolio investments, capital commitments, adjusted assets or capital contributions, each as defined in the applicable management agreement, may form the basis for a management fee calculation). Our calculation of AUM may differ from the calculations of other asset managers and, as a result, this measure may not be comparable to similar measures presented by other asset managers. Our AUM measure includes assets under management for which we charge either no or nominal fees. See Business Fees, Carried Interest, Redemption and Termination. Our definition of AUM is not based on any definition of assets under management contained in our operating agreement or in any of our Apollo fund management agreements.

carried interest and incentive income refer to interests granted to Apollo by an Apollo fund that entitle Apollo to receive allocations, distributions or fees calculated by reference to the performance of such fund or its underlying investments;

co-founded means that the individuals joined Apollo in 1990, the year in which the company commenced business operations;

contributing partners refers to those of our partners, collectively, who own approximately 9.1% of the Apollo Operating Group units;

EPF refers to Apollo European Principal Finance Fund, L.P., together with its feeder funds;

Fund IV, Fund V, Fund VI, and Fund VII mean Apollo Investment Fund IV, L.P., Apollo Investment Fund V, L.P., Apollo Investment Fund VI, L.P. and Apollo Investment Fund VII, L.P., respectively, in each case together with its parallel funds;

gross annualized return means the gross compound annual rate of return based on proceeds and estimated fair market valuations of the underlying investments at the beginning and end of the measurement period;

gross IRR of a fund represents the cumulative investment-related cash flows for all of the investors in the fund on the basis of the actual timing of investment inflows and outflows (for unrealized investment assuming disposition on December 31, 2007) aggregated on a gross basis quarterly, and the return is annualized and compounded before management fees, carried interest and certain other fund expenses (including interest incurred by the fund itself) and measures the returns on the fund s investments as a whole without regard to whether all of the returns would, if distributed, be payable to the fund s investors;

Holdings means AP Professional Holdings, L.P., a Delaware limited partnership through which our managing partners and our contributing partners hold their Apollo Operating Group units;

IRS refers to the Internal Revenue Service;

managing partners refers to Messrs. Leon Black, Joshua Harris and Marc Rowan, collectively;

multiple of invested capital means (i) with respect to a given investment as of any date, the actual amount realized with respect to such investment plus the estimated fair market value of the remaining interest in such investment as of such date divided by the total capital invested in such investment through such date, and (ii) with respect to a fund as of any date, the aggregate actual amount realized in respect of such fund s investments plus the estimated fair market value of the fund s remaining interests in such investments as of such date divided by the lesser of the total capital invested in such investments and the total committed capital of such fund;

net annualized return of a fund means the gross annualized return of such fund, net of management fees, incentive income and all other fund expenses (including interest incurred by the fund itself);

net IRR of a fund means the gross IRR applicable to all investors, net of management fees, organizational expenses, transaction costs, and certain other fund expenses (including interest incurred by the fund itself) and realized carried interest, and measures returns based on amounts that, if distributed, would be paid to investors of the fund; to the extent that an Apollo private equity fund exceeds all requirements detailed within the applicable fund agreement, the estimated unrealized value is adjusted such that a percentage of up to 20.0% of the unrealized gain is allocated to the general partner, thereby reducing the balance attributable to fund investors;

our manager means AGM Management, LLC, a Delaware limited liability company that is controlled by our managing partners;

permanent capital means capital of funds that do not have redemption provisions or a requirement to return capital to investors upon exiting the investments made with such capital, except as required by applicable law, which currently consist of AAA, Apollo Investment Corporation and AP Investment Europe Limited; such funds may be required, or elect, to return all or a portion of capital gains and investment income;

private equity investments refers to (i) direct or indirect investments in existing and future private equity funds managed or sponsored by Apollo, (ii) direct or indirect co-investments with existing and future private equity funds managed or sponsored by Apollo, (iii) direct or indirect investments in securities which are not immediately capable of resale in a public market that Apollo identifies but does not pursue through its private equity funds, and (iv) investments of the type described in (i) through (iii) above made by Apollo funds;

SOMA refers to Apollo Special Opportunities Managed Account, L.P.;

SVF refers to Apollo Strategic Value Master Fund, L.P., together with its feeder funds;

total annualized return means the total compound annual rate of return for a security or index based on the change in market price, assuming the reinvestment of all dividends; and

VIF refers to Apollo Value Investment Master Fund, L.P., together with its feeder funds.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary sets forth the material terms of this offering, but does not contain all of the information that you should consider before investing in our Class A shares. You should read the entire prospectus carefully, including the section entitled Risk Factors, our financial statements and the related notes and management s discussion and analysis thereof included elsewhere in this prospectus, before making an investment decision to purchase our Class A shares.

Apollo

Founded in 1990, Apollo is a leading global alternative asset manager with a track record of successful private equity, distressed debt and mezzanine investing. More recently, we have also begun to invest in senior debt. We raise, invest and manage private equity and credit-oriented capital markets funds on behalf of some of the world s most prominent pension and endowment funds as well as other institutional and individual investors. As of December 31, 2007, we had assets under management, or AUM, of $40.3 billion in our private equity and capital markets businesses. Our latest private equity fund, Fund VII, has raised $12.5 billion as of the date hereof with a target of $15.0 billion, and a number of our capital markets funds are in various stages of fundraising. We have consistently produced attractive investment returns for our investors, with our private equity funds generating a 40% gross IRR and a 29% net IRR from inception through December 31, 2007.

Over our 18-year history of investing, we have grown to become one of the largest alternative asset managers in the world and attribute our historical success to the following key competitive strengths:

- our track record of generating attractive risk-adjusted returns;
- our business model which combines the strength of our private equity and credit-oriented capital markets businesses and the extensive intellectual capital base of the global Apollo franchise to create a sustainable competitive advantage;
- our expertise in distressed investing and ability to invest capital and grow AUM throughout economic cycles;
- our deep industry knowledge and expertise with complex transactions;
- our creation of an edge in investing by combining our core industry expertise, comfort with complexity and use of strategic platforms to create proprietary investment opportunities;
- our long standing investor relationships that include many of the world s most prominent alternative asset investors; and
- our strong management team, brand name and reputation.

Apollo is led by our managing partners, Leon Black, Joshua Harris and Marc Rowan, who have worked together for more than 20 years and lead a team of more than 175 professionals as of December 31, 2007. This team possesses a broad range of transaction, financial, managerial and investment skills. We have offices in New York, London, Los Angeles, Singapore, Frankfurt and Paris. We operate two businesses in which we believe we are a market leader: private equity and credit-oriented capital markets. We generally operate these businesses in an integrated manner. Our investment professionals frequently collaborate and share information including market insight, management, consultant and banking contacts as well as potential investment opportunities, which contributes to our library of extensive industry knowledge and enables us to successfully invest across a company s capital structure. This platform and the depth and experience of our investment team have enabled us to deliver strong long-term investment performance across various asset classes throughout a range of economic cycles. For example, three of Apollo s most successful funds (in terms of net IRR), Funds I, II and V, were initiated during economic downturns. Funds I and II were initiated during the economic downturn of 1990 through 1993 and Fund V was initiated during the economic downturn of 2001 through late 2003.

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Our objective is to achieve superior risk-adjusted returns for our fund investors throughout economic cycles. Commitment to the investors in our funds is a high priority. Our investment approach is value-oriented, focusing on industries in which we have considerable knowledge, and emphasizing downside protection and the preservation of capital. We are also frequently contrarian in our investment approach. This is reflected in many of the businesses in which we choose to invest, the structures we employ in some of our investments, our experience in investing during periods of uncertainty or distress in the economy or financial markets, our orientation towards sole sponsored transactions and our willingness to undertake transactions having substantial business, regulatory or legal complexity. We have successfully applied this investment philosophy in flexible and creative ways over our 18-year history, allowing us to consistently find attractive investment opportunities, deploy capital up and down the balance sheet of industry leading, or franchise, businesses and create value throughout economic cycles.

We have experienced significant growth in our businesses through the growth of our private equity funds, globalizing our capital markets business and adding new products. We had AUM of $40.3 billion as of December 31, 2007 consisting of $30.2 billion in our private equity business and $10.1 billion in our capital markets business. Fund VII has raised $12.5 billion as of the date hereof with a target of $15.0 billion. See Risk Factors Risks Related to Our Businesses We may not be successful in raising new private equity or capital markets funds or in raising more capital for our capital markets funds. Additionally, a number of our capital markets funds are currently in various stages of fundraising. We have grown our AUM at a 53% compound annual growth rate, or CAGR, from December 31, 2004 to December 31, 2007. We have achieved this growth by raising additional capital in our private equity and credit-oriented capital markets businesses, growing AUM through appreciation and by expanding our businesses to new strategies and geographies. We have also expanded the base of investors in our funds by accessing permanent capital through AIC, AIE, and AAA. These distribution channels represent approximately 19% of our AUM as of December 31, 2007. In addition, we benefit from mandates with long-term capital commitments. As of December 31, 2007, approximately 71% of our AUM was in funds with a duration of ten years or more from inception.

We expect our growth in AUM to continue over time as we (1) raise larger private equity funds than the funds being liquidated, (2) retain profits in our capital markets funds and raise additional capital to support those vehicles and (3) launch new investment vehicles as market opportunities present themselves. See Risk Factors Risks Related to Our Businesses We may not be successful in raising new private equity or capital markets funds or in raising more capital for our capital markets funds.

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Our Businesses

We manage private equity and credit-oriented capital markets investment entities. We also manage AAA, a publicly listed vehicle, which generally invests alongside our private equity funds and directly in our capital markets funds. The diagram below summarizes our Assets Under Management.[(1)]

(1) All data is as of December 31, 2007 unless otherwise noted. The chart does not reflect legal entities or assets managed by former affiliates.
(2) Fund VII has a fundraising target of $15.0 billion. As of the date hereof, Fund VII has raised $12.5 billion.
(3) Two of our funds are denominated in Euros and translated into U.S. dollars at an exchange rate of 1.00 to $1.46 as of December 31, 2007.

Our revenues and other income consist principally of (i) management fees, which are based on committed or invested capital (in the case of our private equity funds), adjusted assets (in the case of AAA) and gross invested capital or fund net asset value (in the case of our capital markets funds), (ii) transaction and advisory fees received from private equity portfolio companies in respect of business and transaction consulting services, as well as advisory services provided to a capital markets fund, (iii) income based on the performance of our funds, which consists of carried interest from our private equity funds, AAA and our capital markets funds, and (iv) investment income from our investments as general partner and other direct investments.

Private Equity

Private Equity Funds

The private equity business is the cornerstone of our investment activities, with AUM of $30.2 billion as of December 31, 2007. Our private equity business grew AUM by a 46% CAGR from December 31, 2004 through December 31, 2007. From our inception in 1990 through the end of 2007, our private equity business invested (or committed to invest, subject to meeting customary conditions) approximately $22.4 billion of equity capital. Most recently, our private equity funds and AAA deployed $3.2 billion of capital in debt and equity opportunities during the fourth quarter of 2007 and the first quarter of 2008. Since inception, the returns of our private equity funds have performed in the top quartile for all U.S. buyout funds, as measured by Thomson Financial. Our private equity funds have generated a gross IRR of 40% and a net IRR of 29% from inception through December 31, 2007, as compared with a total annualized return of 9% for the S&P 500 Index over the same period. In addition, since our inception, our private equity funds have achieved a 2.4x multiple of invested

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capital. See The Historical Investment Performance of Our Funds for reasons why our historical private equity returns are not indicative of the future results you should expect from our current or future funds or from us.

We believe we have a demonstrated ability to quickly adapt to changing market environments and capitalize on market dislocations through our traditional and distressed investment approach. In periods of strained financial liquidity and economic recession, we have made attractive private equity investments by buying the distressed debt of quality businesses, converting that debt to equity, creating value through active management and ultimately monetizing the investment.

Beginning in July 2007, the financial markets encountered a series of events from the sub-prime contagion to the ensuing credit crunch. These events led to a significant dislocation in the capital markets and created a backlog in the debt pipeline. Much of the backlog is left over from debt raised for large private equity-led transactions which reached record levels in 2006 and 2007. This record backlog of supply in the debt markets has materially affected the ability and willingness of lenders to fund new large private equity-led transactions and has applied downward pressure on prices of outstanding debt. Due to the difficulties in financing transactions in this market, the volume and size of traditional private equity-led transactions has declined significantly. We are drawing on our long history of investing across market cycles and are deploying capital in the following ways:

- We are looking to acquire distressed securities in industries that we know well. Examples include investments in the transportation, media, financial services and packaging industries. We believe that we can find good companies with stressed balance sheets in this market at attractive prices.

- We are also looking to invest in debt securities of companies that are performing well, but are attractively priced due to the disruption in the debt markets.

- We are seeking to take advantage of creative structures to use our equity to de-leverage a company s balance sheet and take a controlling position.

- We continue to build out our strategic platforms through value added follow-on investments in current portfolio companies. In this environment where tighter financing exists around de novo buyouts, we have recently executed, and will look to continue to execute, favorable add-on acquisitions.

Our combination of traditional buyout investing with a distressed option has proven successful throughout economic cycles and has allowed us to achieve attractive rates of return in different economic and market environments. However, we cannot assure you that we will be successful in implementing this strategy in the current economic and market environments. See Risk Factors Risks Related to Our Businesses Difficult market conditions may adversely affect our businesses in many ways, including by reducing the value or hampering the performance of the investments made by our funds or reducing the ability of our funds to raise or deploy capital, each of which could materially reduce our revenue, net income and cash flow and adversely affect our financial prospects and condition.

Our two more recent funds, Fund V and Fund VI, have proven successful to date despite the difficult economic conditions within which those funds have operated. Fund V, with $3.7 billion of committed capital, started investing during the economic downturn of 2001 through late 2003. This fund has generated a gross IRR of 71% and a net IRR of 54% from its first investment in April 2001 to December 31, 2007. It has already returned more than $10.2 billion to investors through March 31, 2008. At December 31, 2007, Fund V had an estimated unrealized value of $5.4 billion and a current multiple of invested capital of 3.6x. This performance was generated during an initial period of economic distress followed by substantial economic and capital markets expansion, which we believe illustrates our ability to use our flexible investment approach to generate returns across a range of economic environments. Fund V is in the top quartile of similar vintage funds according to Thomson Financial. See The Historical Investment Performance of Our Funds for a discussion of the reasons we do not believe our future IRRs will be similar to the IRRs for Fund V.

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Fund VI, together with AAA through its co-investment with Fund VI, with $11.6 billion of committed capital, has invested or committed to invest approximately $9.7 billion through December 31, 2007. Fund VI has generated an unrealized gross IRR of 58% and an unrealized net IRR of 42% from the first investment in July 2006 to December 31, 2007 and has already returned more than $1.3 billion to investors. As of the date hereof, the Fund VI portfolio includes 15 portfolio companies and one portfolio company investment commitment, all but one of which are transactions where we were the sole financial sponsor, nine of which were proprietary in nature (meaning deals that arise other than from winning a competitive auction process), four of which were complex corporate carveouts and all of which were in industries well known to us. The Fund VI portfolio also includes six investments in debt investment vehicles formed by our affiliates to invest in debt securities to take advantage of volatility in the credit markets.

The following charts summarize the breakdown of our private equity investments by type and industry from our inception through December 31, 2007.

Private Equity Investments by Type

Private Equity Investments by Industry

AP Alternative Assets (AAA)

AAA issued approximately $1.9 billion of equity capital in its initial global offering in June 2006 to invest primarily alongside our private equity funds and directly in our capital markets funds and certain other transactions that we sponsor and manage. The common units of AAA, which represent limited partnership interests, are listed on Euronext Amsterdam. On June 1, 2007, AAA s investment vehicle entered into a credit agreement that provides for a $900 million revolving line of credit, thus increasing the amount of cash that AAA has available for making investments and funding its liquidity and working capital needs. AAA may incur additional indebtedness from time to time.

AAA is an important component of our business strategy, as it has allowed us to quickly target attractive investment opportunities by capitalizing new investment vehicles formed by Apollo in advance of a lengthy third party fundraising process. In particular, we have used AAA capital to seed one of our mezzanine funds and three of our global distressed and hedge funds. AAA s current portfolio also includes private equity co-investments in Fund VI portfolio companies and temporary cash investments. Subsequent to December 31, 2007, AAA also commenced co-investing in Fund VII portfolio companies and had utilized approximately $385 million of their line of credit for certain additional investments. Additionally, AAA may coinvest alongside ACLF (as defined below). While we currently have no definitive plans, we are continually evaluating alternatives to AAA s present structure to improve shareholder value and liquidity.

Capital Markets

Our credit-oriented capital markets operations commenced in 1990 with the management of a $3.5 billion high-yield bond and leveraged loan portfolio. The business was spun off in the late 1990s and re-established in 2003 to complement our private equity business.

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We currently manage nine capital markets funds that utilize the same disciplined, value-oriented investment philosophy that we employ with respect to private equity. These vehicles include mezzanine funds, distressed and hedge funds, and senior credit opportunity funds. Our capital markets business had AUM of $10.1 billion as of December 31, 2007 and grew its AUM by an 87% CAGR from December 31, 2004 through December 31, 2007. Additionally, a number of our capital markets funds are currently in various stages of fundraising. We expect our existing funds to be regularly fundraising, as we continue to add new products, geographies and strategies.

Mezzanine Funds

We currently manage two mezzanine funds: AIC, which is a publicly traded, closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended, or the Investment Company Act, and AIE, which is an unregistered private closed-end investment fund formed in July 2006 that utilizes a similar strategy to AIC but with a focus on Europe. The investment objective of our mezzanine funds is to generate both capital appreciation and current income through mezzanine, debt and equity investments while adhering to Apollo s industry-specialized, value-oriented investment strategy. AIC s common stock is quoted on the NASDAQ Global Select Market under the symbol AINV and was recently added to the S&P MidCap 400 index. Shareholders who invested in the stock at inception in April 2004 have earned a total annualized return of 11.7% through December 31, 2007. AIE intends to invest approximately 70% of its gross assets in secured and unsecured subordinated loans (also referred to as mezzanine loans), senior secured loans, high-yield debt and preference equity and approximately 70% of its gross assets in securities issued by, or loans made to, companies established or operating in Europe. Since inception in June 2006 and through December 31, 2007, AIE has generated a gross annualized return of 9.5% and a net annualized return of 5.0%. While the primary market in Europe remains virtually shutdown, we believe there exists investment opportunities in secondary credit markets and collateralized loan obligations in Europe. However, in light of the current economic and market environments for the kinds of investments these funds customarily make, we expect that, for as long as these market conditions continue, returns in this sector will be lower than they have been in recent history, and fundraising efforts will be challenging.

Global Distressed and Hedge Funds

We currently manage five distressed and hedge funds that primarily invest in North America, Europe and Asia.

SVF, VIF and SOMA utilize similar investment strategies, seeking to identify and capitalize on absolute-value driven investment opportunities by investing primarily in the securities of leveraged companies through special situations, distressed investments and privately negotiated investments. VIF began investing capital in October 2003 and is currently closed to new investors. SVF began investing capital in June 2006 and is currently open to new investors. We refer to SVF and VIF as the Value Funds. In the 12 months preceding December 31, 2007, the Value Funds collectively generated a gross annual return of 8.2%, a net return of 4.6%. SOMA began investing capital in March 2007 and represents a commitment by one of our Strategic Investors (as defined below under The Offering Transactions and the Strategic Investors Transaction) of at least $800 million, with an option for such Strategic Investor to increase its commitment to $1.2 billion.

We have been expanding our international presence and have launched new initiatives to capitalize on capital markets oriented investment opportunities in Europe and Asia. We manage AAOF, an investment vehicle that seeks to generate attractive risk-adjusted returns throughout economic cycles by capitalizing on investment opportunities in the Asian markets, excluding Japan, and targeting event-driven volatility across capital structures, as well as opportunities to develop proprietary platforms. AAOF began investing capital in February 2007. We believe our experienced Asia team has great access to private deals throughout Asia. Since inception, AAOF has generated a gross annualized return of 25.4% and a net annualized return of 18.1%. We also manage

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EPF, which was formed in May 2007 and invests primarily in non-performing loans, or NPLs, in Europe. Currently the fund has investments in Germany, Spain, Portugal and the United Kingdom. The fund seeks to capitalize on the inefficiencies of financial institutions in managing and restructuring their NPLs. We believe the team s global experience and local network of relationships complements Apollo s background in distressed and private equity investing. As of March 31, 2008, EPF had $764.7 million in total committed capital. Our global distressed and hedge funds utilize similar value-oriented investment philosophies as our private equity business and are focused on capitalizing on our substantial industry knowledge and network of industry relationships. We currently expect our global distressed and hedge fund activities will increase in scale and scope as we continue our global expansion.

Senior Credit Opportunity Funds

We established two new senior credit opportunity funds in late 2007 in order to take advantage of the supply-demand imbalances in the leveraged finance market. We were able to establish these funds with some of our largest and most loyal investors in a rapid fashion to capitalize on the time sensitive nature of the dislocation in the capital markets which began in July 2007.

Artus closed on October 19, 2007 with aggregate capital commitments of $106.5 million, including a commitment from one of our Strategic Investors (as defined below under The Offering Transactions and the Strategic Investors Transaction). In November 2007, Artus purchased certain of the notes issued by a collateralized loan obligation, or the CLO. The notes issued by the CLO are secured by a diversified pool of approximately $1.0 billion in aggregate principal amount of United States dollar denominated commercial loans and cash as of December 31, 2007. ACLF, which had aggregate capital commitments of $681.6 million as of its closing on November 13, 2007, invests principally in newly issued senior secured bank debt in the U.S. and Europe in order to take advantage of a major component of the financial market dislocation. ACLF has a flexible structure which allows it to invest in second lien bank debt, publicly traded debt securities, bridge financings and the equity tranche of any collateralized debt obligation security.

Competitive Strengths

Over our 18-year history, we have grown to be one of the largest alternative asset managers in the world. We attribute our success, and our confidence in our future plans, to the following competitive strengths.

Our Investment Track Record. Our cornerstone private equity funds have generated a 40% gross IRR and a 29% net IRR from inception through December 31, 2007. Our track record of generating attractive risk-adjusted returns is a key differentiating factor for our fund investors and, we believe, will allow us to continue to expand our AUM and capitalize new investment vehicles. See The Historical Investment Performance of Our Funds for reasons why our historical returns are not indicative of the future results you should expect from our current or future funds or from us.

Our Integrated Business Model. Generally, we operate our global franchise as an integrated investment platform with a free flow of information across our businesses. See Risk Factors Risks Related to Our Businesses Possession of material non-public information could prevent Apollo funds from undertaking advantageous transactions; our internal controls could fail; we could determine to establish information barriers. Our investment professionals interact frequently across our businesses on a formal and informal basis. Each of our private equity and credit-oriented capital markets businesses contributes to and draws from what we refer to as our library of information and experience. This library includes market insight, management, industry consultant and banking contacts, as well as potential investment opportunities. Each of the businesses provides investment opportunities and intellectual capital to the other, enabling the firm to successfully invest across a company s capital structure. See Risk Factors Risks Related to Our Businesses Possession of

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material, non-public information could prevent Apollo funds from undertaking advantageous transactions; our internal controls could fail; we could determine to establish information barriers.

Our Flexible Approach to Investing Across Market Cycles. We have consistently invested capital and grown AUM throughout economic cycles by focusing on opportunities that we believe are often overlooked by other investors. Our expertise in capital markets, focus on core industry sectors and investment experience allow us to respond quickly to changing environments. In our private equity business, we have had success investing in buyouts during both expansionary and recessionary economic periods. During the recovery and expansionary periods of 1994 through 2000 and late 2003 through the first half of 2007, we invested or committed to invest approximately $13.2 billion primarily in traditional and corporate partner buyouts. In the recessionary periods of 1990 through 1993, 2001 through late 2003 and the slowdown period of the third quarter of 2007 through the first quarter of 2008, we invested approximately $9.5 billion, the majority of which was in distressed buyouts and debt investments when the debt securities of quality companies traded at deep discounts. We believe distressed buyouts represent a highly attractive risk/reward profile and allow our funds to invest at below-market multiples when historically our peer private equity firms have largely been inactive. Our capital markets funds follow the same disciplined approach to investing throughout economic cycles.

The table below summarizes our view of how our investment strategy has differed from that of a typical private equity firm during the U.S. economic cycles since our inception in 1990 and our view of certain market conditions during these cycles.

	Recession 1990-1993	**Recovery 1994-1997**	**Expansion 1998-2000**	**Recession 2001-2003 3Q**	**Recovery 2003 4Q-2005**	**Expansion 2006-2007 2Q**	**Slowdown 2007 3Q-2008 1Q**
Liquidity	Low	High	High	Low	High	High	Low
Valuation	Low	Low-Medium	High	Low	Medium	Medium-High	Medium
Typical private equity firm	Inactive	Active	Inactive or paid high prices	Inactive	Active and paid high prices	Active and paid high prices	Reduced activity
Apollo	Focus on distressed buyout option	Traditional buyouts	Seeks to reduce acquisition price through complex buyouts and corporate partnerships	Focus on distressed buyout option	Traditional buyouts using industry expertise to reduce acquisition price	Seeks to reduce acquisition price through complex buyouts and corporate partnerships	Focus on distressed investments and strategic acquisitions
Apollo s traditional and corporate partner buyouts (1)	$547	$1,454	$3,216	$521	$2,469	$5,830	$2,669
Apollo s distressed buyouts and debt investments (1)	$3,010	$60	$0	$1,445	$134	$58	$1,298

(1) Dollars in millions. Amounts set forth above represent capital invested by our private equity business.
Note: Characterization of economic cycles is based on our management s views.

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Our Deep Industry Expertise and Focus on Complex Transactions. We have substantial expertise in eight core industry sectors and have invested in over 150 companies since inception. Our core industry sectors are chemicals; consumer and retail; distribution and transportation; financial and business services; manufacturing and industrial; media, cable and leisure; packaging and materials; and satellite and wireless. Our deep experience in these industry sectors has allowed us to develop an extensive network of strategic relationships with CEOs, CFOs and board members of current and former portfolio companies, as well as consultants, investment bankers and other industry-focused intermediaries. We believe that situational and structural complexity often hides compelling value that competitors may lack the inclination or ability to uncover. We believe that we are known in the market for having substantial corporate carveout experience, having consummated 15 buy-side carveouts since 2000, and that our industry expertise and comfort with complexity help drive our performance.

Our Investment Edge Creates Proprietary Investment Opportunities. We seek to create an investment edge, which allows us to consistently deploy capital up and down the balance sheet of franchise businesses, make investments at attractive valuations and maximize returns. We believe our industry expertise allows us to create strategic platforms and approach new investments as a strategic buyer with synergies, cross-selling opportunities and economies of scale advantages over other purely financial sponsors. Additionally, our expertise in complex corporate carveouts allows us to source investment opportunities in a private to private negotiation, oftentimes exclusively, which facilitates deployment of capital at attractive valuations. Since our inception, we believe over 75% of our private equity buyouts have been proprietary in nature. We have also avoided the market trend of consortium transactions (defined as including more than one main financial sponsor), being the sole financial sponsor in 15 of our last 16 private equity portfolio company transactions. We believe these competitive advantages often result in our buyouts being effected at a lower multiple of adjusted earnings before interest, taxes, depreciation and amortization, or adjusted EBITDA, than many of our peers.

Our Strong, Longstanding Investor Relationships. We manage capital for hundreds of investors in our private equity funds, which include many of the world s most prominent pension funds, university endowments and financial institutions, as well as individuals. Most of our private equity investors are invested in multiple Apollo private equity funds, and many have invested in one or more of our capital markets funds, including as seed investors in new strategies. We believe that our deep investor relationships, founded on our consistent performance, disciplined and prudent management of our fund investors capital and our frequently contrarian investment approach, have facilitated the growth of our existing businesses and will assist us with the launch of new businesses.

The Continuity of Our Strong Management Team and Reputation. Our managing partners actively participate in the oversight of the investment activities of our funds, have worked together for more than 20 years and lead a team of more than 175 professionals who possess a broad range of transaction, financial, managerial and investment skills. Our investment team includes our contributing partners, who have worked together for an average of 13 years, as well as exclusive relationships with operating executives who are former CEOs with significant experience in our core industries. We have developed a strong reputation in the market as an investor and partner who can make significant contributions to a business or investing decision, and we believe the longevity of our management team is a key competitive advantage.

Alignment of Interests with Investors in Our Funds. Fundamental to our business model is the alignment of interests of our professionals with those of the investors in our funds. From our inception through December 31, 2007, our professionals have committed or invested an estimated $944 million of their own capital to our funds (including Fund VII). In addition, our practice is to allocate a portion of the management fees and incentive income payable by our funds to our professionals, which serves to incentivize those employees to generate superior investment returns. We believe that this alignment of interests with our fund investors helps us to raise new funds and execute our growth strategy.

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Long-Term Capital Base. A significant portion of our $40.3 billion of AUM as of December 31, 2007 was long-term in nature. Our permanent capital vehicles, AIC, AIE and AAA, represented approximately 19% of our AUM. As of December 31, 2007, approximately 71% of our AUM was in funds with a duration of ten years or more from inception. Our long-lived capital base allows us to invest assets with a long-term focus that we believe drives attractive returns. We believe that our increasing use of permanent capital vehicles also facilitates the efficient raising of capital, as demonstrated by the three follow-on equity offerings of AIC that we have successfully completed since AIC s inception in April 2004. These three offerings generated a total of $1.0 billion in net proceeds for AIC, which AIC was able to leverage with increases to its committed credit facility. These permanent capital vehicles are able to grow organically through the continuous investment and reinvestment of capital, which we believe provides us with stability and with a valuable potential source of long-term income.

Growth Strategy

Our growth and investment returns have been supported by an institutionalized and strategic organizational structure designed to promote teamwork, industry specialization, permanence of capital, compliance and regulatory excellence and internal systems and processes. Our ability to grow our revenues depends on our performance and on our ability to attract new capital and fund investors, which we have done successfully over the last 18 years.

The following are key elements of our growth strategy.

Continue to Achieve Superior Returns in Our Funds. Continued achievement of superior returns will support growth in AUM. We believe our experienced investment team, value-oriented investment strategy and flexible investment approach will continue to drive superior returns. We will emphasize creating long-term value for our shareholders with less focus on our quarter-to-quarter or year-to-year earnings volatility.

Continued Commitment to Our Fund Investors. Commitment to our fund investors is a high priority. We intend to continue managing our businesses with a strong focus on developing and maintaining long-term relationships with our fund investors. Our fund investors include many of the world s most prominent pension and endowment funds as well as other institutional and individual investors. Most of our private equity investors are invested in multiple Apollo private equity funds, and many invested in one or more of our capital markets funds. We believe that our strong investor relationships facilitate the growth of our existing businesses and the successful launch of new businesses.

Raise Additional Investment Capital for our Current Businesses. We will continue to utilize our firm s reputation and track record to grow our AUM. Our funds capital raising activities benefit from our 18-year investment track record, the reputation of our firm and investment professionals, our access to public markets through AIC and AAA and our strong relationships with our investors.

Expand Into New Investment Strategies, Markets and Businesses. We intend to grow our businesses through the targeted development of new investment strategies that we believe are complementary to our existing businesses. In addition, we expect to continue expanding into new businesses, possibly through strategic acquisitions of other investment management companies or other strategic initiatives.

Take Advantage of the Benefits of Being a Public Company. We believe that being a public company will help us grow our AUM and revenues. We believe that fund investors will increasingly prefer to trust their capital to publicly traded asset managers because of the corporate-governance and disclosure requirements that apply to such managers, as well as the more efficient succession-planning and reduced key man risk that we believe result from becoming a public company. We also believe that we can utilize our currency as a public company to broaden our industry verticals and capital markets products and expand into new product offerings and strategies.

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We cannot assure you that our funds will be successful in raising the capital described above or that any capital they do raise will be on terms favorable to us or consistent with terms of capital that our funds have previously raised. See Risk Factors Risks Related to Our Businesses We may not be successful in raising new private equity or capital markets funds, or in raising more capital for our funds for a more detailed discussion of these risks.

The Offering Transactions and the Strategic Investors Transaction

On August 8, 2007, in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act), we sold 27,000,000 Class A shares, at an initial offering price of $24 per share, to (i) Goldman, Sachs & Co., J.P. Morgan Securities Inc. and Credit Suisse (USA) LLC, which we refer to as the initial purchasers, for their resale to qualified institutional buyers that are also qualified purchasers in reliance upon Rule 144A under the Securities Act, and (ii) to accredited investors, with the initial purchasers acting as placement agents, in a private placement, as defined in Rule 501(a) under the Securities Act. The initial purchasers exercised their over-allotment option and on September 5, 2007, we sold an additional 2,824,540 Class A shares to the initial purchasers at the price of $24 per share. We refer to this exempt sale of Class A shares to the initial purchasers and to accredited investors as the Rule 144A Offering.

In connection with the Rule 144A Offering, on July 16, 2007, we entered into a purchase agreement with Credit Suisse Securities (USA) LLC, one of the Rule 144A Offering initial purchasers, pursuant to which Credit Suisse Management LLC, or the CS Investor, purchased from us in a private placement that closed concurrently with the Rule 144A Offering an aggregate of $180 million of the Class A shares at a price per share of $24, or 7,500,000 Class A shares. Pursuant to a shareholders agreement we entered into with the CS Investor, the CS Investor agreed not to sell its Class A shares for a period of one year from August 8, 2007, the closing date of the Rule 144A Offering. We refer to our sale of Class A shares to the CS Investor as the Private Placement and to the Private Placement, and the Rule 144A Offering collectively, as the Offering Transactions.

On July 13, 2007, we sold securities to the California Public Employees Retirement System, or CalPERS, and an affiliate of the Abu Dhabi Investment Authority, or ADIA, in return for a total investment of $1.2 billion. We refer to CalPERS and ADIA as the Strategic Investors. Upon completion of the Offering Transactions, the securities that we sold to the Strategic Investors converted into non-voting Class A shares. We refer to the foregoing issuance of securities, our use of proceeds from that sale and the conversion of such securities into non-voting Class A shares as the Strategic Investors Transaction. Pursuant to a lenders rights agreement we have entered into with the Strategic Investors, the Strategic Investors have agreed not to sell any of their Class A shares for a period of two years after the date on which the shelf registration statement of which this prospectus forms a part became effective, or the shelf effectiveness date, subject to limited exceptions. Thereafter, the amount of Class A shares they may sell is subject to a limit that increases with each year. See Certain Relationships and Related Party Transactions Lenders Rights Agreement Transfer Restrictions. The Strategic Investors are two of the largest alternative asset investors in the world and have been significant investors with us in multiple funds covering a variety of strategies. In total, from our inception through the date hereof, the Strategic Investors have invested or committed to invest approximately $6.4 billion of capital in us and our funds. The Strategic Investors are significant supporters of our integrated platform, with one or both having invested in multiple private equity and capital markets funds. With substantial combined assets, we believe the Strategic Investors will be an important source of future growth in the AUM in our existing and future funds for many years, as well as in new products and geographic expansions. Although they have no obligation to invest further in our funds, in connection with our sale of securities to the Strategic Investors, we granted to each of them the option, exercisable until July 13, 2010, to invest or commit to invest up to 10% of the aggregate dollar amount invested or committed by investors in the initial closing of any privately placed fund that we offer to third party investors, subject to limited exceptions.

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Structure and Formation of the Company

Apollo Global Management, LLC is a holding company whose primary assets are 100% of the general partner interests in each limited partnership included in the Apollo Operating Group, which is described below under Holding Company Structure, and 28.9% of the limited partner interests of the Apollo Operating Group entities, in each case held through intermediate holding companies. The remaining 71.1% limited partner interests of the Apollo Operating Group entities are owned directly by Holdings, an entity 100% owned, directly or indirectly, by our managing partners and contributing partners, and represent its economic interest in the Apollo Operating Group. With limited exceptions, the Apollo Operating Group owns each of the operating entities included in our historical consolidated and combined financial statements as described below under Our Assets.

Apollo Global Management, LLC is owned by its Class A and Class B shareholders. Holders of our Class A shares and Class B share vote as a single class on all matters presented to the shareholders, although the Strategic Investors do not have voting rights in respect of any of their Class A shares. We have issued to BRH Holdings GP, Ltd., or BRH, a single Class B share solely for purposes of granting voting power to BRH. BRH is the general partner of Holdings and is a Cayman Islands exempted company owned and controlled by our managing partners. The Class B share does not represent an economic interest in Apollo Global Management, LLC. The voting power of the Class B share, however, increases or decreases with corresponding changes in Holdings economic interest in the Apollo Operating Group.

Our shareholders vote together as a single class on the limited set of matters on which shareholders have a vote. Such matters include a proposed sale of all or substantially all of our assets, certain mergers and consolidations, certain amendments to our operating agreement and an election by our manager to dissolve the company.

We refer to the formation of the Apollo Operating Group described below under Equity Interests Retained by Our Managing Partners and Contributing Partners, the deconsolidation of most Apollo funds described below under Deconsolidation of Apollo Funds and the borrowing under the AMH credit facility and the related distribution to our managing partners described below under Distributions to Our Managing Partners Prior to the Offering Transactions, collectively, as the Reorganization.

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The diagram below depicts our current organizational structure.

(1) Investors in the Offering Transactions hold 38.4% of the Class A shares, and the Strategic Investors hold 61.6% of the Class A shares. The Class A shares held by investors in the Offering Transactions represent 13.5% of the total voting power of our shares entitled to vote and 11.1% of the economic interests in the Apollo Operating Group. Class A shares held by the Strategic Investors do not have voting rights and represent 17.8% of the economic interests in the Apollo Operating Group. Such Class A shares will become entitled to vote upon transfers by a Strategic Investor in accordance with the agreements entered into in connection with the Strategic Investors Transaction.

(2) Our managing partners own BRH, which in turn holds our only outstanding Class B share. The Class B share initially represents 86.5% of the total voting power of our shares entitled to vote but no economic interest in Apollo Global Management, LLC. Our managing partners economic interests are instead represented by their indirect ownership, through Holdings, of 71.1% of the limited partnership interests in the Apollo Operating Group.
(3) Through BRH Holdings, L.P., our managing partners own limited partnership interests in Holdings.
(4) Represents 71.1% of the limited partner interests in each Apollo Operating Group entity. The Apollo Operating Group units held by Holdings are exchangeable for Class A shares, as described below under Equity Interests Retained by Our Managing Partners and Contributing Partners.
(5) BRH is the sole member of AGM Management, LLC, our manager. The management of Apollo Global Management, LLC is vested in our manager as provided in our operating agreement. See Description of Shares Operating Agreement for a description of the authority that our manager exercises.
(6) Represents 28.9% of the limited partnership interests in each Apollo Operating Group entity, held through intermediate holding companies. Apollo Global Management, LLC also indirectly owns 100% of the general partnership interests in each Apollo Operating Group entity.

Holding Company Structure

Apollo Global Management, LLC, through two intermediate holding companies (APO Corp. and APO Asset Co., LLC) owns 28.9% of the economic interests of, and operates and controls all of the businesses and affairs of, the Apollo Operating Group and its subsidiaries. Holdings owns the remaining 71.1% of the economic interests in the Apollo Operating Group. Apollo Global Management, LLC consolidates the financial results of the Apollo Operating Group and its consolidated subsidiaries. Holdings ownership interest in the Apollo Operating Group is reflected as a minority interest in Apollo Global Management, LLC s consolidated financial statements.

The Apollo Operating Group consists of the following partnerships: Apollo Principal Holdings I, L.P. (a Delaware limited partnership that is a partnership for U.S. Federal income tax purposes), Apollo Principal Holdings II, L.P. (a Delaware limited partnership that is a partnership for U.S. Federal income tax purposes), Apollo Principal Holdings III, L.P. (a Cayman Islands exempted limited partnership that is a partnership for U.S. Federal income tax purposes), Apollo Principal Holdings IV, L.P. (a Cayman Islands exempted limited partnership that is a partnership for U.S. Federal income tax purposes), and Apollo Management Holdings, L.P., or AMH (a Delaware limited partnership that is a partnership for U.S. Federal income tax purposes). Apollo Global Management, LLC conducts all of its material business activities through the Apollo Operating Group.

Each of the Apollo Operating Group partnerships holds interests in different businesses or entities organized in different jurisdictions. Apollo Principal Holdings I, L.P. holds our domestic general partners of private equity funds and our private equity domestic co-invest vehicle; Apollo Principal Holdings II, L.P. holds our domestic general partners of capital markets funds and two capital markets domestic co-invest vehicles; Apollo Principal Holdings III, L.P. holds our foreign general partners of private equity funds, including the foreign general partner of AAA Investments, and our private equity foreign co-invest vehicle; Apollo Principal Holdings IV, L.P. holds our foreign general partners of capital markets funds and one capital markets foreign co-invest vehicle; and Apollo Management Holdings, L.P. holds the management companies for our private equity funds (including AAA) and our capital markets funds.

Our Manager

Our operating agreement provides that so long as the Apollo Group (as defined below) beneficially owns at least 10% of the aggregate number of votes that may be cast by holders of outstanding voting shares, our manager, which is 100% owned by BRH, will conduct, direct and manage all activities of Apollo Global Management, LLC. We refer to the Apollo Group s beneficial ownership of at least 10% of such voting power as the Apollo control condition. So long as the Apollo control condition is satisfied, our manager will manage all of our operations and activities and will have discretion over significant corporate actions, such as the issuance of securities, payment of distributions, sales of assets, making certain amendments to our operating agreement and other matters, and our board of directors will have no authority other than that which our manager chooses to delegate to it. See Description of Shares.

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For purposes of our operating agreement, the Apollo Group means (i) our manager and its affiliates, including their respective general partners, members and limited partners, (ii) Holdings and its affiliates, including their respective general partners, members and limited partners, (iii) with respect to each managing partner, such managing partner and such managing partner s group (as defined in Section 13(d) of the Securities Exchange Act of 1934, as amended, the Exchange Act), (iv) any former or current investment professional of or other employee of an Apollo employer (as defined below) or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group), (v) any former or current executive officer of an Apollo employer or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group) and (vi) any former or current director of an Apollo employer or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group). With respect to any person, Apollo employer means Apollo Global Management, LLC or such other entity controlled by Apollo Global Management, LLC or its successor as may be such person s employer.

Holders of our Class A shares and Class B share have no right to elect our manager, which is controlled by our managing partners through BRH. Although our manager has no business activities other than the management of our businesses, conflicts of interest may arise in the future between us and our Class A shareholders, on the one hand, and our managing partners, on the other. The resolution of these conflicts may not always be in our best interests or those of our Class A shareholders. We describe the potential conflicts of interest in greater detail under Risk Factors Risks Related to Our Organization and Structure Potential conflicts of interest may arise among our manager, on the one hand, and us and our shareholders on the other hand. Our manager and its affiliates have limited fiduciary duties to us and our shareholders, which may permit them to favor their own interests to the detriment of us and our shareholders. We will reimburse our manager and its affiliates for all costs incurred in managing and operating us, and our operating agreement provides that our manager will determine the expenses that are allocable to us. Our operating agreement does not limit the amount of expenses for which we will reimburse our manager and its affiliates.

Our Assets

Prior to the Offering Transactions, our managing partners contributed to the Apollo Operating Group their interests in each of the entities included in our historical consolidated and combined financial statements, but excluding the excluded assets described under Our Structure Reorganization Excluded Assets.

In addition, prior to the Offering Transactions, our contributing partners contributed to the Apollo Operating Group a portion of their rights to receive a portion of the management fees and incentive income that are earned from management of our funds, or points. We refer to such contributed points as partner contributed interests. In return for a contribution of points, each contributing partner received an interest in Holdings. Each contributing partner continues to own directly those points that such contributing partner did not contribute to the Apollo Operating Group or sell to the Apollo Operating Group in connection with the Strategic Investors Transaction. Each contributing partner will remain entitled (on an individual basis and not through ownership interests in Holdings) to receive payments in respect of his partner contributed interests with respect to fiscal year 2007 based on the date his partner contributed interests were contributed or sold as described below under Distributions to Our Managing Partners and Contributing Partners Related to the Reorganization. The Strategic Investors will similarly receive a pro rata portion of our net income prior to the date of the Offering Transactions for our fiscal year 2007, calculated in the same manner as for the managing partners and contributing partners, as described in more detail under Our Structure Strategic Investors Transaction. In addition, we issued points in Fund VII, and intend to issue points in future funds, to our contributing partners and other of our professionals.

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As a result of these contributions and the contributions of our managing partners, the Apollo Operating Group and its subsidiaries generally is entitled to:

- all management fees payable in respect of all our current and future funds as well as transaction and other fees that may be payable by these funds portfolio companies (other than fees that certain of our professionals have a right to receive, as described below);

- 50% 66% (depending on the particular fund investment) of all incentive income earned from the date of contribution in relation to investments by our current private equity and capital markets funds (with the remainder of such incentive income continuing to be held by certain of our professionals);

- all incentive income earned from the date of contribution in relation to investments made by our future private equity and capital markets funds, other than the percentage we determine to allocate to our professionals, as described below; and

- all returns on current or future investments of our own capital in the funds we sponsor and manage.

With respect to our actively investing funds as well as any future funds, we intend to continue to allocate a portion of the management fees, transaction and advisory fees and incentive income earned in relation to these funds to our professionals, including the contributing partners, in order to better align their interests with our own and with those of the investors in these funds. Our current estimate is that approximately 20% to 40% of management fees, 20% of transaction and advisory fees and 34% to 50% of incentive income earned in relation to our funds will be allocated to our investment professionals, although these percentages may fluctuate up or down over time. For the next five years, our managing partners will not receive any allocations of management fees, transaction and advisory fees or incentive income, and all of their rights to receive such fees and incentive income earned in relation to our actively investing funds and future funds will be solely through their ownership of Apollo Operating Group units.

The income of the Apollo Operating Group (including management fees, transaction and advisory fees and incentive income) benefits Apollo Global Management, LLC to the extent of its equity interest in the Apollo Operating Group. See Business Fees, Carried Interest, Redemption and Termination.

Equity Interests Retained by Our Managing Partners and Contributing Partners

In exchange for the contributions of assets described above and after giving effect to the Strategic Investor Transactions, Holdings (which is owned by BRH and contributing partners) received 80.0% of the limited partnership units in the Apollo Operating Group. We use the terms Apollo Operating Group unit or unit in/of Apollo Operating Group to refer to a limited partnership unit in each of the Apollo Operating Group partnerships. We refer to the managing partners and contributing partners contribution of assets to the Apollo Operating Group and Holdings receipt of Apollo Operating Group units in exchange therefor as the Apollo Operating Group Formation.

Our managing partners, through their partnership interests in BRH and Holdings, own 62.0% of the Apollo Operating Group units and, through their ownership of BRH, the Class B share that we have issued to BRH. Our managing partners have entered into an agreement, which we refer to as the Agreement Among Managing Partners, providing that each managing partner s interest in the Apollo Operating Group units that he holds indirectly through his partnership interest in BRH and Holdings is subject to vesting. Each of Messrs. Harris and Rowan vests in his interest in the Apollo Operating Group units in 60 equal monthly installments, and Mr. Black vests in his interest in the Apollo Operating Group units in 72 equal monthly installments. Although the Agreement Among Managing Partners was entered into on July 13, 2007, for purposes of its vesting provisions, our managing partners are credited for their employment with us since January 1, 2007. In the event that a managing partner terminates his employment with us for any reason, he will be required to forfeit the unvested portion of his Apollo Operating Group units to the other managing partners. The number of Apollo Operating Group units that must be forfeited upon termination depends on the cause of the termination. See Certain Relationships and Related Party Transactions Agreement Among Managing Partners. However, this agreement may be amended and the terms and conditions of the agreement may be changed or modified upon the unanimous approval of the managing partners. We, our shareholders (other than the Strategic Investors, as set forth under Certain Relationships and Related Party Transactions Lenders Rights Agreement Amendments to Managing Partner Transfer Restrictions) and the Apollo Operating Group have no ability to enforce any provision of this agreement or to prevent the managing partners from amending the agreement or waiving any of its obligations.

Pursuant to a shareholders agreement that we entered into with our managing partners prior to the Offering Transactions, which we refer to as the Managing Partners Shareholders Agreement, no managing partner may voluntarily effect transfers of the interests in Apollo Operating Group units that such managing partner owns through BRH and Holdings or Class A shares into which such Apollo Operating Group units are exchanged, or his Equity Interests, for a period of two years after the shelf effectiveness date, subject to certain exceptions, including an exception for certain transactions entered into by one or more managing partners the results of which are that the managing partners no longer exercise control over us or the Apollo Operating Group or no longer hold at least 50.1% of the economic interests in us or the Apollo Operating Group. The transfer restrictions applicable to Equity Interests held by our managing partners and the exceptions to such transfer restrictions are described in more detail under Certain Relationships and Related Party Transactions Managing Partner Shareholders Agreement Transfer Restrictions. Our managing partners and contributing partners also were granted demand, piggyback and shelf registration rights through Holdings which are exercisable six months after the shelf effectiveness date.

Our contributing partners, through their interests in Holdings, own 9.1% of the Apollo Operating Group units. Pursuant to the agreements by which our contributing partners contributed their partner contributed interests to the Apollo Operating Group and received interests in Holdings, which we refer to as the Roll-Up Agreements, no contributing partner may voluntarily effect transfers of his Equity Interests for a period of two years after the shelf effectiveness date. The transfer restrictions applicable to Equity Interests held by our contributing partners are described in more detail under Certain Relationships and Related Party Transactions Roll-Up Agreements.

Subject to certain procedures and restrictions (including the vesting schedules applicable to our managing partners and any applicable transfer restrictions and lock-up agreements), upon 60 days notice prior to a designated quarterly date, each managing partner and contributing partner will have the right to cause Holdings to exchange the Apollo Operating Group units that he owns through his partnership interest in Holdings for Class A shares, to sell such Class A shares at the prevailing market price (or at a lower price that such managing partner or contributing partner is willing to accept) and to distribute the net proceeds of such sale to such managing partner or contributing partner. We have reserved for issuance 240,000,000 Class A shares, corresponding to the number of existing Apollo Operating Group units held by our managing partners and contributing partners. To effect an exchange, a managing partner or contributing partner, through Holdings, must simultaneously exchange one Apollo Operating Group unit, being an equal limited partner interest in each Apollo Operating Group entity, for each Class A share received. As a managing partner or contributing partner exchanges his Apollo Operating Group units, our interest in the Apollo Operating Group units will be correspondingly increased and the voting power of the Class B share will be correspondingly decreased.

Deconsolidation of Apollo Funds

Certain of our private equity and capital markets funds have historically been consolidated into our financial statements, due to our controlling interest in certain funds notwithstanding that we have only a minority equity

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interest in these funds. Consequently, our pre-Reorganization financial statements do not reflect our ownership interest at fair value in these funds, but rather reflect on a gross basis the assets, liabilities, revenues, expenses and cash flows of our funds. We amended the governing documents of certain of our funds to provide that a simple majority of the fund s unaffiliated investors have the right to liquidate that fund. These amendments became effective for some of our funds on either July 31, 2007 or November 30, 2007, which deconsolidated these funds that have historically been consolidated in our financial statements. Accordingly, we no longer reflect the share that other parties own in total assets and non-controlling interest. We continue to consolidate AAA. See Unaudited Condensed Consolidated Pro Forma Financial Information for a more detailed description of the effect of the deconsolidation of these funds on our financial statements.

Tax Considerations

We believe that under current law, Apollo Global Management, LLC is treated as a partnership and not as a corporation for U.S. Federal income tax purposes. An entity that is treated as a partnership for U.S. Federal income tax purposes is not a taxable entity and incurs no U.S. Federal income tax liability. Instead, each partner is required to take into account its allocable share of items of income, gain, loss and deduction of the partnership in computing its U.S. Federal income tax liability, regardless of whether or not cash distributions are then made. Investors in this offering will be deemed to be limited partners of Apollo Global Management, LLC for U.S. Federal income tax purposes. See Material Tax Considerations Material U.S. Federal Tax Considerations for a summary discussing certain U.S. Federal income tax considerations related to the purchase, ownership and disposition of our Class A shares as of the date of this offering.

Legislation was introduced in Congress in mid-2007 that would, if enacted in its present form, cause Apollo Global Management, LLC to become taxable as a corporation, and other proposed legislation could change the character of portions of our income to ordinary income, either of which would substantially reduce our net income or increase our net loss, as applicable, or cause other significant adverse tax consequences for us and/or the holders of Class A shares. See Risk Factors Risks Related to Taxation The U.S. Federal income tax law that determines the tax consequences of an investment in Class A shares is under review and is potentially subject to adverse legislative, judicial or administrative change, possibly on a retroactive basis, including possible changes that would result in the treatment of our long-term capital gains as ordinary income, that would cause us to become taxable as a corporation and/or have other adverse effects and Risk Factors Risks Related to Our Organization and Structure Members of the U.S. Congress have introduced legislation that would, if enacted, preclude us from qualifying for treatment as a partnership for U.S. Federal income tax purposes under the publicly traded partnership rules. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a substantial increase in our tax liability and it could well result in a reduction in the value of our Class A shares. See also Material Tax Considerations Material U.S. Federal Tax Considerations Administrative Matters Possible New Legislation or Administrative or Judicial Action.

Distribution to Our Managing Partners Prior to The Offering Transactions

On April 20, 2007, AMH, one of the entities in the Apollo Operating Group, entered into a credit facility, or the AMH credit facility, under which AMH borrowed a $1.0 billion variable-rate term loan. We used these borrowings to make a $986.6 million distribution to our managing partners and to pay related fees and expenses. The AMH credit facility is guaranteed by Apollo Management, L.P.; Apollo Capital Management, L.P.; Apollo International Management, L.P.; Apollo Principal Holdings II, L.P.; Apollo Principal Holdings IV, L.P.; and AAA Holdings, L.P. and matures on April 20, 2014. It is secured by (i) a first priority lien on substantially all assets of AMH and the guarantors and (ii) a pledge of the equity interests of each of the guarantors, in each case subject to customary carveouts.

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Distributions to Our Managing Partners and Contributing Partners Related to the Reorganization

We intend to make one or more distributions to our managing partners and contributing partners, representing all of the undistributed earnings generated by the businesses contributed to the Apollo Operating Group prior to July 13, 2007. For this purpose, income attributable to carried interest on private equity funds related to either carry-generating transactions that closed prior to July 13, 2007 or carry-generating transactions in respect of which a definitive agreement was executed, but that did not close, prior to July 13, 2007 shall be treated as having been earned prior to that date. We estimate that the aggregate amount of such distributions will be $387.0 million, which was included in our consolidated and combined statements of financial condition as of December 31, 2007.

The Historical Investment Performance of Our Funds

In this Prospectus Summary and elsewhere in this prospectus, we present information relating to the historical performance of our funds, including certain legacy Apollo funds that do not have a meaningful amount of unrealized investments and the general partners of which have not been contributed to Apollo Global Management, LLC. The data for these funds are presented from the date indicated through July 13, 2007 and have not been adjusted to reflect acquisitions or disposals of investments subsequent to that date.

When considering the data presented in this prospectus, you should note that the historical results of our funds are not indicative of the future results that you should expect from such funds, from any future funds we may raise or from your investment in our Class A shares. The historical and potential future returns of the funds we manage are not directly linked to returns on our Class A shares. Therefore, you should not conclude that continued positive performance of the funds we manage will necessarily result in positive returns on an investment in our Class A shares. However, poor performance of the funds that we manage would cause a decline in our revenue from such funds, and would therefore have a negative effect on our performance and in all likelihood the value in our Class A shares.

Moreover, the historical returns of our funds should not be considered indicative of the future results you should expect from such funds or from any future funds we may raise, in part because:

- our private equity funds rates of return, which are calculated on the basis of net asset value of the funds investments, reflect unrealized gains, which may never be realized;

- our funds returns have benefited from investment opportunities and general market conditions that may not repeat themselves, including the availability of debt capital on attractive terms, and we may not be able to achieve the same returns or profitable investment opportunities or deploy capital as quickly or that favorable market conditions will continue; in recent months, for example, there have been several instances in which LBOs, including some of Apollo s, encountered difficulties in the financing process;

- the historical returns that we present in this prospectus derive largely from the performance of our earlier private equity funds, whereas future fund returns will depend increasingly on the performance of Funds VI and VII, which have little or no investment track record;

- Fund VI and Fund VII are several times larger than our previous private equity funds, and we may not be able to deploy this additional capital as profitably as our prior funds;

- the attractive returns of certain of our funds have been driven by the rapid return of invested capital, which has not occurred with respect to all of our funds and we believe is less likely to occur in the future;

- our track record with respect to our capital markets funds is relatively short as compared to our private equity funds and six out of nine of our capital markets funds have commenced operations in the last eighteen months;

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in recent years, there has been increased competition for private equity investment opportunities resulting from the increased amount of capital invested in private equity funds and high liquidity in debt markets; and

our newly established capital markets funds may generate lower returns during the period that they take to deploy their capital. Finally, our private equity IRRs have historically varied greatly from fund to fund. For example, Fund IV has generated a 13% gross IRR and 10% net IRR since inception, while Fund V has generated a 71% gross IRR and 54% net IRR since inception. Accordingly, you should realize that the IRR going forward for any current or future fund may vary considerably from the historical IRR generated by any particular fund, or for our private equity funds as a whole. Future returns will also be affected by the applicable risks described elsewhere in this prospectus, including risks of the industries and businesses in which a particular fund invests. See Risk Factors Risks Related to Our Businesses The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our Class A shares.

Recent Developments

Subsequent to December 31, 2007, Fund VII raised an additional $3.0 billion of committed capital and as of the date hereof, Fund VII had raised approximately $12.5 billion of committed capital and has a target of $15.0 billion.

Subsequent to December 31, 2007, the capital markets segment raised more than $1.1 billion as of the date hereof, centering primarily on EPF.

In light of the current adverse conditions in the financial markets, returns for funds may be lower than they were historically and our fundraising efforts may be challenging. While these conditions last, we will focus on investing in distressed debt markets and raising capital for funds focusing on distressed debt markets, including the senior credit opportunity funds.

Investment Risks

An investment in our Class A shares involves a high degree of risk. Some of the more significant challenges and risks include those associated with our susceptibility to conditions in the global financial markets and global economic conditions, the volatility of our revenue, net income and cash flow, our dependence on our managing partners and other key investment professionals, our ability to retain and motivate our existing investment professionals and recruit, retain and motivate new investment professionals in the future and risks associated with adverse changes in tax law and other legislative or regulatory changes. See Risk Factors for a discussion of the factors you should consider before investing in our Class A shares.

Our Corporate Information

Apollo Global Management, LLC was formed in Delaware on July 3, 2007. Our principal executive offices are located at 9 West 57th Street, New York, New York 10019, and our telephone number is (212) 515-3200.

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The Offering

Shares Offered for Resale by the Selling Shareholders in this Offering	29,824,540 Class A shares
Shares Outstanding:	
Class A Shares	97,324,541 Class A shares
Class B Shares	1 Class B share
Shares Held by Our Managing Partners:	
Class A Shares	None
Class B Share	Our managing partners indirectly hold the single Class B share that we have issued to BRH, representing 86.5% of the total voting power of our shares entitled to vote.
Apollo Operating Group Units Held:	
By Us	97,324,541 or 28.9% of the total Apollo Operating Group units
Indirectly By Our Managing Partners and Contributing Partners	240,000,000 or 71.1% of the total Apollo Operating Group units
Voting:	
Class A Shares	One vote per share (except that Class A shares held by the Strategic Investors and their affiliates do not have any voting rights).
Class B Share	Initially, 240,000,000 votes. In the event that a managing partner or contributing partner, through Holdings, exercises his right to exchange the Apollo Operating Group units that he owns through his partnership interest in Holdings for Class A shares, the voting power of the Class B share will be proportionately reduced.
Voting Rights	Holders of our Class A shares (other than the Strategic Investors and their affiliates, who have no voting rights) and our Class B share vote together as a single class on all matters submitted to our shareholders for their vote or approval. So long as the Apollo control condition is satisfied, however, our manager manages all of our operations and activities and exercises substantial control over extraordinary matters and other structural changes. You will have only limited voting rights on matters affecting our businesses and will have no right to elect our manager, which is owned and controlled by our managing partners. Moreover, our managing partners, through their ownership of BRH, hold 86.5% of the total combined voting power of our shares entitled to vote and thus are able to

	exercise control over all matters requiring shareholder approval. See Description of Shares.
Use of Proceeds	We will not receive any proceeds from the sale of the Class A shares pursuant to this prospectus.

Cash Dividend Policy	Our intention is to distribute to our Class A shareholders on a quarterly basis substantially all of our net after-tax cash flow from operations in excess of amounts determined by our manager to be necessary or appropriate to provide for the conduct of our businesses, to make appropriate investments in our businesses and our funds, to comply with applicable law, to service our indebtedness or to provide for future distributions to our Class A shareholders for any one or more of the ensuing four quarters. We recently announced our first cash distribution amounting to $0.33 per Class A share, resulting from the first quarter 2008 quarterly distribution of $0.16 per Class A share plus a special distribution of $0.17 per Class A share primarily resulting from the realization of Goodman Global in February 2008. The distribution will be payable on April 18, 2008, to holders of record on April 8, 2008. Because we will not know what our actual available cash flow from operations will be for any year until the end of such year, we expect that the fourth quarter dividend payment will be adjusted to take into account actual net after-tax cash flow from operations for that year. From time to time, management may also declare special quarterly distributions based on investment realizations. Our Class B shareholder is not entitled to any dividends.

The declaration, payment and determination of the amount of our quarterly dividend will be at the sole discretion of our manager. We cannot assure you that any dividends, whether quarterly or otherwise, will or can be paid. See Cash Dividend Policy for a discussion of the factors our manager is likely to consider in regard to our payment of cash dividends.

Because we are a holding company that owns intermediate holding companies, the funding of each dividend, if declared, will occur in three steps, as follows:

- first, we will cause one or more entities in the Apollo Operating Group to make a distribution to all of its partners, including our wholly-owned subsidiaries APO Corp. and APO Asset Co., LLC (as applicable), and Holdings, on a pro rata basis;
- second, we will cause our intermediate holding companies, APO Corp. and APO Asset Co., LLC (as applicable), to distribute to us, from their net after-tax proceeds, amounts equal to the aggregate dividend we have declared; and
- third, we will distribute the proceeds received by us to our Class A shareholders on a pro rata basis.

If Apollo Operating Group units are issued to other parties, such as employees, such parties would be entitled to a portion of the distributions from the Apollo Operating Group as partners described above.

In addition, the partnership agreements of the Apollo Operating Group partnerships provide for cash distributions, which we refer to as tax distributions, to the partners of such partnerships if the

	general partners of such partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions will be computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. Federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses and the character of our income). The Apollo Operating Group partnerships will make tax distributions only to the extent distributions from such partnerships for the relevant year were otherwise insufficient to cover such tax liabilities and all such distributions will be made to all partners on a pro rata basis based upon their respective interests in the applicable partnership.
Managing Partners and Contributing Partners Exchange Rights	Subject to certain procedures and restrictions (including the vesting schedules applicable to our managing partners and any applicable transfer restrictions and lock-up agreements), at any time and from time to time, each managing partner and contributing partner has the right to cause Holdings to exchange Apollo Operating Group units for Class A shares to sell such Class A shares at the prevailing market price (or at a lower price that such managing partner or contributing partner is willing to accept) and to distribute the net proceeds of such sale to such managing partner or contributing partner. We have reserved for issuance 240,000,000 Class A shares, corresponding to the number of existing Apollo Operating Group units held by our managing partners and contributing partners. To effect an exchange, a managing partner or contributing partner, through Holdings, must simultaneously exchange one Apollo Operating Group unit, being an equal limited partner interest in each Apollo Operating Group entity, for each Class A share received. As a managing partner or contributing partner exchanges his Apollo Operating Group units, our interest in the Apollo Operating Group units will be correspondingly increased and the voting power of the Class B share will be correspondingly reduced.

Any exchange of the Apollo Operating Group units generally is expected to result in increases in the tax basis of the tangible and intangible assets of APO Corp. that would not otherwise have been available. These increases in tax basis are expected to increase (for tax purposes) the depreciation and amortization deductions available to APO Corp. and therefore reduce the amount of tax that APO Corp. would otherwise be required to pay in the future. APO Corp. has entered into a tax receivable agreement with Holdings whereby it agrees to pay to Holdings 85% of the amount of actual cash savings, if any, in U.S. Federal, state and local income taxes that APO Corp. realizes as a result of these increases in tax basis. In the event that other of our current or future subsidiaries become taxable as corporations and acquire Apollo Operating Group units in the future,

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	or if we become taxable as a corporation for U.S. Federal income tax purposes, we expect that each will become subject to a tax receivable agreement with substantially similar terms. See Certain Relationships and Related Party Transactions Tax Receivable Agreement and Unaudited Condensed Consolidated Pro Forma Financial Information.
Trading	We intend to apply for our Class A shares to be listed on the NYSE under the symbol . The listing is subject to approval of our application.
Risk Factors	Please read the section entitled Risk Factors beginning on page 28 for a discussion of some of the factors you should carefully consider before deciding to invest in our Class A shares.

References in this section to the number of our Class A shares outstanding, and the percent of our voting rights held, exclude:

- 240,000,000 Class A shares issuable upon exchange of the Apollo Operating Group units and interests in our Class B share by Holdings on behalf of our managing partners and contributing partners;
- interests granted or reserved under our equity incentive plan, consisting of:
  - 20,477,101 restricted share units (RSUs) that were granted in 2007 and approximately 8 million that were granted in the first quarter of 2008, subject to vesting, to certain employees and consultants; and
  - effective as of January 1, 2008, additional interests in respect of Class A shares that were reserved for issuance under the equity incentive plan, for a total number of shares issued and reserved for issuance of shares. The plan is subject to automatic increases annually.

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Summary Historical and Other Data

The following summary historical consolidated and combined financial and other data of Apollo Global Management, LLC should be read together with Our Structure, Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated and combined financial statements and related notes included elsewhere in this prospectus and the unaudited condensed consolidated pro forma financial information and notes thereto included elsewhere in this prospectus under Unaudited Condensed Consolidated Pro Forma Financial Information.

We derived the summary historical consolidated and combined statements of operations data of Apollo Global Management, LLC for the years ended December 31, 2007, 2006 and 2005 and the summary historical consolidated and combined statements of financial condition data as of December 31, 2007 and 2006 from our audited consolidated and combined financial statements, which are included elsewhere in this prospectus.

We derived the summary historical consolidated and combined statements of operations data for the years ended December 31, 2004 and 2003 and the summary consolidated and combined statements of financial condition data as of December 31, 2005, 2004 and 2003 from our unaudited consolidated and combined financial statements which are not included in this prospectus. The unaudited consolidated and combined financial statements have been prepared on substantially the same basis as the audited consolidated and combined financial statements and include all adjustments that we consider necessary for a fair presentation of our consolidated and combined financial position and results of operation for all periods presented.

The summary historical financial data are not indicative of our expected future operating results. In particular, after the Reorganization on July 13, 2007 and providing liquidation rights to investors of certain of the funds we manage on either July 31, 2007 or November 30, 2007, Apollo Global Management, LLC no longer consolidated in its financial statements certain of the funds that have historically been consolidated in our financial statements.

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	Year ended December 31, 2007[c]	2006[c]	2005 (in thousands)	2004	2003
Statement of Operations Data					
Revenues:					
Advisory and transaction fees from affiliates	$ 150,191	$ 147,051	$ 80,926	$ 67,503	$ 42,126
Management fees from affiliates	192,934	101,921	33,492	26,391	9,299
Carried interest income from affiliates	294,725	97,508	69,347	67,370	25,915
Total Revenues	637,850	346,480	183,765	161,264	77,340
Expenses:					
Compensation and benefits	1,450,330	266,772	309,235	473,691	165,086
Interest expense beneficial conversion feature	240,000				
Interest expense	105,968	8,839	1,405	2,143	3,919
Professional fees	81,824	31,738	45,687	39,652	37,806
General, administrative and other	36,618	38,782	25,955	19,506	15,927
Placement fees	27,253		47,028	171	538
Occupancy	12,865	7,646	5,993	5,089	1,731
Depreciation and amortization	7,869	3,288	2,304	2,210	1,876
Total Expenses	1,962,727	357,065	437,607	542,462	226,883
Other Income:					
Net gain from investment activities	2,279,263	1,620,554	1,970,770	2,826,300	1,809,319
Dividend income from affiliates	238,609	140,569	25,979	178,620	188,549
Interest income	52,500	38,423	33,578	41,745	73,064
Income from equity method investments	1,722	1,362	412	1,010	321
Other (loss) income	(36)	3,154	2,832	3,098	3,457
Total Other Income	2,572,058	1,804,062	2,033,571	3,050,773	2,074,710
Income Before Income Tax Provision and Non-Controlling Interest	1,247,181	1,793,477	1,779,729	2,669,575	1,925,167
Income tax provision	(6,726)	(6,476)	(1,026)	(2,800)	(2,506)
Income Before Non-Controlling Interest	1,240,455	1,787,001	1,778,703	2,666,775	1,922,661
Non-Controlling Interest	(1,810,106)	(1,414,022)	(1,577,459)	(2,191,420)	(1,725,815)
Net (Loss) Income	$ (569,651)	$ 372,979	$ 201,244	$ 475,355	$ 196,846
Statement of Financial Condition Data (as of period end)					
Total Assets	$ 5,115,642	$ 11,179,921	$ 7,571,249	$ 7,798,333	$ 7,267,359
Total Debt Obligations	1,057,761	93,738	20,519	22,262	42,061
Total Equity	96,043	484,921	338,625	406,672	190,860
Non-Controlling Interest	2,312,286	9,847,069	6,556,621	6,843,076	6,843,741
Other Data (non-GAAP):					
Economic Net Income [a]	$ 152,846	$ 376,600	$ 198,860	$ 475,796	$ 196,962
Private equity dollars invested[b]	8,647,912	5,216,715	686,663	819,843	1,544,671
Assets Under Management (as of period end) (in millions):					
Private Equity	$ 30,237	$ 20,186	$ 18,734	$ 9,765	$ 9,200
Capital Markets	10,118	4,392	2,463	1,557	529

Total AUM	$	40,355	$	24,578	$	21,197	$	11,322	$	9,729

(a) Economic Net Income (ENI) is a key performance measure used by management in making operating decisions and evaluating the performance of our businesses and employees. ENI is a measure of profitability and represents

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segment income (loss) which excludes the impact of non-cash charges related to equity-based compensation, income tax provision and Non-Controlling Interest.

Management makes operating decisions and assesses performance of each of our segments based on financial and operating metrics excluding the impact of any Apollo funds that are consolidated into the consolidated and combined financial statements. Accordingly, segment data analyzed excludes the assets, liabilities and operating results of the Apollo funds.

Below is a reconciliation of our net (loss) income for the years ended December 31, 2003 through 2007 to ENI for such periods:

	Year ended December 31,				
	2007	2006	2005	2004	2003
			(in thousands)		
Net (Loss) Income :	$ (569,651)	$ 372,979	$ 201,244	$ 475,355	$ 196,846
(i) Adjusted for the impact of non-cash charges related to equity-based compensation	989,849				
(ii) Income tax provision	6,726	6,476	1,026	2,800	2,506
(iii) Non-Controlling Interest[(d)]	(274,078)	(2,855)	(3,410)	(2,359)	(2,390)
Economic Net Income	$ 152,846	$ 376,600	$ 198,860	$ 475,796	$ 196,962

(b) Private equity dollars invested represents the aggregate amount of newly funded or committed capital invested by our private equity funds and co-investment vehicles in private equity transactions during a reporting period.

(c) Significant changes in the statement of operations for 2007 compared to 2006 are due to (i) the Reorganization, (ii) the deconsolidation of certain funds and (iii) the Strategic Investors Transaction.

Some of the significant impacts of the above items are as follows:

Revenue from affiliates increased due to the deconsolidation of certain funds.

Compensation and benefits, including non-cash charges related to equity-based compensation increased due to amortization of Apollo Operating Group units and RSUs.

Interest expense increased as a result of conversion of debt on which the Strategic Investors had a beneficial conversion feature. Additionally, interest expense increased related to the $1.0 billion AMH credit facility obtained in April 2007.

Professional fees increased due to Apollo Global Management, LLC s formation and ongoing new requirements.

Net gain from investment activities increased due to increased activity in our consolidated funds through the date of deconsolidation.

Non-Controlling Interest increased due to formation of Holdings and the formation of Apollo Global Management, LLC and its ownership of Apollo Operating Group units.

(d) Amounts include Non-Controlling Interest for Holdings, contributing partners, and Wilmington Trust.

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RISK FACTORS

Investing in our Class A shares involves a high degree of risk. You should carefully consider the following risk factors, as well as other information contained in this prospectus, before deciding to invest in our Class A shares. The occurrence of any of the following risks could materially and adversely affect our businesses, prospects, financial condition, results of operations and cash flow, in which case, the trading price of our Class A shares could decline and you could lose all or part of your investment.

Risks Related to Our Businesses

We depend on Leon Black, Joshua Harris and Marc Rowan, and the loss of any of their services would have a material adverse effect on us.

The success of our businesses depends on the efforts, judgment and personal reputations of our managing partners, Leon Black, Joshua Harris and Marc Rowan. Their reputations, expertise in investing, relationships with our fund investors and relationships with members of the business community on whom our funds depend for investment opportunities and financing are each critical elements in operating and expanding our businesses. We believe our performance is strongly correlated to the performance of these individuals. Accordingly, our retention of our managing partners is crucial to our success. Retaining our managing partners could require us to incur significant compensation expense after the expiration of their current employment agreements in 2012. Our managing partners may resign, join our competitors or form a competing firm at any time. If any of our managing partners were to join or form a competitor, some of our investors could choose to invest with that competitor rather than in our funds. The loss of the services of any of our managing partners would have a material adverse effect on us, including our ability to retain and attract investors and raise new funds, and the performance of our funds. We do not carry any key man insurance that would provide us with proceeds in the event of the death or disability of any of our managing partners. In addition, the loss of one or more of our managing partners may result in the termination of our role as general partner of one or more of our funds and the acceleration of our debt.

Although in connection with the Strategic Investors Transaction, our managing partners entered into employment, non-competition and non-solicitation agreements, which impose certain restrictions on competition and solicitation of our employees by our managing partners if they terminate their employment, a court may not enforce these provisions. See Management Employment, Non-Competition and Non-Solicitation Agreements with Managing Partners for a more detailed description of the terms of the agreements. In addition, although the Agreement Among Managing Partners imposes vesting and forfeiture requirements on the managing partners in the event any of them terminates their employment, we, our shareholders (other than the Strategic Investors, as described under Certain Relationships and Related Party Transactions Lenders Rights Agreement Amendments to Managing Partner Transfer Restrictions) and the Apollo Operating Group have no ability to enforce any provision of this agreement or to prevent the managing partners from amending the agreement or waiving any of its provisions, including the forfeiture provisions. See Certain Relationships and Related Party Transactions Agreement Among Managing Partners for a more detailed description of the terms of this agreement.

Difficult market conditions may adversely affect our businesses in many ways, including by reducing the value or hampering the performance of the investments made by our funds or reducing the ability of our funds to raise or deploy capital, each of which could materially reduce our revenue, net income and cash flow and adversely affect our financial prospects and condition.

Our businesses are materially affected by conditions in the global financial markets and economic conditions throughout the world that are outside our control, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices

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and the liquidity and the value of investments. We may not be able to or may choose not to manage our exposure to these market conditions. In the event of a downturn in one or more markets, a deterioration in economic conditions or a disruptive political event, our businesses could be materially adversely affected. For example, financing leveraged buyout transactions by issuing high-yield debt securities in the public capital markets has recently become difficult. In particular, beginning in July 2007, the financial markets encountered a series of events from the sub-prime fall-out which led to a dislocation of credit markets and a rapid deterioration of conditions in fixed income markets. As a result, the backlog of debt raised to fund pending large private equity-led transactions reached record levels. This record backlog of supply in the debt markets has materially affected the ability and willingness of lenders to fund new large private equity-led transactions and recently some lenders have reneged on their funding commitments. Due to the difficulties in financing transactions, the volume of private equity-led transactions has declined significantly. If the disruption continues, we and the funds we manage may experience further tightening of liquidity, reduced earnings and cash flow, impairment charges, as well as, challenges in raising additional capital, obtaining investment financing and making investments on attractive terms. These market conditions can also have an impact on our ability to liquidate positions in a timely and efficient manner. More costly and restrictive financing may adversely impact the returns of our leveraged buyout transactions and, therefore, adversely affect our results of operations and financial condition. This was the case following the attacks of September 11, 2001 and the U.S. invasion of Iraq in March 2003, when the economic effects of such events made it more difficult for us to raise capital and to consummate transactions. Our profitability may also be adversely affected by the possibility that we would be unable to scale back our costs, many of which are fixed, within a time frame sufficient to match any decreases in revenue relating to changes in market and economic conditions.

A general market downturn, a specific market dislocation, or deteriorating economic conditions may cause our revenue and results of operations to decline by causing:

- our AUM to decrease, lowering management fees from our capital markets funds and AAA;
- lower investment returns, reducing incentive income;
- higher interest rates, which could increase the cost of the debt capital we use to acquire companies in our private equity business; and
- material reductions in the value of our private equity fund investments in portfolio companies, affecting our ability to realize carried interest from these investments.

Lower investment returns and such material reductions in value may result, among other reasons, because during periods of difficult market conditions or slowdowns in a particular sector, companies in which we invest may experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these companies may also have difficulty in expanding their businesses and operations and be unable to meet their debt service obligations or other expenses as they become due, including expenses payable to us. In addition, during periods of adverse economic conditions, we may have difficulty accessing financial markets, which could make it more difficult or impossible for us to obtain funding for additional investments and harm our Assets Under Management and operating results. Furthermore, such conditions would also increase the risk of default with respect to investments held by our funds that have significant debt investments, such as our mezzanine funds, hedge funds and distressed funds. Our funds may be affected by reduced opportunities to exit and realize value from their investments and by the fact that we may not be able to find suitable investments for the funds to effectively deploy capital, which could adversely affect our ability to raise new funds and thus adversely impact our prospects for future growth.

A decline in the pace of investment in our private equity funds would result in our receiving less revenue from transaction and advisory fees.

The transaction and advisory fees that we earn are driven in part by the pace at which our private equity funds make investments. Any decline in that pace would reduce our transaction and advisory fees and could make it more difficult for us to raise capital. Many factors could cause such a decline in the pace of investment,

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including the inability of our investment professionals to identify attractive investment opportunities, competition for such opportunities among other potential acquirers, decreased availability of capital on attractive terms and our failure to consummate identified investment opportunities because of business, regulatory or legal complexities and adverse developments in the U.S. or global economy or financial markets. In particular, the current lack of financing options for new leveraged buy-outs resulting from the credit market dislocation, has significantly reduced the pace of investment by our private equity funds.

If one or more of our managing partners or other investment professionals leave our company, the commitment periods of certain private equity funds may be terminated, and we may be in default under our credit agreement.

The governing agreements of our private equity funds provide that in the event certain key persons (such as one or more of Messrs. Black, Harris and Rowan and/or certain other of our investment professionals) fail to devote the requisite time to managing the fund, the commitment period will terminate if a certain percentage in interest of the investors do not vote to continue the commitment period. This is true of Fund VI, and Fund VII on which our near-to medium-term performance will heavily depend. EPF has a similar provision. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our funds would likely result in significant reputational damage to us.

In addition, it will be an event of default under the AMH credit facility if either (i) Mr. Black, together with related persons or trusts, shall cease as a group to participate to a material extent in the beneficial ownership of AMH or (ii) two of the group constituting Messrs. Black, Harris and Rowan shall cease to be actively engaged in the management of the AMH loan parties. If such an event of default occurs and the lenders exercise their right to accelerate repayment of the $1.0 billion loan, we are unlikely to have the funds to make such repayment and the lenders may take control of us, which is likely to materially adversely impact our results of operations. Even if we were able to refinance our debt, our financial condition and results of operations would be materially adversely affected.

Messrs. Black, Harris and Rowan may terminate their employment with us at any time.

We may not be successful in raising new private equity or capital markets funds or in raising more capital for our capital markets funds.

In this prospectus, we describe capital raising efforts that certain of our businesses are currently undertaking. Our funds may not be successful in consummating these capital-raising efforts or others that they may undertake, or they may consummate them at investment levels far lower than those currently anticipated. Any capital raising that our funds do consummate may be on terms that are unfavorable to us or that are otherwise different from the terms that we have been able to obtain in the past. These risks could occur for reasons beyond our control, including general economic or market conditions, regulatory changes or increased competition. The failure of our funds to raise capital in sufficient amounts and on satisfactory terms would result in us being unable to achieve the increase in AUM that we currently anticipate, and would have a material adverse effect on our financial condition and results of operations.

The historical returns attributable to our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on an investment in our Class A shares.

We have presented in this prospectus the returns relating to the historical performance of our private equity funds and capital markets funds. The returns are relevant to us primarily insofar as they are indicative of incentive income we have earned in the past and may earn in the future. The returns of the funds we manage are not, however, directly linked to returns on our Class A shares. Therefore, you should not conclude that continued positive performance of the funds we manage will necessarily result in positive returns on an investment in Class A shares. However, poor performance of the funds we manage will cause a decline in our revenue from such funds, and would therefore have a negative effect on our performance and the value of our Class A shares.

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Moreover, the historical returns of our funds should not be considered indicative of the future returns of these or from any future funds we may raise, in part because:

- our private equity funds rates of returns, which are calculated on the basis of net asset value of the funds investments, reflect unrealized gains, which may never be realized;
- our funds returns have benefited from investment opportunities and general market conditions that may not repeat themselves, including the availability of debt capital on attractive terms, and we may not be able to achieve the same returns or profitable investment opportunities or deploy capital as quickly; or that favorable market condition will continue in recent months, for example, there have been several instances in which leverage buyouts, LBOs, including some of Apollo s, encountered difficulties in the financing process;
- the historical returns that we present in this prospectus derive largely from the performance of our earlier private equity funds, whereas future fund returns will depend increasingly on the performance of Funds VI and VII, which have little or no investment track record;
- Fund VI and Fund VII are several times larger than our previous private equity funds, and we may not be able to deploy this additional capital as profitably as our prior funds;
- the attractive returns of certain of our funds have been driven by the rapid return of invested capital, which has not occurred with respect to all of our funds and we believe is less likely to occur in the future;
- our track record with respect to our capital markets funds is relatively short as compared to our private equity funds and six out of nine of our capital markets funds have commenced operations in the last eighteen months;
- in recent years, there has been increased competition for private equity investment opportunities resulting from the increased amount of capital invested in private equity funds and high liquidity in debt markets; and
- our newly established capital markets funds may generate lower returns during the period that they take to deploy their capital.

Finally, our private equity IRRs have historically varied greatly from fund to fund. Accordingly, you should realize that the IRR going forward for any current or future fund may vary considerably from the historical IRR generated by any particular fund, or for our private equity funds as a whole. Future returns will also be affected by the risks described elsewhere in this prospectus, including risks of the industries and businesses in which a particular fund invests. See Business The Historical Investment Performance of Our Funds.

Our reported net asset values, rates of return and incentive income from affiliates are based in large part upon estimates of the fair value of our investments, which are based on subjective standards and may prove to be incorrect.

A large number of investments in our private equity and capital markets funds are illiquid and thus have no readily ascertainable market prices. We value these investments based on our estimate of their fair value as of the date of determination. We estimate the fair value of our investments based on third party models, or models developed by us, which include discounted cash flow analyses and other techniques and may be based, at least in part, on independently sourced market parameters. The material estimates and assumptions used in these models include the timing and expected amount of cash flows, the appropriateness of discount rates used, and, in some cases, the ability to execute, the timing of and the estimated proceeds from expected financings. The actual results related to any particular investment often vary materially as a result of the inaccuracy of these estimates and assumptions. In addition, because many of the illiquid investments held by our funds are in industries or sectors which are unstable, in distress, or undergoing some uncertainty, such investments are subject to rapid changes in value caused by sudden company-specific or industry-wide developments.

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We include the fair value of illiquid assets in the calculations of net asset values and returns of our funds and our AUM. Furthermore, we recognize incentive income from affiliates based in part on these estimated fair values. Because these valuations are inherently uncertain, they may fluctuate greatly from period to period. Also, they may vary greatly from the prices that would be obtained if the assets were to be liquidated on the date of the valuation and often do vary greatly from the prices we eventually realize.

In addition, the values of our investments in publicly traded assets are subject to significant volatility, including due to a number of factors beyond our control. These include actual or anticipated fluctuations in the quarterly and annual results of these companies or other companies in their industries, market perceptions concerning the availability of additional securities for sale, general economic, social or political developments, changes in industry conditions or government regulations, changes in management or capital structure and significant acquisitions and dispositions. Because the market prices of these securities can be volatile, the valuation of these assets will change from period to period, and the valuation for any particular period may not be realized at the time of disposition. In addition, because our private equity funds often hold very large amounts of the securities of their portfolio companies, the disposition of these securities often takes place over a long period of time, which can further expose us to volatility risk. Even if we hold a quantity of public securities that may be difficult to sell in a single transaction, we do not discount the market price of the security for purposes of our valuations.

If we realize value on an investment that is significantly lower than the value at which it was reflected in a fund s net asset values, we would suffer losses in the applicable fund. This could in turn lead to a decline in asset management fees and a loss equal to the portion of the incentive income from affiliates reported in prior periods that was not realized upon disposition. These effects could become applicable to a large number of our investments if our estimates and assumptions used in estimating their fair values differ from future valuations due to market developments. See Management s Discussion and Analysis of Financial Condition and Results of Operations Segment Analysis for information related to fund activity that is no longer consolidated. If asset values turn out to be materially different than values reflected in fund net asset values, fund investors could lose confidence which could, in turn, result in redemptions from our funds that permit redemptions or difficulties in raising additional investments.

We have experienced rapid growth, which may be difficult to sustain and which may place significant demands on our administrative, operational and financial resources.

Our AUM have grown significantly in recent years, and we are pursuing further growth in the near future. Our rapid growth has caused, and planned growth, if successful, will continue to cause, significant demands on our legal, accounting and operational infrastructure, and increased expenses. The complexity of these demands, and the expense required to address them, is a function not simply of the amount by which our AUM has grown, but of the growth in the variety, including the differences in strategy between, and complexity of, our different funds. In addition, we are required to continuously develop our systems and infrastructure in response to the increasing sophistication of the investment management market and legal, accounting, regulatory and tax developments.

Our future growth will depend in part, on our ability to maintain an operating platform and management system sufficient to address our growth and will require us to incur significant additional expenses and to commit additional senior management and operational resources. As a result, we face significant challenges:

- in maintaining adequate financial, regulatory and business controls;

- implementing new or updated information and financial systems and procedures; and

- in training, managing and appropriately sizing our work force and other components of our businesses on a timely and cost-effective basis.

We may not be able to manage our expanding operations effectively or be able to continue to grow, and any failure to do so could adversely affect our ability to generate revenue and control our expenses.

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Poor performance of our funds would cause a decline in our revenue and results of operations, may obligate us to repay incentive income previously paid to us and would adversely affect our ability to raise capital for future funds.

We derive revenues in part from:

- management fees, which are based generally on the amount of capital invested in our funds;
- transaction and advisory fees relating to the investments our funds make;
- incentive income, based on the performance of our funds; and
- investment income from our investments as general partner.

If a fund performs poorly, we will receive little or no incentive income with regard to the fund and little income or possibly losses from any principal investment in the fund. Furthermore, if, as a result of poor performance of later investments in a private equity fund s life, the fund does not achieve total investment returns that exceed a specified investment return threshold for the life of the fund, we will be obligated to repay the amount by which incentive income that was previously distributed to us exceeds amounts to which we are ultimately entitled. Our fund investors and potential fund investors continually assess our funds performance and our ability to raise capital. Accordingly, poor fund performance may deter future investment in our funds and thereby decrease the capital invested in our funds and ultimately, our management fee income.

Extensive regulation of our businesses affects our activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on our businesses. Changes in tax or law and other legislative or regulatory changes could adversely affect us.

Overview of Our Regulatory Environment. We are subject to extensive regulation, including periodic examinations, by governmental and self-regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. and foreign government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of an investment advisor from registration or memberships. Even if an investigation or proceeding did not result in a sanction or the sanction imposed against us or our personnel by a regulator were small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm our reputation and cause us to lose existing investors or fail to gain new investors. The requirements imposed by our regulators are designed primarily to ensure the integrity of the financial markets and to protect investors in our funds and are not designed to protect our shareholders. Consequently, these regulations often serve to limit our activities.

Exceptions from Certain Laws. We regularly rely on exemptions from various requirements of the Securities Act, the Exchange Act, the Investment Company Act and the Employment Retirement Income Security Act, (ERISA), in conducting our activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third-party claims and our businesses could be materially and adversely affected. See, for example, Risks Related to Our Organization and Structure If we were deemed an investment company under the Investment Company Act, applicable restrictions could make it impractical for us to continue our businesses as contemplated and could have a material adverse effect on our businesses and the price of our Class A shares.

Fund Regulatory Environment. The regulatory environment in which our funds operate may affect our businesses. For example, changes in antitrust laws or the enforcement of antitrust laws could affect the level of mergers and acquisitions activity, and changes in state laws may limit investment activities of state pension plans. See Business Regulatory and Compliance Matters for a further discussion of the regulatory environment in which we conduct our businesses.

Future Regulation. We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other U.S. or non-U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. New laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business.

As a result of highly publicized financial scandals, investors have exhibited concerns over the integrity of the U.S. financial markets, and the regulatory environment in which we operate both in the United States and outside the United States is particularly likely to be subject to further regulation. In recent years, there has been debate in both the U.S. and foreign governments about new rules or regulations to be applicable to the private equity industry. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. The effects of any such legislation could be extensive. For example, such changes could place limitations on the type of investor that can invest in private equity or capital markets funds or on the conditions under which such investors may invest, or could limit the scope of investing activities that may be undertaken.

In addition, regulatory developments designed to increase oversight of hedge funds may adversely affect our businesses. In recent years, there has been debate in U.S. and foreign governments about new rules and regulations for hedge funds. For example, the SEC had recently adopted a rule, which was later struck down by a Federal court, that would have required registration under the Investment Advisers Act of 1940, as amended, or the Investment Advisers Act, of hedge fund managers if they had fewer than 15 funds, but those funds had 15 or more investors in the aggregate. While certain of our entities that serve as advisers to our funds are already registered with the SEC under the Advisers Act, other new regulations could constrain or otherwise impose burdens on our businesses.

Legislative proposals have recently been introduced in Denmark and Germany that would significantly limit the tax deductibility of interest expense incurred by companies in those countries. If adopted, these measures would adversely affect Danish and German companies in which our funds have investments and limit the benefits to them of additional investments in those countries. Our businesses are subject to the risk that similar measures might be introduced in other countries in which they currently have investments or plan to invest in the future, or that other legislative or regulatory measures might be promulgated in any of the countries in which we operate that adversely affect our businesses. In particular, the U.S. Federal income tax law that determines the tax consequences of an investment in Class A shares is under review and is potentially subject to adverse legislative, judicial or administrative change, possibly on a retroactive basis, including possible changes that would result in the treatment of all of our carried interest income as ordinary income, that would cause us to become taxable as a corporation and/or would have other adverse effects. Legislation that would cause us to be taxable as a corporation after the Class A shares are listed is pending in Congress. See Risks Related to Taxation and Risks Related to Our Organization and Structure. In addition, U.S. and foreign labor unions have recently been agitating for greater legislative and regulatory oversight of private equity firms and transactions. Labor unions have also threatened to use their influence to prevent pension funds from investing in private equity funds.

Antitrust Regulation. Recently, it has been reported in the press that a few of our competitors in the private equity industry have received information requests relating to private equity transactions from the Antitrust Division of the U.S. Department of Justice. In addition, the U.K. Financial Services Authority recently published a discussion paper on the impact that the growth in the private equity market has had on the markets in the United Kingdom and the suitability of its regulatory approach in addressing risks posed by the private equity market.

Our revenue, net income and cash flow are all highly variable, which may make it difficult for us to achieve steady earnings growth on a quarterly basis and may cause the price of our Class A shares to decline.

Our revenue, net income and cash flow are all highly variable, primarily due to the fact that carried interest from our private equity funds, which constitute the largest portion of income from our combined businesses, and the transaction and advisory fees that we receive can vary significantly from quarter to quarter and year to year. In addition, the investment returns of most of our funds are volatile. We may also experience fluctuations in our results from quarter to quarter and year to year due to a number of other factors, including changes in the values of our funds investments, changes in the amount of distributions, dividends or interest paid in respect of investments, changes in our operating expenses, the degree to which we encounter competition and general economic and market conditions. Such variability may lead to volatility in the trading price of our Class A shares and cause our results for a particular period not to be indicative of our performance in a future period. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could in turn lead to large adverse movements in the price of our Class A shares or increased volatility in our Class A share price generally.

The timing of carried interest generated by our private equity funds is uncertain and will contribute to the volatility of our results. Carried interest depends on our private equity funds performance. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value or other proceeds of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized in cash or other proceeds. We cannot predict when, or if, any realization of investments will occur. Although we recognize carried interest income on an accrual basis, we receive private equity carried interest payments only upon disposition of an investment by the relevant fund, which contributes to the volatility of our cash flow. If we were to have a realization event in a particular quarter or year, it may have a significant impact on our results for that particular quarter or year that may not be replicated in subsequent periods. We recognize revenue on investments in our funds based on our allocable share of realized and unrealized gains (or losses) reported by such funds, and a decline in realized or unrealized gains, or an increase in realized or unrealized losses, would adversely affect our revenue, which could further increase the volatility of our results.

With respect to capital markets funds, our incentive income is paid annually, semi-annually or quarterly, and the varying frequency of these payments will contribute to the volatility of our revenues and cash flow. Furthermore, we earn this incentive income only if the net asset value of a fund has increased or, in the case of certain funds, increased beyond a particular threshold. Our hedge funds also have high water marks whereby we do not earn incentive income during a particular period even though the fund had positive returns in such period as a result of losses in prior periods. If a hedge fund experiences losses, we will not be able to earn incentive income from the fund until it surpasses the previous high water mark. The incentive income we earn is therefore dependent on the net asset value of the hedge fund, which could lead to significant volatility in our results.

Because our revenue, net income and cash flow can be highly variable from quarter to quarter and year to year, we plan not to provide any guidance regarding our expected quarterly and annual operating results. The lack of guidance may affect the expectations of public market analysts and could cause increased volatility in our Class A share price.

The investment management business is intensely competitive, which could materially adversely impact us.

Over the past several years, the size and number of private equity funds and capital markets funds has continued to increase. If this trend continues, it is possible that it will become increasingly difficult for our funds to raise capital. More significantly, the allocation of increasing amounts of capital to alternative investment strategies by institutional and individual investors may lead to a reduction in profitable investment opportunities, including by driving prices for investments higher and increasing the difficulty of achieving targeted returns. In addition, if interest rates were to rise or there were to be a prolonged bull market in equities, the attractiveness of our funds relative to investments in other investment products could decrease.

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Competition among private equity funds and capital markets funds is based on a variety of factors, including:

- investment performance;
- investor perception of investment managers drive, focus and alignment of interest;
- quality of service provided to and duration of relationship with investors;
- business reputation; and
- the level of fees and expenses charged for services.

We compete in all aspects of our businesses with a large number of investment management firms, private equity fund sponsors, capital markets fund sponsors and other financial institutions. A number of factors serve to increase our competitive risks:

- fund investors may develop concerns that we will allow a business to grow to the detriment of its performance;
- some of our competitors have greater capital, lower targeted returns or greater sector or investment strategy-specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;
- some of our competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities;
- some of our competitors may perceive risk differently than we do, which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;
- our competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment;
- some fund investors may prefer to invest with an investment manager that is not publicly traded;
- there are relatively few barriers to entry impeding new private equity and capital markets fund management firms, and the successful efforts of new entrants into our various businesses, including former star portfolio managers at large diversified financial institutions as well as such institutions themselves, will continue to result in increased competition;
- there are no barriers to entry to our businesses, implementing an integrated platform similar to ours or the strategies that we deploy at our funds, such as distressed investing, which we believe are our competitive strengths, except that our competitors would need to hire professionals with the investment expertise or grow it internally; and

other industry participants continuously seek to recruit our investment professionals away from us.
In addition, private equity and capital markets fund managers have each increasingly adopted investment strategies traditionally associated with the other. Capital markets funds have become active in taking control positions in companies, while private equity funds have assumed minority positions in publicly listed companies. This convergence could heighten our competitive risk by expanding the range of asset managers seeking private equity investments and making it more difficult for us to differentiate ourselves from managers of capital markets funds.

These and other factors could reduce our earnings and revenues and materially adversely affect our businesses. In addition, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current management fee and incentive income structures. We have historically competed primarily on the performance of our funds, and not on the level of our fees or incentive income relative to those of our competitors. However, there is a risk that fees and incentive income in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee or incentive income reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

Our ability to retain our investment professionals is critical to our success and our ability to grow depends on our ability to attract additional key personnel.

Our success depends on our ability to retain our investment professionals and recruit additional qualified personnel. We anticipate that it will be necessary for us to add investment professionals as we pursue our growth strategy. However, we may not succeed in recruiting additional personnel or retaining current personnel, as the market for qualified investment professionals is extremely competitive. Our investment professionals possess substantial experience and expertise in investing, are responsible for locating and executing our funds investments, have significant relationships with the institutions that are the source of many of our funds investment opportunities, and in certain cases have key relationships with our fund investors. Therefore, if our investment professionals join competitors or form competing companies it could result in the loss of significant investment opportunities and certain existing fund investors. Legislation has been proposed in the U.S. Congress to treat carried interest as ordinary income rather than as capital gain for U.S. Federal income tax purposes. Because we compensate our investment professionals in large part by giving them an equity interest in our business or a right to receive carried interest, such legislation could adversely affect our ability to recruit, retain and motivate our current and future investment professionals. See Risks Related to Taxation Our structure involves complex provisions of U.S. Federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis and Risks Related to Taxation The U.S. Federal income tax law that determines the tax consequences of an investment in Class A shares is under review and is potentially subject to adverse legislative, judicial or administrative change, possibly on a retroactive basis, including possible changes that would result in the treatment of our long-term capital gains as ordinary income, that would cause us to become taxable as a corporation and/or have other adverse effects. The loss of even a small number of our investment professionals could jeopardize the performance of our funds, which would have a material adverse effect on our results of operations. Efforts to retain or attract investment professionals may result in significant additional expenses, which could adversely affect our profitability.

Our sale of equity interests to the public may harm our ability to provide equity compensation to investment professionals, which could make it more difficult to attract and retain them and could harm aspects of our business.

We might not be able to provide investment professionals with equity interests in our business to the same extent or with the same tax consequences as we did prior to the Offering Transactions. Therefore, in order to recruit and retain existing and future investment professionals, we may need to increase the level of compensation that we pay to them. Accordingly, as we promote or hire new investment professionals over time, we may increase the level of compensation we pay to our investment professionals, which would cause our total employee compensation and benefits expense as a percentage of our total revenue to increase and adversely affect our profitability. In addition, any issuance of equity interests in our business to investment professionals would dilute the holders of Class A shares.

We strive to maintain a work environment that reinforces our culture of collaboration, motivation and alignment of interests with investors. The effects of becoming public, including potential changes in our compensation structure, could adversely affect this culture. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain this culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition and results of operations.

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We may not be successful in expanding into new investment strategies, markets and businesses.

We actively consider the opportunistic expansion of our businesses, both geographically and into complementary new investment strategies. We may not be successful in any such attempted expansion. Attempts to expand our businesses involve a number of special risks, including some or all of the following:

- the diversion of management s attention from our core businesses;
- the disruption of our ongoing businesses;
- entry into markets or businesses in which we may have limited or no experience;
- increasing demands on our operational systems;
- potential increase in investor concentration; and
- the broadening of our geographic footprint, increasing the risks associated with conducting operations in foreign jurisdictions.

Additionally, any expansion of our businesses could result in significant increases in our outstanding indebtedness and debt service requirements, which would increase the risks in investing in our Class A shares and may adversely impact our results of operations and financial condition.

We also may not be successful in identifying new investment strategies or geographic markets that increase our profitability, or in identifying and acquiring new businesses that increase our profitability. Because we have not yet identified these potential new investment strategies, geographic markets or businesses, we cannot identify for you all the risks we may face and the potential adverse consequences on us and your investment that may result from our attempted expansion. We also do not know how long it may take for us to expand, if we do so at all. We have total discretion, at the direction of our manager, without needing to seek approval from our board of directors or shareholders, to enter into new investment strategies, geographic markets and businesses, other than expansions involving transactions with affiliates which may require limited board approval.

Many of our funds invest in relatively high-risk, illiquid assets, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of the principal amount we invest in these activities.

Many of our funds invest in securities that are not publicly traded. In many cases, our funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. Accordingly, our funds may be forced, under certain conditions, to sell securities at a loss. The ability of many of our funds, particularly our private equity funds, to dispose of investments is heavily dependent on the public equity markets, inasmuch as the ability to realize value from an investment may depend upon the ability to complete an initial public offering of the portfolio company in which such investment is held. Furthermore, large holdings even of publicly traded equity securities can often be disposed of only over a substantial period of time, exposing the investment returns to risks of downward movement in market prices during the disposition period.

Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments.

Because many of our private equity funds investments rely heavily on the use of leverage, our ability to achieve attractive rates of return on investments will depend on our continued ability to access sufficient sources of indebtedness at attractive rates. For example, in many private equity investments, indebtedness may constitute 70% or more of a portfolio company s total debt and equity capitalization, including debt that may be incurred in connection with the investment, and a portfolio company s leverage will often increase in recapitalization

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transactions subsequent to the company s acquisition by a private equity fund. An increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those investments. Increases in interest rates could also make it more difficult to locate and consummate private equity investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital. In addition, a portion of the indebtedness used to finance private equity investments often includes high-yield debt securities issued in the capital markets. Availability of capital from the high-yield debt markets is subject to significant volatility, and there may be times when we might not be able to access those markets at attractive rates, or at all. For example, the dislocation in the credit markets which began in July 2007 and the record backlog of supply in the debt markets resulting from such dislocation has materially affected the ability and willingness of banks to underwrite new high-yield debt securities.

Investments in highly leveraged entities are inherently more sensitive to declines in revenues, increases in expenses and interest rates and adverse economic, market and industry developments. The incurrence of a significant amount of indebtedness by an entity could, among other things:

- give rise to an obligation to make mandatory prepayments of debt using excess cash flow, which might limit the entity s ability to respond to changing industry conditions to the extent additional cash is needed for the response, to make unplanned but necessary capital expenditures or to take advantage of growth opportunities;

- allow even moderate reductions in operating cash flow to render it unable to service its indebtedness, leading to a bankruptcy or other reorganization of the entity and a loss of part or all of the equity investment in it;

- limit the entity s ability to adjust to changing market conditions, thereby placing it at a competitive disadvantage compared to its competitors who have relatively less debt;

- limit the entity s ability to engage in strategic acquisitions that might be necessary to generate attractive returns or further growth; and

- limit the entity s ability to obtain additional financing or increase the cost of obtaining such financing, including for capital expenditures, working capital or general corporate purposes.

As a result, the risk of loss associated with a leveraged entity is generally greater than for companies with comparatively less debt.

Our capital markets funds may choose to use leverage as part of their respective investment programs and regularly borrow a substantial amount of their capital. The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss in the value of the investment portfolio. The fund may borrow money from time to time to purchase or carry securities. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the securities purchased or carried, and will be lost and the timing and magnitude of such losses may be accelerated or exacerbated in the event of a decline in the market value of such securities. Gains realized with borrowed funds may cause the fund s net asset value to increase at a faster rate than would be the case without borrowings. However, if investment results fail to cover the cost of borrowings, the fund s net asset value could also decrease faster than if there had been no borrowings. In addition, as a business development company under the Investment Company Act, AIC is permitted to issue senior securities in amounts such that its asset coverage ratio equals at least 200% after each issuance of senior securities. AIC s ability to pay dividends will be restricted if its asset coverage ratio falls below at least 200% and any amounts that it uses to service its indebtedness are not available for dividends to its common stockholders. An increase in interest rates could also decrease the value of fixed-rate debt investments that our funds make. Any of the foregoing circumstances could have a material adverse effect on our financial condition, results of operations and cash flow.

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The requirements of being a public entity may strain our resources.

Once the registration statement of which this prospectus forms a part becomes effective, we will be subject to the reporting requirements of the Exchange Act and requirements of the U.S. Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. These requirements may place a strain on our systems and resources. The Exchange Act requires that we file annual, quarterly and current reports with respect to our businesses and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting, which is discussed below. In order to maintain and improve the effectiveness of our disclosure controls and procedures, significant resources and management oversight will be required. We have not had to prepare and file such reports in the past. We will be implementing additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. We expect to incur significant additional annual expenses related to these steps and, among other things, additional directors and officers liability insurance, director fees, reporting requirements of the SEC, transfer agent fees, hiring additional accounting, legal and administrative personnel, increased auditing and legal fees and similar expenses.

Our internal control over financial reporting does not currently meet all of the standards contemplated by Section 404 of the Sarbanes-Oxley Act, and failure to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our businesses and stock price.

We have not previously been required to comply with the requirements of the Sarbanes-Oxley Act, including the internal control evaluation and certification requirement of Section 404 of that statute, and we will not be required to comply with all those requirements until after we have been subject to the requirements of the Exchange Act for a specified period. We are in the process of addressing our internal control over, and policies and processes related to, financial reporting and the identification of key financial reporting risks, assessment of their potential impact and linkage of those risks to specific areas and activities within our organization.

We have not begun the process of documenting and testing our internal control procedures to satisfy the requirements of Section 404, which requires annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm addressing these assessments. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal control over financial reporting. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis and thereby subject us to adverse regulatory consequences, including sanctions by the SEC, or violations of applicable stock exchange listing rules, and result in a breach of the covenants under the AMH credit facility. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us and lead to a decline in our share price. In addition, we will incur incremental costs in order to improve our internal control over financial reporting and comply with Section 404, including increased auditing and legal fees and costs associated with hiring additional accounting and administrative staff. These costs will be significant and are not reflected in our financial statements.

Operational risks relating to the execution, confirmation or settlement of transactions, our dependence on our headquarters in New York City and third party providers may disrupt our businesses, result in losses or limit our growth.

We face operational risk from errors made in the execution, confirmation or settlement of transactions. We also face operational risk from transactions not being properly recorded, evaluated or accounted for in our funds. In particular, our credit-oriented capital markets business is highly dependent on our ability to process and evaluate, on a daily basis, transactions across markets and geographies in a time-sensitive, efficient and accurate

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manner. Consequently, we rely heavily on our financial, accounting and other data processing systems. New investment products we may introduce could create a significant risk that our existing systems may not be adequate to identify or control the relevant risks in the investment strategies employed by such new investment products. In addition, our information systems and technology might not be able to accommodate our growth, and the cost of maintaining such systems might increase from its current level. These risks could cause us to suffer financial loss, a disruption of our businesses, liability to our funds, regulatory intervention and reputational damage.

Furthermore, we depend on our headquarters, which is located in New York City, for the operation of many of our businesses. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, may have an adverse impact on our ability to continue to operate our businesses without interruption which could have a material adverse effect on us. Although we have disaster recovery programs in place, these may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses.

Finally, we rely on third party service providers for certain aspects of our businesses, including for certain information systems, technology and administration of our funds and compliance matters. Any interruption or deterioration in the performance of these third parties could impair the quality of the funds operations and could impact our reputation and adversely affect our businesses and limit our ability to grow.

We derive a substantial portion of our revenues from funds managed pursuant to management agreements that may be terminated or fund partnership agreements that permit fund investors to request liquidation of investments in our funds on short notice.

The terms of our funds generally give either the general partner of the fund or the fund s board of directors the right to terminate our investment management agreement with the fund. However, insofar as we control the general partner of our funds that are limited partnerships, the risk of termination of investment management agreement for such funds is limited, subject to our fiduciary or contractual duties as general partner. This risk is more significant for our offshore capital markets funds, which have independent boards of directors.

With respect to our funds that are subject to the Investment Company Act, each fund s investment management agreement must be approved annually by such funds board of directors or by the vote of a majority of the shareholders and the majority of the independent members of such fund s board of directors and, as required by law. The funds investment management agreement can also be terminated by the majority of the shareholders. Termination of these agreements would reduce the fees we earn from the relevant funds, which could have a material adverse effect on our results of operations. Currently, AIC is the only Apollo fund that is subject to these provisions of the Investment Company Act, as it has elected to be treated as a business development company under the Investment Company Act.

In addition, in connection with the deconsolidation of certain of our private equity and capital markets funds, the governing documents of those funds were amended to provide that a simple majority of a fund s unaffiliated investors have the right to liquidate that fund, which would cause management fees and incentive income to terminate. Our ability to realize incentive income from such funds also would be adversely affected if we are required to liquidate fund investments at a time when market conditions result in our obtaining less for investments than could be obtained at later times. Because this right is a new one, we do not know whether, and under what circumstances, the investors in our funds are likely to exercise such right.

In addition, the management agreements of our funds would terminate if we were to experience a change of control without obtaining investor consent. Such a change of control could be deemed to occur in the event our managing partners exchange enough of their interests in the Apollo Operating Group into our Class A shares such that our managing partners no longer own a controlling interest in us. We cannot be certain that consents

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required for the assignment of our management agreements will be obtained if such a deemed change of control occurs. Termination of these agreements would affect the fees we earn from the relevant funds and the transaction and advisory fees we earn from the underlying portfolio companies, which could have a material adverse effect on our results of operations.

Our use of leverage to finance our businesses will expose us to substantial risks, which are exacerbated by our funds use of leverage to finance investments.

We have a $1 billion term loan outstanding under the AMH credit facility. We may choose to finance our business operations through further borrowings. Our existing and future indebtedness exposes us to the typical risks associated with the use of leverage, including those discussed below under Dependence on significant leverage in investments by our funds could adversely affect our ability to achieve attractive rates of return on those investments. These risks are exacerbated by certain of our funds use of leverage to finance investments and, if they were to occur, could cause us to suffer a decline in the credit ratings assigned to our debt by rating agencies, which might result in an increase in our borrowing costs or result in other material adverse effects on our businesses.

Borrowings under the AMH credit facility mature on April 20, 2014. As these borrowings and other indebtedness matures, we will be required to either refinance them by entering into new facilities, which could result in higher borrowing costs, or issuing equity, which would dilute existing shareholders. We could also repay them by using cash on hand or cash from the sale of our assets. We could have difficulty entering into new facilities or issuing equity in the future on attractive terms, or at all.

Borrowings under the AMH credit facility are LIBOR-based floating-rate obligations. As a result, an increase in short-term interest rates will increase our interest costs to the extent such borrowings have not been hedged into fixed rates.

See Unaudited Condensed Consolidated Pro Forma Financial Information for information concerning the pro forma effects of borrowings under the AMH credit facility on our historical financial results.

We are subject to third-party litigation that could result in significant liabilities and reputational harm, which could materially adversely affect our results of operations, financial condition and liquidity.

In general, we will be exposed to risk of litigation by our investors if our management of any fund is alleged to constitute bad faith, gross negligence, willful misconduct, fraud, willful or reckless disregard for our duties to the fund or other forms of misconduct. Investors could sue us to recover amounts lost by our funds due to our alleged misconduct, up to the entire amount of loss. Further, we may be subject to litigation arising from investor dissatisfaction with the performance of our funds or from allegations that we improperly exercised control or influence over companies in which our funds have large investments. By way of example, we, our funds and certain of our employees are each exposed to the risks of litigation relating to investment activities in our funds and actions taken by the officers and directors (some of whom may be Apollo employees) of portfolio companies, such as the risk of shareholder litigation by other shareholders of public companies in which our funds have large investments. We are also exposed to risks of litigation or investigation relating to transactions that presented conflicts of interest that were not properly addressed. In addition, our rights to indemnification by the funds we manage may not be upheld if challenged, and our indemnification rights generally do not cover bad faith, gross negligence, willful misconduct, fraud, willful or reckless disregard for our duties to the fund or other forms of misconduct. If we are required to incur all or a portion of the costs arising out of litigation or investigations as a result of inadequate insurance proceeds or failure to obtain indemnification from our funds, our results of operations, financial condition and liquidity would be materially adversely affected.

In addition, with a workforce that includes many very highly paid investment professionals, we face the risk of lawsuits relating to claims for compensation, which may individually or in the aggregate be significant in amount. The cost of settling such claims could adversely affect our results of operations.

If any lawsuits brought against us were to result in a finding of substantial legal liability, the lawsuit could, in addition to any financial damage, cause significant reputational harm to us, which could seriously harm our business. We depend to a large extent on our business relationships and our reputation for integrity and high-caliber professional services to attract and retain investors and to pursue investment opportunities for our funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to us, as well as negative publicity and press speculation about us, our investment activities or the private equity industry in general, whether or not valid, may harm our reputation, which may be more damaging to our business than to other types of businesses.

Our failure to deal appropriately with conflicts of interest could damage our reputation and adversely affect our businesses.

As we have expanded and as we continue to expand the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds investment activities. Certain of our funds may have overlapping investment objectives, including funds that have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. For example, a decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to take any action. In addition, fund investors (or holders of Class A shares) may perceive conflicts of interest regarding investment decisions for funds in which our managing partners, who have and may continue to make significant personal investments in a variety of Apollo funds, are personally invested. Similarly, conflicts of interest may exist in the valuation of our investments and regarding decisions about the allocation of specific investment opportunities among us and our funds and the allocation of fees and costs among us, our funds and their portfolio companies.

Pursuant to the terms of our operating agreement, whenever a potential conflict of interest exists or arises between any of the managing partners, one or more directors or their respective affiliates, on the one hand, and us, any of our subsidiaries or any shareholder other than a managing partner, on the other, any resolution or course of action by our board of directors shall be permitted and deemed approved by all shareholders if the resolution or course of action (i) has been specifically approved by a majority of the voting power of our outstanding voting shares (excluding voting shares owned by our manager or its affiliates) or by a conflicts committee of the board of directors composed entirely of one or more independent directors, (ii) is on terms no less favorable to us or our shareholders (other than a managing partner) than those generally being provided to or available from unrelated third parties or (iii) it is fair and reasonable to us and our shareholders taking into account the totality of the relationships between the parties involved. All conflicts of interest described in this prospectus will be deemed to have been specifically approved by all shareholders. Notwithstanding the foregoing, it is possible that potential or perceived conflicts could give rise to investor dissatisfaction or litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest would have a material adverse effect on our reputation which would materially adversely affect our businesses in a number of ways, including as a result of redemptions by our investors from our funds, an inability to raise additional funds and a reluctance of counterparties to do business with us.

Our organizational documents do not limit our ability to enter into new lines of businesses, and we may expand into new investment strategies, geographic markets and businesses, each of which may result in additional risks and uncertainties in our businesses.

We intend, to the extent that market conditions warrant, to grow our businesses by increasing AUM in existing businesses and expanding into new investment strategies, geographic markets and businesses. Our organizational documents, however, do not limit us to the investment management business. Accordingly, we may pursue growth through acquisitions of other investment management companies, acquisitions of critical business partners or other strategic initiatives, which may include entering into new lines of business, such as the insurance, broker-dealer or financial advisory industries. In addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, undertake other strategic initiatives or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (i) the required investment of capital and other resources, (ii) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, (iii) combining or integrating operational and management systems and controls and (iv) the broadening of our geographic footprint, including the risks associated with conducting operations in foreign jurisdictions. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. If a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

Employee misconduct could harm us by impairing our ability to attract and retain investors and by subjecting us to significant legal liability, regulatory scrutiny and reputational harm.

Our reputation is critical to maintaining and developing relationships with the investors in our funds, potential fund investors and third-parties with whom we do business. In recent years, there have been a number of highly publicized cases involving fraud, conflicts of interest or other misconduct by individuals in the financial services industry. There is a risk that our employees could engage in misconduct that adversely affects our businesses. For example, if an employee were to engage in illegal or suspicious activities, we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial position, investor relationships and ability to attract future investors. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases. Misconduct by our employees, or even unsubstantiated allegations, could result in a material adverse effect on our reputation and our businesses.

The due diligence process that we undertake in connection with investments by our funds may not reveal all facts that may be relevant in connection with an investment.

Before making investments in private equity and other investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

Certain of our funds utilize special situation and distressed debt investment strategies that involve significant risks.

Our funds often invest in obligors and issuers with weak financial conditions, poor operating results, substantial financial needs, negative net worth and/or special competitive problems. These funds also invest in obligors and issuers that are involved in bankruptcy or reorganization proceedings. In such situations, it may be difficult to obtain full information as to the exact financial and operating conditions of these obligors and issuers. Additionally, the fair values of such investments are subject to abrupt and erratic market movements and significant price volatility if they are publicly traded securities, and are subject to significant uncertainty in general if they are not publicly traded securities. Furthermore, some of our funds distressed investments may not be widely traded or may have no recognized market. A fund s exposure to such investments may be substantial in relation to the market for those investments, and the assets are likely to be illiquid and difficult to sell or transfer. As a result, it may take a number of years for the market value of such investments to ultimately reflect their intrinsic value as perceived by us.

A central feature of our distressed investment strategy is our ability to successfully predict the occurrence of certain corporate events, such as debt and/or equity offerings, restructurings, reorganizations, mergers, takeover offers and other transactions, that we believe will improve the condition of the business. If the corporate event we predict is delayed, changed or never completed, the market price and value of the applicable fund s investment could decline sharply.

In addition, these investments could subject us to certain potential additional liabilities that may exceed the value of our original investment. Under certain circumstances, payments or distributions on certain investments may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. In addition, under certain circumstances, a lender that has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated or disallowed, or may be found liable for damages suffered by parties as a result of such actions. In the case where the investment in securities of troubled companies is made in connection with an attempt to influence a restructuring proposal or plan of reorganization in bankruptcy, our funds may become involved in substantial litigation.

We often pursue investment opportunities that involve business, regulatory, legal or other complexities.

As an element of our investment style, we often pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the performance of our funds.

Our funds make investments in companies that we do not control.

Investments by our capital markets funds (and, in limited instances, our private equity funds) will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our funds through trading activities or through purchases of securities from the issuer. In the future, our private equity funds may seek to acquire minority equity interests more frequently and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the funds retaining a minority investment. Those investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of investments by our funds could decrease and our financial condition, results of operations and cash flow could suffer as a result.

Our funds may face risks relating to undiversified investments.

While diversification is generally an objective of our funds, we cannot give assurance as to the degree of diversification that will actually be achieved in any fund investments. Because a significant portion of a fund s capital may be invested in a single investment or portfolio company, a loss with respect to such investment or portfolio company could have a significant adverse impact on such fund s capital. This risk is exacerbated by co-investments that we cause AAA to undertake. Accordingly, a lack of diversification on the part of a fund could adversely affect a fund s performance and therefore, our financial condition and results of operations.

Some of our funds invest in foreign countries and securities of issuers located outside of the United States, which may involve foreign exchange, political, social and economic uncertainties and risks.

Some of our funds invest a portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States. In addition to business uncertainties, such investments may be affected by changes in exchange values as well as political, social and economic uncertainty affecting a country or region. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly with respect to bankruptcy and reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

Restrictions imposed or actions taken by foreign governments may adversely impact the value of our fund investments. Such restrictions or actions could include exchange controls, seizure or nationalization of foreign deposits or other assets and adoption of other governmental restrictions that adversely affect the prices of securities or the ability to repatriate profits on investments or the capital invested itself. Income received by our funds from sources in some countries may be reduced by withholding and other taxes. Any such taxes paid by a fund will reduce the net income or return from such investments. While our funds will take these factors into consideration in making investment decisions, including when hedging positions, our funds may not be able to fully avoid these risks or generate sufficient risk-adjusted returns.

Third-party investors in our funds will have the right under certain circumstances to terminate commitment periods or to dissolve the funds, and investors in our hedge funds may redeem their investments in our hedge funds at any time after an initial holding period of 12 to 36 months. These events would lead to a decrease in our revenues, which could be substantial.

The governing agreements of certain of our funds allow the limited partners of those funds to (i) terminate the commitment period of the fund in the event that certain key persons (for example, one or more of our managing partners and/or certain other investment professionals) fail to devote the requisite time to managing the fund, (ii) (depending on the fund) terminate the commitment period, dissolve the fund or remove the general partner if we, as general partner or manager, or certain key persons engage in certain forms of misconduct, or (iii) dissolve the fund or terminate the commitment period upon the affirmative vote of a specified percentage of limited partner interests entitled to vote. Both Fund VI and Fund VII, on which our near-to medium-term performance will heavily depend, include a number of such provisions. Also, in order to deconsolidate certain of our funds for financial reporting purposes, we amended the governing documents of those funds to provide that a simple majority of a fund s unaffiliated investors have the right to liquidate that fund. In addition to having a significant negative impact on our revenue, net income and cash flow, the occurrence of such an event with respect to any of our funds would likely result in significant reputational damage to us.

Investors in our hedge funds may also generally redeem their investments on an annual, semiannual or quarterly basis following the expiration of a specified period of time when capital may not be redeemed (typically between one and five years). Fund investors may decide to move their capital away from us to other investments for any number of reasons in addition to poor investment performance. Factors which could result in investors leaving our funds include changes in interest rates that make other investments more attractive, changes in investor perception regarding our focus or alignment of interest, unhappiness with changes in or broadening of a fund s investment strategy, changes in our reputation and departures or changes in responsibilities of key investment professionals. In a declining market, the pace of redemptions and consequent reduction in our Assets Under Management could accelerate. The decrease in revenues that would result from significant redemptions in our hedge funds could have a material adverse effect on our businesses, revenues, net income and cash flows.

In addition, because all of our funds have advisers that are affiliates of advisers registered under the Advisers Act, the management agreements of all of our funds would be terminated upon an assignment, without the requisite consent, of these agreements, which may be deemed to occur in the event these advisers

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were to experience a change of control. We cannot be certain that consents required to assignments of our investment management agreements will be obtained if a change of control occurs. In addition, with respect to our publicly traded closed-end mezzanine funds, each fund s investment management agreement must be approved annually by the independent members of such fund s board of directors and, in certain cases, by its stockholders, as required by law. Termination of these agreements would cause us to lose the fees we earn from such funds.

Our financial projections for portfolio companies could prove inaccurate.

Our funds generally establish the capital structure of portfolio companies on the basis of financial projections for such portfolio companies. These projected operating results will normally be based primarily on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. General economic conditions, which are not predictable, along with other factors may cause actual performance to fall short of the financial projections we used to establish a given portfolio company s capital structure. Because of the leverage we typically employ in our investments, this could cause a substantial decrease in the value of our equity holdings in the portfolio company. The inaccuracy of financial projections could thus cause our funds performance to fall short of our expectations.

Fraud and other deceptive practices could harm fund performance.

Instances of fraud and other deceptive practices committed by senior management of portfolio companies in which an Apollo fund invests may undermine our due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of a fund s investments. In addition, when discovered, financial fraud may contribute to overall market volatility that can negatively impact an Apollo fund s investment program. As a result, instances of fraud could result in fund performance that is poorer than expected.

Contingent liabilities could harm fund performance.

We may cause our funds to acquire an investment that is subject to contingent liabilities. Such contingent liabilities could be unknown to us at the time of acquisition or, if they are known to us, we may not accurately assess or protect against the risks that they present. Acquired contingent liabilities could thus result in unforeseen losses for our funds. In addition, in connection with the disposition of an investment in a portfolio company, a fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. A fund may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities by a fund, even after the disposition of an investment. Accordingly, the inaccuracy of representations and warranties made by a fund could harm such fund s performance.

Our funds may be forced to dispose of investments at a disadvantageous time.

Our funds may make investments that they do not advantageously dispose of prior to the date the applicable fund is dissolved, either by expiration of such fund s term or otherwise. Although we generally expect that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, and the general partners of the funds have a limited ability to extend the term of the fund with the consent of fund investors or the advisory board of the fund, as applicable, our funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. This would result in a lower than expected return on the investments and, perhaps, on the fund itself.

Possession of material, non-public information could prevent Apollo funds from undertaking advantageous transactions; our internal controls could fail; we could determine to establish information barriers.

Our managing partners, investment professionals or other employees may acquire confidential or material non-public information and, as a result, be restricted from initiating transactions in certain securities. This risk

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affects us more than it does many other investment managers, as we generally do not use information barriers that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. Our decision not to implement these barriers could prevent our investment professionals from undertaking advantageous investments or dispositions that would be permissible for them otherwise.

In order to manage possible risks resulting from our decision not to implement information barriers, our compliance personnel maintain a list of restricted securities as to which we have access to material, non-public information and in which our funds and investment professionals are not permitted to trade. This internal control relating to the management of material non-public information could fail and with the result that we, or one of our investment professionals, might trade when at least constructively in possession of material non-public information. Inadvertent trading on material non-public information could have adverse effects on our reputation, result in the imposition of regulatory or financial sanctions and as a consequence, negatively impact our financial condition. In addition, we could in the future decide that it is advisable to establish information barriers, particularly as our business expands and diversifies. In such event, our ability to operate as an integrated platform will be restricted. The establishment of such information barriers may also lead to operational disruptions and result in restructuring costs, including costs related to hiring additional personnel as existing investment professionals are allocated to either side of such barriers, which may adversely affect our business.

Regulations governing AIC s operation as a business development company affect its ability to raise, and the way in which it raises, additional capital.

As a business development company under the Investment Company Act, AIC may issue debt securities or preferred stock and borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the Investment Company Act. Under the provisions of the Investment Company Act, AIC is permitted to issue senior securities only in amounts such that its asset coverage, as defined in the Investment Company Act, equals at least 200% after each issuance of senior securities. If the value of its assets declines, it may be unable to satisfy this test. If that happens, it may be required to sell a portion of its investments and, depending on the nature of its leverage, repay a portion of its indebtedness at a time when such sales may be disadvantageous.

In addition, under the provisions of the Investment Company Act, AIC is not generally able to issue and sell its common stock at a price below the current net asset value per share of the common stock, and could as a result be limited in its ability to raise capital.

Our hedge funds are subject to numerous additional risks.

Our hedge funds are subject to numerous additional risks, including the risks set forth below.

- Generally, there are few limitations on the execution of our hedge funds investment strategies, which are subject to the sole discretion of the management company or the general partner of such funds.

- Hedge funds may engage in short-selling, which is subject to a theoretically unlimited risk of loss.

- Hedge funds are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss.

- Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions.

- The efficacy of investment and trading strategies depend largely on the ability to establish and maintain an overall market position in a combination of financial instruments, which can be difficult to execute.

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Hedge funds may make investments or hold trading positions in markets that are volatile and which may become illiquid.

Hedge fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to a theoretically unlimited risk of loss in certain circumstances.

Risks Related to Our Organization and Structure

Members of the U.S. Congress have introduced legislation that would, if enacted, preclude us from qualifying for treatment as a partnership for U.S. Federal income tax purposes under the publicly traded partnership rules. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a substantial increase in our tax liability and it could well result in a reduction in the value of our Class A shares.

On June 14, 2007, the Chairman and the Ranking Republican Member of the U.S. Senate Committee on Finance introduced legislation that would tax as corporations publicly traded partnerships that directly or indirectly derive income from investment advisor or asset management services. In addition, the Chairman and the Ranking Republican Member concurrently issued a press release stating that they do not believe that proposed public offerings of private equity and hedge fund management firms are consistent with the intent of the existing rules regarding publicly traded partnerships because the majority of their income is from the active provision of services to investment funds and limited partner investors in such funds. Further, they have sent letters to the Secretary of the Treasury and the Chairman of the U.S. Securities and Exchange Commission regarding these tax issues in which they express a view that recent initial public offerings of private equity and hedge funds raise serious tax questions that if left unaddressed have the potential to jeopardize the integrity of the tax code and the corporate tax base over the long term. As explained in the technical explanation accompanying the proposed legislation:

Under the bill, the exception from corporate treatment for a publicly traded partnership does not apply to any partnership that, directly or indirectly, has any item of income or gain (including capital gains or dividends), the rights to which are derived from services provided by any person as an investment advisor, as defined in the Investment Advisers Act, or as a person associated with an investment advisor, as defined in that Act. Further, the exception from corporate treatment does not apply to a partnership that, directly or indirectly, has any item of income or gain (including capital gains or dividends), the rights to which are derived from asset management services provided by an investment advisor, a person associated with an investment advisor, or any person related to either, in connection with the management of assets with respect to which investment advisor services were provided. For purposes of the bill, these determinations are made without regard to whether the person is required to register as an investment advisor under the Investment Advisers Act.

If enacted in its present form, the proposed legislation introduced by the Chairman and the Ranking Republican Member of the U.S. Senate Committee on Finance would be effective as of the date it was introduced and could potentially apply to us as early as our 2007 taxable year. On June 20, 2007, a Congressman from Vermont introduced legislation in the House of Representatives that is substantially similar to the proposed legislation introduced in the Senate. In addition, on June 22, 2007, legislation was introduced in the House of Representatives that would cause allocations of income associated with carried interests to be taxed as ordinary income for the performance of services, which apparently would have the effect of treating publicly traded partnerships that derive substantial amounts of income from carried interests as corporations for U.S. Federal income tax purposes (although the effective date of such legislation has not been determined). On October 25, 2007, the House Ways and Means Committee Chairman, in connection with his tax reform proposal, introduced legislation that was substantially similar to the June 22, 2007 bill. On November 9, 2007, the House of Representatives passed legislation similar to the June 22, 2007 legislation. Under a transition rule contained in the November 9, 2007 legislation, the carried interest would not be treated as ordinary income for purposes of

Section 7704 until December 31, 2009 and therefore would not preclude us from qualifying as a partnership for U.S. Federal income tax purposes until our taxable year beginning January 1, 2010. None of these legislative proposals affecting the tax treatment of our carried interests or of our ability to qualify as a partnership for U.S. Federal income tax purposes has yet been entered into law. If the proposed legislation introduced in either the Senate or the House of Representatives were to be enacted into law in its proposed form, we would incur a substantial increase in our tax liability when such legislation begins to apply to us. If Apollo Global Management, LLC were taxed as a corporation, our effective tax rate would increase substantially. The U.S. Federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the Federal benefit, would aggregate approximately 4%. If any of this proposed legislation or any other change in the tax laws, rules, regulations or interpretations preclude us from qualifying for treatment as a partnership for U.S. Federal income tax purposes under the publicly traded partnership rules, this would substantially increase our tax liability and it could well result in a reduction in the value of our Class A shares.

Our shareholders do not elect our manager or vote and have limited ability to influence decisions regarding our businesses.

So long as the Apollo control condition is satisfied, our manager, AGM Management, LLC, which is owned by our managing partners, will manage all of our operations and activities. AGM Management, LLC is managed by BRH, a Cayman entity owned by our managing partners and managed by an executive committee composed of our managing partners. Our shareholders do not elect our manager, its manager or its manager s executive committee and, unlike the holders of common stock in a corporation, have only limited voting rights on matters affecting our businesses and therefore limited ability to influence decisions regarding our businesses. Furthermore, if our shareholders are dissatisfied with the performance of our manager, they will have little ability to remove our manager. As discussed below, the managing partners collectively have 86.5% of the voting power of Apollo Global Management, LLC. Therefore, they will have the ability to control any shareholder vote that occurs, including any vote regarding the removal of our manager.

Control by our managing partners of the combined voting power of our shares and holding their economic interests through the Apollo Operating Group may give rise to conflicts of interests.

Our managing partners, through their partnership interests in Holdings, control 86.5% of the combined voting power of our shares entitled to vote. Accordingly, our managing partners have the ability to control our management and affairs to the extent not controlled by our manager. In addition, they are able to determine the outcome of all matters requiring shareholder approval (such as a proposed sale of all or substantially of our assets, the approval of a merger or consolidation involving the company, and an election by our manager to dissolve the company) and are able to cause or prevent a change of control of our company and could preclude any unsolicited acquisition of our company. The control of voting power by our managing partners could deprive Class A shareholders of an opportunity to receive a premium for their Class A shares as part of a sale of our company, and might ultimately affect the market price of the Class A shares.

In addition, our managing partners and contributing partners, through their partnership interests in Holdings, are entitled to 71.1% of Apollo Operating Group s economic returns through the Apollo Operating Group units owned by Holdings. Because they hold their economic interest in our businesses directly through the Apollo Operating Group, rather than through the issuer of the Class A shares, our managing partners and contributing partners may have conflicting interests with holders of Class A shares. For example, our managing partners and contributing partners may have different tax positions from us, which could influence their decisions regarding whether and when to dispose of assets, and whether and when to incur new or refinance existing indebtedness, especially in light of the existence of the tax receivable agreement. In addition, the structuring of future transactions may take into consideration the managing partners and contributing partners tax considerations even where no similar benefit would accrue to us.

We expect to qualify for and intend to rely on exceptions from certain corporate governance and other requirements under the rules of the NYSE.

We expect to qualify for exceptions from certain corporate governance and other requirements of the rules of the NYSE. Pursuant to these exceptions, we will elect not to comply with certain corporate governance requirements of the NYSE, including the requirements (i) that a majority of our board of directors consist of independent directors, (ii) that we have a nominating/corporate governance committee that is composed entirely of independent directors and (iii) that we have a compensation committee that is composed entirely of independent directors. In addition, we will not be required to hold annual meetings of our shareholders. Accordingly, you will not have the same protections afforded to equityholders of entities that are subject to all of the corporate governance requirements of the NYSE.

Potential conflicts of interest may arise among our manager, on the one hand, and us and our shareholders on the other hand. Our manager and its affiliates have limited fiduciary duties to us and our shareholders, which may permit them to favor their own interests to the detriment of us and our shareholders.

Conflicts of interest may arise among our manager, on the one hand, and us and our shareholders, on the other hand. As a result of these conflicts, our manager may favor its own interests and the interests of its affiliates over the interests of us and our shareholders. These conflicts include, among others, the conflicts described below.

Our manager determines the amount and timing of our investments and dispositions, indebtedness, issuances of additional stock and amounts of reserves, each of which can affect the amount of cash that is available for distribution to you.

Our manager is allowed to take into account the interests of parties other than us in resolving conflicts of interest, which has the effect of limiting its duties (including fiduciary duties) to shareholders; for example, our affiliates that serve as general partners of our funds have fiduciary and contractual obligations to our fund investors, and such obligations may cause such affiliates to regularly take actions that might adversely affect our near-term results of operations or cash flow; our manager has no obligation to intervene in, or to notify our shareholders of, such actions by such affiliates.

Because our managing partners and contributing partners hold their Apollo Operating Group units through entities that are not subject to corporate income taxation and Apollo Global Management, LLC holds the Apollo Operating Group units in part through a wholly-owned subsidiary that is subject to corporate income taxation, conflicts may arise between our managing partners and contributing partners, on the one hand, and Apollo Global Management, LLC, on the other hand, relating to the selection and structuring of investments.

Other than as set forth in the non-competition, non-solicitation and confidentiality agreements to which our managing partners and other professionals are subject, which may not be enforceable, affiliates of our manager and existing and former personnel employed by our manager are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us.

Our manager has limited its liability and reduced or eliminated its duties (including fiduciary duties) under our operating agreement, while also restricting the remedies available to our shareholders for actions that, without these limitations, might constitute breaches of duty (including fiduciary duty). In addition, we have agreed to indemnify our manager and its affiliates to the fullest extent permitted by law, except with respect to conduct involving bad faith, fraud or willful misconduct. By purchasing our Class A shares, you will have agreed and consented to the provisions set forth in our operating agreement, including the provisions regarding conflicts of interest situations that, in the absence of such provisions, might constitute a breach of fiduciary or other duties under applicable state law.

Our operating agreement does not restrict our manager from causing us to pay it or its affiliates for any services rendered, or from entering into additional contractual arrangements with any of these entities on our behalf, so long as the terms of any such additional contractual arrangements are fair and reasonable to us as determined under the operating agreement.

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Our manager determines how much debt we incur and that decision may adversely affect our credit ratings.

Our manager determines which costs incurred by it and its affiliates are reimbursable by us.

Our manager controls the enforcement of obligations owed to us by it and its affiliates.

Our manager decides whether to retain separate counsel, accountants or others to perform services for us.

See Certain Relationships and Related Party Transactions and Conflicts of Interest and Fiduciary Responsibilities for a more detailed discussion of these conflicts.

Our operating agreement contains provisions that reduce or eliminate duties (including fiduciary duties) of our manager and limit remedies available to shareholders for actions that might otherwise constitute a breach of duty. It will be difficult for a shareholder to challenge a resolution of a conflict of interest by our manager or by its conflicts committee.

Our operating agreement contains provisions that waive or consent to conduct by our manager and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our operating agreement provides that when our manager is acting in its individual capacity, as opposed to in its capacity as our manager, it may act without any fiduciary obligations to us or our shareholders whatsoever. When our manager, in its capacity as our manager, is permitted to or required to make a decision in its sole discretion or discretion or that it deems necessary or appropriate or necessary or advisable, then our manager will be entitled to consider only such interests and factors as it desires, including its own interests, and will have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting us or any of our shareholders and will not be subject to any different standards imposed by our operating agreement, the Delaware Limited Liability Company Act or under any other law, rule or regulation or in equity.

Whenever a potential conflict of interest exists between us and our manager, our manager may resolve such conflict of interest. If our manager determines that its resolution of the conflict of interest is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or is fair and reasonable to us, taking into account the totality of the relationships between us and our manager, then it will be presumed that in making this determination, our manager acted in good faith. A shareholder seeking to challenge this resolution of the conflict of interest would bear the burden of overcoming such presumption. This is different from the situation with Delaware corporations, where a conflict resolution by an interested party would be presumed to be unfair and the interested party would have the burden of demonstrating that the resolution was fair.

The above modifications of fiduciary duties are expressly permitted by Delaware law. Hence, we and our shareholders will only have recourse and be able to seek remedies against our manager if our manager breaches its obligations pursuant to our operating agreement. Unless our manager breaches its obligations pursuant to our operating agreement, we and our unitholders will not have any recourse against our manager even if our manager were to act in a manner that was inconsistent with traditional fiduciary duties. Furthermore, even if there has been a breach of the obligations set forth in our operating agreement, our operating agreement provides that our manager and its officers and directors will not be liable to us or our shareholders for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the manager or its officers and directors acted in bad faith or engaged in fraud or willful misconduct. These provisions are detrimental to the shareholders because they restrict the remedies available to them for actions that without those limitations might constitute breaches of duty including fiduciary duties.

Also, if our manager obtains the approval of its conflicts committee, the resolution will be conclusively deemed to be fair and reasonable to us and not a breach by our manager of any duties it may owe to us or our shareholders. This is different from the situation with Delaware corporations, where a conflict resolution by a committee consisting solely of independent directors may, in certain circumstances, merely shift the burden of demonstrating unfairness to the plaintiff. If you purchase a Class A share, you will be treated as having consented to the provisions set forth in the operating agreement, including provisions regarding conflicts of interest situations that, in the absence of such provisions, might be considered a breach of fiduciary or other duties under applicable state law. As a result, shareholders will, as a practical matter, not be able to successfully challenge an informed decision by the conflicts committee. See Conflicts of Interest and Fiduciary Responsibilities.

The control of our manager may be transferred to a third party without shareholder consent.

Our manager may transfer its manager interest to a third party in a merger or consolidation or in a transfer of all or substantially all of its assets without the consent of our shareholders. Furthermore, at any time, the partners of our manager may sell or transfer all or part of their partnership interests in our manager without the approval of the shareholders, subject to certain restrictions as described elsewhere in this prospectus. A new manager may not be willing or able to form new funds and could form funds that have investment objectives and governing terms that differ materially from those of our current funds. A new owner could also have a different investment philosophy, employ investment professionals who are less experienced, be unsuccessful in identifying investment opportunities or have a track record that is not as successful as Apollo s track record. If any of the foregoing were to occur, we could experience difficulty in making new investments, and the value of our existing investments, our businesses, our results of operations and our financial condition could materially suffer.

Our ability to pay regular dividends may be limited by our holding company structure. We are dependent on distributions from the Apollo Operating Group to pay dividends, taxes and other expenses.

As a holding company, our ability to pay dividends will be subject to the ability of our subsidiaries to provide cash to us. We intend to distribute quarterly dividends to our Class A shareholders. Accordingly, we expect to cause the Apollo Operating Group to make distributions to its unitholders (in other words, Holdings, which is 100% owned, directly and indirectly, by our managing partners and our contributing partners, and the two intermediate holding companies, which are 100% owned by us), pro rata in an amount sufficient to enable us to pay such dividends to our Class A shareholders; however, such distributions may not be made. In addition, our manager can reduce or eliminate our dividend at any time, in its discretion. The Apollo Operating Group intends to make periodic distributions to its unitholders in amounts sufficient to cover hypothetical income tax obligations attributable to allocations of taxable income resulting from their ownership interest in the various limited partnerships making up the Apollo Operating Group, subject to compliance with any financial covenants or other obligations. Tax distributions will be calculated assuming each shareholder was subject to the maximum (corporate or individual, whichever is higher) combined U.S. Federal, New York State and New York City tax rates, without regard to whether any shareholder was subject to income tax liability at those rates. If the Apollo Operating Group has insufficient funds, we may have to borrow additional funds or sell assets, which could materially adversely affect our liquidity and financial condition. Furthermore, by paying that cash distribution rather than investing that cash in our business, we might risk slowing the pace of our growth or not having a sufficient amount of cash to fund our operations, new investments or unanticipated capital expenditures, should the need arise. Because tax distributions to unitholders are made without regard to their particular tax situation, tax distributions to all unitholders, including our intermediate holding companies, were increased to reflect the disproportionate income allocation to our managing partners and contributing partners with respect to built-in gain assets at the time of the Offering Transactions.

There may be circumstances under which we are restricted from paying dividends under applicable law or regulation (for example, due to Delaware limited partnership or limited liability company act limitations on making distributions if liabilities of the entity after the distribution would exceed the value of the entity s assets). In addition, under the AMH credit facility, Apollo Management Holdings is restricted in its ability to make cash distributions to us and may be forced to use cash to collateralize the AMH credit facility, which would reduce the cash it has available to make distributions.

Tax consequences to our managing partners and contributing partners may give rise to conflicts of interests.

As a result of unrealized built-in gain attributable to the value of our assets held by the Apollo Operating Group entities at the time of the Offering Transactions, upon the sale, refinancing or disposition of the assets owned by the Apollo Operating Group entities, our managing partners and contributing partners will incur different and significantly greater tax liabilities as a result of the disproportionately greater allocations of items of taxable income and gain to the managing partners and contributing partners upon a realization event. As the managing partners and contributing partners will not receive a corresponding greater distribution of cash proceeds, they may, subject to applicable fiduciary or contractual duties, have different objectives regarding the appropriate pricing, timing and other material terms of any sale, refinancing, or disposition, or whether to sell such assets at all. Decisions made with respect to an acceleration or deferral of income or the sale or disposition of assets with unrealized built-in gains may also influence the timing and amount of payments that are received by an exchanging or selling founder or partner under the tax receivable agreement. All other factors being equal, earlier disposition of assets with unrealized built-in gains following such exchange will tend to accelerate such payments and increase the present value of the tax receivable agreement, and disposition of assets with unrealized built-in gains before an exchange will increase a managing partner s or contributing partner s tax liability without giving rise to any rights to receive payments under the tax receivable agreement. Decisions made regarding a change of control also could have a material influence on the timing and amount of payments received by our managing partners and contributing partners pursuant to the tax receivable agreement.

We will be required to pay Holdings for most of the actual tax benefits we realize as a result of the tax basis step-up we receive in connection with taxable exchanges by our units held in the Apollo Operating Group entities or our acquisitions of units from our managing partners and contributing partners.

On a quarterly basis, each managing partner and contributing partner will have the right to exchange the Apollo Operating Group units that he holds through his partnership interest in Holdings for our Class A shares in a taxable transaction. These taxable exchanges, as well as our acquisitions of units from our managing partners or contributing partners, may result in increases in the tax depreciation and amortization deductions from depreciable and amortizable assets, as well as an increase in the tax basis of other assets of the Apollo Operating Group that otherwise would not have been available. A portion of these increases in tax depreciation and amortization deductions, as well as the increase in the tax basis of such other assets, will reduce the amount of tax that APO Corp. would otherwise be required to pay in the future. The IRS may challenge all or part of these increased deductions and tax basis increases and a court could sustain such a challenge.

We have entered into a tax receivable agreement with Holdings that provides for the payment by APO Corp. to our managing partners and contributing partners of 85% of the amount of actual tax savings, if any, that APO Corp. realizes (or is deemed to realize in the case of an early termination payment by APO Corp. or a change of control, as discussed below) as a result of these increases in tax deductions and tax basis of the Apollo Operating Group. The payments that APO Corp. may make to our managing partners and contributing partners could be material in amount. In the event that other of our current or future subsidiaries become taxable as corporations and acquire Apollo Operating Group units in the future, or if we become taxable as a corporation for U.S. Federal income tax purposes, we expect, and have agreed that, each will become subject to a tax receivable agreement with substantially similar terms.

The IRS could challenge our claim to any increase in the tax basis of the assets owned by the Apollo Operating Group that results from the exchanges entered into by the managing partners or contributing partners. The IRS could also challenge any additional tax depreciation and amortization deductions or other tax benefits (including deductions for imputed interest expense associated with payments made under the tax receivable agreement) we claim as a result of, or in connection with, such increases in the tax basis of such assets. If the IRS were to successfully challenge a tax basis increase or tax benefits we previously claimed from a tax basis increase, Holdings would not be obligated under the tax receivable agreement to reimburse APO Corp. for any payments previously made to them (although any future payments would be adjusted to reflect the result of such

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challenge). As a result, in certain circumstances, payments could be made to our managing partners and contributing partners under the tax receivable agreement in excess of 85% of the actual aggregate cash tax savings of APO Corp. APO Corp. s ability to achieve benefits from any tax basis increase and the payments to be made under this agreement will depend upon a number of factors, including the timing and amount of its future income.

In addition, the tax receivable agreement provides that, upon a merger, asset sale or other form of business combination or certain other changes of control, APO Corp. s (or its successor s) obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control) would be based on certain assumptions, including that APO Corp. would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement. See Certain Relationships and Related Party Transactions Tax Receivable Agreement.

If we were deemed an investment company under the Investment Company Act, applicable restrictions could make it impractical for us to continue our businesses as contemplated and could have a material adverse effect on our businesses and the price of our Class A shares.

Generally, a person is an investment company if it is or holds itself out as being engaged primarily in the business of investing or trading in securities or owns investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We do not believe that we are an investment company under the Investment Company Act because the nature of our assets and the sources of our income exclude us from the definition of an investment company pursuant to Rule 3a-1 under the Investment Company Act, which excludes from the definition of investment company entities no more than 45% of value of whose total assets and no more than 45% of whose net income after taxes over a specified period is derived from specified securities. In addition, we believe we are not an investment company under Section 3(b)(1) of the Investment Company Act because we are primarily engaged in non-investment company businesses. We intend to conduct our operations so that we will not be deemed an investment company. However, it is possible that the composition of our assets or net income for purposes of Rule 3a-1 could change or our reliance on the Section 3(b)(1) exemption under the Investment Company Act could be challenged. If we were to be deemed an investment company, we would be taxed as a corporation and other restrictions imposed by the Investment Company Act, including limitations on our capital structure and our ability to transact with affiliates that apply to us, could make it impractical for us to continue our businesses as contemplated and would have a material adverse effect on our businesses and the price of our Class A shares.

Risks Related To This Offering

There may not be an active market for our Class A shares, which may cause our Class A shares to trade at a discount price and make it difficult to sell the Class A shares you purchase.

Although the initial purchasers have made a market in the Class A shares through the GSTrUE OTC market, prior to this offering there has been no public trading market for our Class A shares. It is possible that an active market will not develop, which would make it difficult for you to sell your Class A shares at an attractive price or at all. As no current holders of our Class A shares are obligated to sell any shares, volume of trading in our shares may be very limited.

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The market price and trading volume of our Class A shares may be volatile, which could result in rapid and substantial losses for our shareholders.

Even if an active trading market develops, the market price of our Class A shares may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our Class A shares may fluctuate and cause significant price variations to occur. If the market price of our Class A shares declines significantly, you may be unable to resell your Class A shares at or above your purchase price, if at all. The market price of our Class A shares may fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our Class A shares or result in fluctuations in the price or trading volume of our Class A shares include:

- variations in our quarterly operating results or dividends, which variations we expect will be substantial;
- our policy of taking a long-term perspective on making investment, operational and strategic decisions, which is expected to result in significant and unpredictable variations in our quarterly returns;
- failure to meet analysts earnings estimates;
- publication of research reports about us or the investment management industry or the failure of securities analysts to cover our Class A shares after this offering;
- additions or departures of our managing partners and other key management personnel;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- actions by shareholders;
- changes in market valuations of similar companies;
- speculation in the press or investment community;
- changes or proposed changes in laws or regulations or differing interpretations thereof affecting our businesses or enforcement of these laws and regulations, or announcements relating to these matters;
- a lack of liquidity in the trading of our Class A shares;
- adverse publicity about the asset management industry generally or individual scandals, specifically; and
- general market and economic conditions.

In addition, from time to time, management may also declare special quarterly distributions based on investment realizations. Volatility in the market price may be heightened at or around times of investment realizations as well as following such realization, as a result of speculation as to whether such a distribution may be declared.

An investment in Class A shares is not an investment in any of our funds, and the assets and revenues of our funds are not directly available to us.

This prospectus is solely an offer with respect to Class A shares, and is not an offer directly or indirectly of any securities of any of our funds. Class A shares are securities of Apollo Global Management, LLC only. While our historical consolidated and combined financial information includes financial information, including assets and revenues, of certain Apollo funds on a consolidated basis, and our future financial information will continue to consolidate certain of these funds, such assets and revenues are available to the fund and not to us except through management fees, incentive income, distributions and other proceeds arising from agreements with funds, as discussed in more detail in this prospectus.

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Our Class A share price may decline due to the large number of shares eligible for future sale and for exchange into Class A shares.

The market price of our Class A shares could decline as a result of sales of a large number of our Class A shares or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. At March 31, 2008, we had 97,324,541 Class A shares outstanding, not including approximately 28 million Class A shares or share units granted, subject to vesting, to certain employees and consultants under our equity incentive plan. The Class A shares reserved under our equity incentive plan will be increased on the first day of each fiscal year during the plan s term by the lesser of (x) the excess of (i) 15% of the number of outstanding Class A shares of the company and the number of outstanding Apollo Operating Group Units on the last day of the immediately preceding fiscal year over (ii) the number of shares reserved and available for issuance under our equity incentive plan as of such date or (y) such lesser amount by which the administrator may decide to increase the number of Class A shares. Following such increase, as of January 1, 2008, Class A shares remain available for future grant under our equity incentive plan. In addition, Holdings may at any time exchange its Apollo Operating Group units for up to 240,000,000 Class A shares on behalf of our managing partners and contributing partners. We may also elect to sell additional Class A shares in one or more future primary offerings.

Our managing partners and contributing partners, through their partnership interests in Holdings, own an aggregate of 71.1% of the Apollo Operating Group units. Subject to certain procedures and restrictions (including the vesting schedules applicable to our managing partners and contributing partners and any applicable transfer restrictions and lock-up agreements) each managing partner and contributing partner has the right, upon 60 days notice prior to a designated quarterly date, to exchange the Apollo Operating Group units for Class A shares. Holdings, our executive officers and directors, certain employees and consultants who received Class A shares in connection with the Offering Transactions and the Strategic Investors have agreed with the initial purchasers not to dispose of or hedge any of our Class A shares, subject to specified exceptions, through the date 180 days after the shelf effectiveness date, except with the prior written consent of the representatives of the initial purchasers. After the expiration of this 180-day lock-up period, these Class A shares will be eligible for resale from time to time, subject to certain contractual restrictions and Securities Act limitations. Under certain circumstances, the 180-day lock-up period may be extended.

After the expiration of their lock-up period, our managing partners and contributing partners (through Holdings) will have the ability to cause us to register the Class A shares they acquire upon exchange of their Apollo Operating Group units. Such rights will be exercisable beginning two years after the shelf effectiveness date.

The Strategic Investors will have the ability to cause us to register any of its non-voting Class A shares beginning two years after the shelf effectiveness date, and, generally, may only transfer its non-voting Class A shares prior to such time to its controlled affiliates. The CS Investor has received demand registration rights with respect to its Class A shares, exercisable beginning August 8, 2008.

We intend to file with the SEC a registration statement on Form S-8 covering the shares issuable under our equity incentive plan. Subject to vesting and contractual lock-up arrangements, upon effectiveness of the registration statement on Form S-8, such shares will be freely tradable.

Our managing partners beneficial ownership of interests in the Class B share that we have issued to BRH, the control exercised by our manager and anti-takeover provisions in our charter documents and Delaware law could delay or prevent a change in control.

Our managing partners, through their ownership of BRH, beneficially own the Class B share that we have issued to BRH. The managing partners interests in such Class B share represents 86.5% of the total combined voting power of our shares entitled to vote. As a result, they are able to exercise control over all matters requiring the approval of shareholders and are able to prevent a change in control of our company. In addition, our operating agreement provides that so long as the Apollo control condition is satisfied, our manager, which is owned and controlled by our managing partners, manages all of our operations and activities. The control of our manager will make it more difficult for a potential acquirer to assume control of us. Other provisions in our operating agreement may also make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our shareholders. For example, our operating agreement requires advance notice for proposals by shareholders and nominations, places limitations on convening shareholder meetings, and authorizes the issuance of preferred shares that could be issued by our board of directors to thwart a takeover attempt. In addition, certain provisions of Delaware law may delay or prevent a transaction that could cause a change in our control. The market price of our Class A shares could be adversely affected to the extent that our managing partners control over us, the control exercised by our manager as well as provisions of our operating agreement discourage potential takeover attempts that our shareholders may favor.

We are a Delaware limited liability company, and there are certain provisions in our operating agreement regarding exculpation and indemnification of our officers and directors that differ from the Delaware General Corporation Law (DGCL) in a manner that may be less protective of the interests of our Class A shareholders.

Our operating agreement provides that to the fullest extent permitted by applicable law our directors or officers will not be liable to us. However, under the DGCL, a director or officer would be liable to us for (i) breach of duty of loyalty to us or our shareholders, (ii) intentional misconduct or knowing violations of the law that are not done in good faith, (iii) improper redemption of shares or declaration of dividend, or (iv) a transaction from which the director derived an improper personal benefit. In addition, our operating agreement provides that we indemnify our directors and officers for acts or omissions to the fullest extent provided by law. However, under the DGCL, a corporation can only indemnify directors and officers for acts or omissions if the director or officer acted in good faith, in a manner he reasonably believed to be in the best interests of the corporation, and, in criminal action, if the officer or director had no reasonable cause to believe his conduct was unlawful. Accordingly, our operating agreement may be less protective of the interests of our Class A shareholders, when compared to the DGCL, insofar as it relates to the exculpation and indemnification of our officers and directors.

Risks Related to Taxation

You may be subject to U.S. Federal income tax on your share of our taxable income, regardless of whether you receive any cash dividends from us.

Under current law, so long as we are not required to register as an investment company under the Investment Company Act and 90% of our gross income for each taxable year constitutes qualifying income within the meaning of the Code on a continuing basis, we will be treated, for U.S. Federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. You will be subject to U.S. Federal, state, local and possibly, in some cases, foreign income taxation on your allocable share of our items of income, gain, loss, deduction and credit for each of our taxable years ending with or within your taxable year, regardless of whether or not you receive cash distributions from us. Accordingly, you may be required to make tax payments in connection with your ownership of Class A shares that significantly exceed your cash distributions in any specific year.

If we are treated as a corporation for U.S. Federal income tax purposes, the value of the Class A shares would be adversely affected.

The value of your investment will depend in part on our company being treated as a partnership for U.S. Federal income tax purposes, which requires that 90% or more of our gross income for every taxable year consist of qualifying income, as defined in Section 7704 of the Code, and that we are not required to register as an investment company under the Investment Company Act and related rules. Although we intend to manage our affairs so that our partnership will meet the 90% test described above in each taxable year, we may not meet these requirements or current law may change so as to cause, in either event, our partnership to be treated as a corporation for U.S. Federal income tax purposes. If we were treated as a corporation for U.S. Federal income tax purposes, (i) we would become subject to corporate income tax and (ii) distributions to shareholders would be taxable as dividends for U.S. tax purposes to the extent of our earnings and profits. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us. O Melveny & Myers LLP has provided an opinion to us based on factual statements and representations made by us, including statements and representations as to the manner in which we intend to manage our affairs and the composition of our income, that we will be treated as a partnership and not as a corporation for U.S. Federal income tax purposes. However, opinions of counsel are not binding upon the IRS or any court, and the IRS may challenge this conclusion and a court may sustain such a challenge.

The U.S. Federal income tax law that determines the tax consequences of an investment in Class A shares is under review and is potentially subject to adverse legislative, judicial or administrative change, possibly on a retroactive basis, including possible changes that would result in the treatment of our long-term capital gains as ordinary income, that would cause us to become taxable as a corporation and/or have other adverse effects.

The U.S. Congress, the IRS and the U.S. Treasury Department are currently examining the U.S. Federal income tax treatment of private equity funds, hedge funds and other kinds of investment partnerships. The present U.S. Federal income tax treatment of a holder of Class A shares and/or our own taxation as described under Material Tax Considerations Material U.S. Federal Tax Considerations may be adversely affected by any new legislation, new regulations or revised interpretations of existing tax law that arise as a result of such examinations. Most notably, on June 14, 2007, legislation was introduced in the Senate that would tax as corporations publicly traded partnerships that directly or indirectly derive income from investment advisor or asset management services and similar legislation was later introduced in the House of Representatives. In addition, on June 22, 2007, legislation was introduced in the House of Representatives that would cause allocations of income associated with carried interests to be taxed as ordinary income for the performance of services, which apparently would have the effect of treating publicly traded partnerships that derive substantial amounts of income from carried interests as corporations for U.S. Federal income tax purposes. On October 25, 2007, the House Ways and Means Committee Chairman, in connection with his tax reform proposal, introduced legislation that was substantially similar to the June 22, 2007 bill. On November 9, 2007, the House of Representatives passed legislation similar to the June 22, 2007 legislation. Under a transition rule contained in the November 9, 2007 legislation, the carried interest would not be treated as ordinary income for purposes of Section 7704 until December 31, 2009 and therefore would not preclude us from qualifying as a partnership for U.S. Federal income tax purposes until our taxable year beginning January 1, 2010. None of these legislative proposals affecting the tax treatment of our carried interests or of our ability to qualify as a partnership for U.S. Federal income tax purposes has yet been entered into law. Any such changes in tax law would cause us to be taxable as a corporation, thereby substantially increasing our tax liability and reducing the value of Class A shares. Furthermore, it is possible that the U.S. Federal income tax law could be changed so as to adversely affect the anticipated tax consequences for us and/or the holders of Class A shares as described under Material Tax Considerations Material U.S. Federal Tax Considerations, including possible changes that would adversely affect the taxation of tax-exempt and/or non-U.S. holders of Class A shares. It is unclear whether any such legislation would apply to us and/or the holders of Class A shares, and it is unclear whether any other such tax law changes will occur or, if they do, how they might affect us and/or the holders of Class A shares. In view of the potential significance of any such U.S. Federal income tax law changes and the fact that there are likely to be ongoing developments in this area, each prospective holder of Class A shares should consult its own tax advisor to determine the U.S. Federal income tax consequences to it of acquiring and holding Class A shares in light of such potential U.S. Federal income tax law changes.

Our structure involves complex provisions of U.S. Federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. Federal income tax treatment of holders of Class A shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. Federal income tax law for which no clear precedent or authority may be available. You should be aware that the U.S. Federal income tax rules are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships and entities taxed as partnerships. The present U.S. Federal income tax treatment of an investment in our Class A shares may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. Changes to the U.S. Federal income tax laws and interpretations thereof could make it more difficult or impossible to meet the qualifying income exception for us to be treated as a partnership for U.S. Federal income tax purposes that is not taxable as a corporation, affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us, change the character or treatment of portions of our income (including, for instance, the treatment of carried interest as ordinary income rather than capital gain) or otherwise adversely affect an investment in our Class A shares. See Material Tax Considerations Material U.S. Federal Tax Considerations Administrative Matters Possible New Legislation or Administrative or Judicial Action.

Our operating agreement permits our manager to modify our operating agreement from time to time, without the consent of the holders of Class A shares, to address certain changes in U.S. Federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all holders of Class A shares. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders of Class A shares in a manner that reflects such beneficial ownership of items by holders of Class A shares, taking into account variation in ownership interests during each taxable year because of trading activity. However, those assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated or disallowed in a manner that adversely affects holders of Class A shares.

The interest in certain of our businesses will be held through entities that will be treated as corporations for U.S. Federal income tax purposes; such corporations may be liable for significant taxes and may create other adverse tax consequences, which could potentially adversely affect the value of your investment.

In light of the publicly traded partnership rules under U.S. Federal income tax law and other requirements, the partnership will hold its interest in certain of our businesses through entities that will be treated as corporations for U.S. Federal income tax purposes. Each such corporation could be liable for significant U.S. Federal income taxes and applicable state, local and other taxes that would not otherwise be incurred, which could adversely affect the value of your investment. Furthermore, it is possible that the IRS could challenge the manner in which such corporation s taxable income is computed by us.

We may hold or acquire certain investments through an entity classified as a PFIC or CFC for U.S. Federal income tax purposes.

Certain of our investments may be in foreign corporations or may be acquired through a foreign subsidiary that would be classified as a corporation for U.S. Federal income tax purposes. Such an entity may be a passive foreign investment company (a PFIC) or a controlled foreign corporation (a CFC) for U.S. Federal income tax purposes. Class A shareholders indirectly owning an interest in a PFIC or a CFC may experience adverse U.S. tax consequences. See Material Tax Considerations Material U.S. Federal Tax Considerations Passive Foreign Investment Companies and Controlled Foreign Corporations.

Complying with certain tax-related requirements may cause us to forego otherwise attractive business or investment opportunities or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.

In order for us to be treated as a partnership for U.S. Federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation, we must meet the qualifying income exception discussed above on a continuing basis and we must not be required to register as an investment company under the Investment Company Act. In order to effect such treatment we (or our subsidiaries) may be required to invest through foreign or domestic corporations, forego attractive business or investment opportunities or enter into borrowings or financings we may not have otherwise entered into. This may cause us to incur additional tax liability and/or adversely affect our ability to operate solely to maximize our cash flow. Our structure also may impede our ability to engage in certain corporate acquisitive transactions because we generally intend to hold all of our assets through the Apollo Operating Group. In addition, we may be unable to participate in certain corporate reorganization transactions that would be tax free to our holders if we were a corporation. To the extent we hold assets other than through the Apollo Operating Group, we will make appropriate adjustments to the Apollo Operating Group agreements so that distributions to Holdings and us would be the same as if such assets were held at that level. Moreover, we are precluded by a contract with one of the Strategic Investors from acquiring assets in a manner that would cause that Strategic Investor to be engaged in a commercial activity within the meaning of Section 892 of the Code.

Non-U.S. persons face unique U.S. tax issues from owning our shares that may result in adverse tax consequences to them.

We believe that we will not be treated as engaged in a trade or business for U.S. Federal income tax purposes and, therefore, non-U.S. holders of Class A shares will generally not be subject to U.S. Federal income tax on interest, dividends and gains derived from non-U.S. sources. It is possible, however, that the IRS could disagree or that the tax laws and regulations could change and we could be deemed to be engaged in a U.S. trade or business, which would have a material adverse effect on non-U.S. holders. If we have income that is treated as effectively connected to a U.S. trade or business, non-U.S. holders would be required to file a U.S. Federal income tax return to report that income and would be subject to U.S. Federal income tax at the regular graduated rates. Holders likely will be required to file state and local income tax returns and pay state and local income taxes in some or all jurisdictions where we operate. It is the responsibility of each holder to file all U.S. Federal, state and local tax returns that may be required of such holder. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in Class A shares.

An investment in Class A shares will give rise to UBTI to certain tax-exempt holders.

We will not make investments through taxable U.S. corporations solely for the purpose of limiting unrelated business taxable income, or UBTI, from debt-financed property and, thus, an investment in Class A shares will give rise to UBTI to tax-exempt holders of Class A shares. APO Asset Co., LLC may borrow funds from APO Corp. or third parties from time to time to make investments. These investments will give rise to UBTI from debt-financed property. Moreover, if the IRS successfully asserts that we are engaged in a trade or business, then additional amounts of income could be treated as UBTI.

We do not intend to make, or cause to be made, an election under Section 754 of the Internal Revenue Code to adjust our asset basis or the asset basis of certain of the Group Partnerships. Thus, a holder of Class A shares could be allocated more taxable income in respect of those Class A shares prior to disposition than if such an election were made.

We currently do not intend to make, or cause to be made, an election to adjust asset basis under Section 754 of the Internal Revenue Code with respect to us Apollo Principal Holdings I, L.P., and Apollo Principal Holdings III, L.P. If no such election is made, there will generally be no adjustment for a transferee of Class A shares even if the purchase price of those Class A shares is higher than the Class A shares share of the aggregate tax basis of our assets immediately prior to the transfer. In that case, on a sale of an asset, gain allocable to a transferee could include built-in gain allocable to the transferee at the time of the transfer, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made. See Material Tax Considerations Material U.S. Federal Tax Considerations Administrative Matters Tax Elections.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere in this prospectus may contain forward-looking statements that reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as outlook, believes, expects, potential, continues, may, should, seeks, approximately, predicts, intends, plans or the negative version of those words or other comparable words. Any forward-looking statements contained in this prospectus are based upon our historical performance and our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these statements. These factors should not be construed as exhaustive and should be read in conjunction with the risk factors and other cautionary statements that are included in this prospectus. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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MARKET AND INDUSTRY DATA AND FORECASTS

This prospectus includes market and industry data and forecasts from independent consultant reports, publicly available information, various industry publications, other published industry sources and our internal data, estimates and forecasts. Independent consultant reports, industry publications and other published industry sources generally indicate that the information contained therein was obtained from sources believed to be reliable.

Our internal data, estimates and forecasts are based upon information obtained from our investors, partners, trade and business organizations and other contacts in the markets in which we operate and our management s understanding of industry conditions. Although we believe that such information is reliable, we have not had such information verified by any independent sources.

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OUR STRUCTURE

Apollo Global Management, LLC was formed as a Delaware limited liability company for the purposes of completing the Reorganization, the Strategic Investors Transaction and the Offering Transactions and conducting our businesses as a publicly held entity. Apollo Global Management, LLC is a holding company whose primary assets are 28.9% of the limited partner interests of the Apollo Operating Group entities, in each case held through intermediate holding companies. The remaining 71.1% limited partner interests of the Apollo Operating Group entities are owned directly by Holdings, an entity 100% owned, directly and indirectly, by our managing partners and contributing partners, and represent its economic interest in the Apollo Operating Group. With limited exceptions, the Apollo Operating Group owns each of the operating entities included in our historical consolidated and combined financial statements as described below under Reorganization Our Assets.

Apollo Global Management, LLC is owned by its Class A and Class B shareholders. Holders of our Class A shares and Class B share vote as a single class on all matters presented to the shareholders, although the Strategic Investors do not have voting rights in respect of any of their Class A shares. We have issued to BRH a single Class B share solely for purposes of granting voting power to BRH. BRH is the general partner of Holdings and is a Cayman Islands exempted company owned and controlled by our managing partners. The Class B share does not represent an economic interest in Apollo Global Management, LLC. The voting power of the Class B share will, however, increase or decrease with corresponding changes in Holdings economic interest in the Apollo Operating Group.

Our shareholders vote together as a single class on the limited set of matters on which shareholders have a vote. Such matters include a proposed sale of all or substantially all of our assets, certain mergers and consolidations, certain amendments to our operating agreement and an election by our manager to dissolve the company.

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The diagram below depicts our current organizational structure.

(1) Investors in the Offering Transactions hold 38.4% of the Class A shares, and the Strategic Investors hold 61.6% of the Class A shares. The Class A shares held by investors in the Offering Transactions represent 13.5% of the total voting power of our shares entitled to vote and 11.1% of the economic interests in the Apollo Operating Group. Class A shares held by the Strategic Investors do not have voting rights and represent 17.8% of the economic interests in the Apollo Operating Group. Such Class A shares will become entitled to vote upon transfers by a Strategic Investor in accordance with the agreements entered into in connection with the Strategic Investors Transaction.

(2) Our managing partners own BRH, which in turn holds our only outstanding Class B share. The Class B share represents 86.5% of the total voting power of our shares entitled to vote but no economic interest in Apollo Global Management, LLC. Our managing partners economic interests are instead represented by their indirect ownership, through Holdings, of 71.1% of the limited partnership interests in the Apollo Operating Group.

(3) Through BRH Holdings, L.P., our managing partners own limited partnership interests in Holdings.

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(4) Represents 71.1% of the limited partner interests in each Apollo Operating Group entity. The Apollo Operating Group units held by Holdings are exchangeable for Class A shares, as described below under Reorganization Equity Interests Retained by Our Managing Partners and Contributing Partners.
(5) BRH is the sole member of AGM Management, LLC, our manager. The management of Apollo Global Management, LLC is vested in our manager as provided in our operating agreement. See Description of Shares Operating Agreement for a description of the authority that our manager exercises.
(6) Represents 28.9% of the limited partnership interests in each Apollo Operating Group entity, held through intermediate holding companies. Apollo Global Management, LLC also indirectly owns 100% of the general partnership interests in each Apollo Operating Group entity.

Reorganization

Holding Company Structure

Apollo Global Management, LLC, through two intermediate holding companies (APO Corp. and APO Asset Co., LLC) owns 28.9% of the economic interests of, and operate and controls all of the businesses and affairs of, the Apollo Operating Group and its subsidiaries. Holdings owns the remaining 71.1% of the economic interests in the Apollo Operating Group. Apollo Global Management, LLC consolidates the financial results of the Apollo Operating Group and its consolidated subsidiaries. Holdings ownership interest in the Apollo Operating Group is reflected as a minority interest in Apollo Global Management, LLC s consolidated financial statements.

The Apollo Operating Group consists of the following partnerships: Apollo Principal Holdings I, L.P. (a Delaware limited partnership that is a partnership for U.S. Federal income tax purposes), Apollo Principal Holdings II, L.P. (a Delaware limited partnership that is a partnership for U.S. Federal income tax purposes), Apollo Principal Holdings III, L.P. (a Cayman Islands exempted limited partnership that is a partnership for U.S. Federal income tax purposes), Apollo Principal Holdings IV, L.P. (a Cayman Islands exempted limited partnership that is a partnership for U.S. Federal income tax purposes), and AMH (a Delaware limited partnership that is a partnership for U.S. Federal income tax purposes). Apollo Global Management, LLC conducts all of its material business activities through the Apollo Operating Group. Substantially all of our expenses, including substantially all expenses solely incurred by or attributable to Apollo Global Management, LLC are borne by the Apollo Operating Group; provided that obligations incurred under the tax receivable agreement by Apollo Global Management, LLC or its wholly owned subsidiaries (which currently consist of our two intermediate holding companies, APO Corp. and APO Asset Co., LLC), income tax expenses of Apollo Global Management, LLC and its wholly owned subsidiaries and indebtedness incurred by Apollo Global Management, LLC and its wholly owned subsidiaries are borne solely by Apollo Global Management, LLC and its wholly owned subsidiaries.

Each of the Apollo Operating Group partnerships holds interests in different businesses or entities organized in different jurisdictions. Apollo Principal Holdings I, L.P. holds our domestic general partners of private equity funds and our private equity domestic co-invest vehicle; Apollo Principal Holdings II, L.P. holds our domestic general partners of capital markets funds and two capital markets domestic co-invest vehicles; Apollo Principal Holdings III, L.P. holds our foreign general partners of private equity funds, including the foreign general partner of AAA Investments, and our private equity foreign co-invest vehicle; Apollo Principal Holdings IV, L.P. holds our foreign general partners of capital markets funds and one capital markets foreign co-invest vehicle; and Apollo Management Holdings, L.P. holds the management companies for our private equity funds (including AAA) and our capital markets funds.

We intend to cause the Apollo Operating Group to make distributions to its partners, including Apollo Global Management, LLC s wholly-owned subsidiaries, in order to fund any distributions Apollo Global Management, LLC may declare on its Class A shares. If the Apollo Operating Group makes such distributions, the limited partners of the Apollo Operating Group will be entitled to receive distributions pro rata based on their partnership interests in the Apollo Operating Group.

The partnership agreements of the Apollo Operating Group partnerships provide for cash distributions, which we refer to as tax distributions, to the partners of such partnerships if the wholly-owned subsidiaries of

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Apollo Global Management, LLC that wholly-own the general partners of the Apollo Operating Group partnerships determine that the taxable income of the relevant partnership will give rise to taxable income for its partners. Generally, these tax distributions will be computed based on our estimate of the net taxable income of the relevant partnership allocable to a partner multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. Federal, state and local income tax rate prescribed for an individual or corporate resident in New York, New York (taking into account the nondeductibility of certain expenses and the character of our income). The Apollo Operating Group partnerships will make tax distributions only to the extent distributions from such partnerships for the relevant year are otherwise insufficient to cover such tax liabilities.

Our Manager

Our operating agreement provides that so long as the Apollo Group (as defined below) beneficially owns at least 10% of the aggregate number of votes that may be cast by holders of outstanding voting shares, our manager, which is 100% owned by BRH, will conduct, direct and manage all activities of Apollo Global Management, LLC. We refer to the Apollo Group s beneficial ownership of at least 10% of such voting power as the Apollo control condition. So long as the Apollo control condition is satisfied, our manager will manage all of our operations and activities and will have discretion over significant corporate actions, such as the issuance of securities, payment of distributions, sales of assets, making certain amendments to our operating agreement and other matters, and our board of directors will have no authority other than that which our manager chooses to delegate to it. See Description of Shares.

For purposes of our operating agreement, the Apollo Group means (i) our manager and its affiliates, including their respective general partners, members and limited partners, (ii) Holdings and its affiliates, including their respective general partners, members and limited partners, (iii) with respect to each managing partner, such managing partner and such managing partner s group (as defined in Section 13(d) of the Exchange Act), (iv) any former or current investment professional of or other employee of an Apollo employer (as defined below) or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group), (v) any former or current executive officer of an Apollo employer or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group); and (vi) any former or current director of an Apollo employer or the Apollo Operating Group (or such other entity controlled by a member of the Apollo Operating Group). With respect to any person, Apollo employer means Apollo Global Management, LLC or such other entity controlled by Apollo Global Management, LLC or its successor as may be such person s employer.

Holders of our Class A shares and Class B share have no right to elect our manager, which is controlled by our managing partners through BRH. Although our manager has no business activities other than the management of our businesses, conflicts of interest may arise in the future between us and our Class A shareholders, on the one hand, and our managing partners, on the other. The resolution of these conflicts may not always be in our best interests or those of our Class A shareholders. We describe the potential conflicts of interest in greater detail under Risk Factors Risks Related to Our Organization and Structure Potential conflicts of interest may arise among our manager, on the one hand, and us and our shareholders on the other hand. Our manager and its affiliates have limited fiduciary duties to us and our shareholders, which may permit them to favor their own interests to the detriment of us and our shareholders. We will reimburse our manager and its affiliates for all costs incurred in managing and operating us, and our operating agreement provides that our manager will determine the expenses that are allocable to us. Our operating agreement does not limit the amount of expenses for which we will reimburse our manager and its affiliates.

Our Assets

Prior to the Offering Transactions, our managing partners contributed to the Apollo Operating Group their interests in each of the entities included in our historical consolidated and combined financial statements, but excluding the excluded assets described below under Excluded Assets.

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More specifically, prior to the Offering Transactions, our managing partners contributed to the Apollo Operating Group the intellectual property rights associated with the Apollo name and the indicated equity interests in the following businesses (other than the excluded assets), which we refer to collectively as the Contributed Businesses :

- 100% of the investment advisors of all of Apollo s funds, which provide investment management services to, and are entitled to any management fees and incentive income payable in respect of, these funds, as well as transaction, advisory and other fees that may be payable by these funds portfolio companies, other than the percentage of fees that has been allocated or that we determine to allocate to our professionals, as described below.

- With respect to Fund IV, Fund V, Fund VI and AAA, which constitute all of our private equity funds that are either actively investing or have a meaningful amount of unrealized investments:

  - 100% of the entire non-economic general partner interests in the general partners of such funds, which non-economic interests give the Apollo Operating Group control of these funds;

  - 100% of the economic interests in the managing general partner of AAA; and

  - 46% to 57% (depending on the particular fund investment) of all limited partner interests in the general partners of such funds, representing 46% to 57% of the carried interest earned in relation to investments by such funds; this includes all of the carried interest in these funds that had been allocated to our managing partners, with the remainder of such carried interest continuing to be held by certain of our professionals.

- With respect to a number of our capital markets funds (the Value Funds, AAOF, SOMA and EPF):

  - 100% of the entire non-economic general partner interests in the general partners of these funds, which non-economic interests give the Apollo Operating Group control of these funds; and

  - 54% to 100% (depending on the particular fund investment) of all limited partner interests in the general partners of these funds, representing 54% to 100% of the incentive income earned in relation to investments by these funds; this includes all of the incentive income in these funds that had been allocated to our managing partners, with the remainder of such incentive income continuing to be held by certain of our professionals.

In addition, prior to the Offering Transactions, our contributing partners contributed to the Apollo Operating Group a portion of their points. We refer to such contributed points as partner contributed interests. In return for a contribution of points, each contributing partner received an interest in Holdings. Each contributing partner continues to own directly those points that such partner did not contribute to the Apollo Operating Group or sell to the Apollo Operating Group in connection with the Strategic Investors Transaction. Each contributing partner remained entitled (on an individual basis and not through ownership interests in Holdings) to receive payments in respect of his partner contributed interests with respect to fiscal year 2007 based on the date his partner contributed interests were contributed or sold as described below under Distributions to Our Managing Partners and Contributing Partners Related to the Reorganization. The Strategic Investors are similarly entitled to receive a pro rata portion of our net income prior to the date of the Offering Transactions for our fiscal year 2007, calculated in the same manner as for the managing partners and contributing partners, as described in more detail under Strategic Investors Transaction. In addition, we issued points in Fund VII, and intend to issue points in future funds, to our contributing partners and other of our professionals.

As a result of these contributions and the contributions of our managing partners, the Apollo Operating Group and its subsidiaries generally is entitled to:

all management fees payable in respect of all our current and future funds as well as transaction and other fees that may be payable by these funds portfolio companies (other than fees that certain of our professionals have a right to receive, as described below);

50% 66% (depending on the particular fund investment) of all incentive income earned from the date of contribution in relation to investments by both our current private equity and capital markets funds (with the remainder of such incentive income continuing to be held by certain of our professionals);

all incentive income earned from the date of contribution in relation to investments made by our future private equity and capital markets funds, other than the percentage we determine to allocate to our professionals, as described below; and

all returns on current or future investments of our own capital in the funds we sponsor and manage.

With respect to our actively investing funds as well as any future funds, we intend to continue to allocate a portion of the management fees, transaction and advisory fees and incentive income earned in relation to these funds to our professionals, including the contributing partners, in order to better align their interests with our own and with those of the investors in these funds. Our current estimate is that approximately 20% to 40% of management fees, 20% of transaction and advisory fees and 34% to 50% of incentive income earned in relation to our funds will be allocated to our investment professionals, although these percentages may fluctuate up or down over time. For the next five years, our managing partners will not receive any allocations of management fees, transaction and advisory fees or incentive income, and all of their rights to receive such fees and incentive income earned in relation to our actively investing funds and future funds will be solely through their ownership of Apollo Operating Group units.

The income of the Apollo Operating Group (including management fees, transaction and advisory fees, and incentive income) benefits Apollo Global Management, LLC to the extent of its equity interest in the Apollo Operating Group. See Business Fees, Carried Interest, Redemption and Termination.

Excluded Assets

Excluded assets comprise any direct or indirect interest in the following, whether existing now or in the future:

any personal investment or co-investment in any fund or co-investment vehicle by any managing partner or a related group member, as defined below (including any future personal investments or co-investments and investments funded through any Apollo management fee waiver program, which allows each of our managing partners to waive the right to receive any future distribution that he would otherwise be entitled to receive on a periodic basis from AMH in respect of management fees from certain private equity funds in exchange for a profits interest in the applicable Apollo fund, which satisfies his obligation to make a capital contribution to such fund in the amount of the waived management fee), although no managing partner may waive compensation that would not otherwise be paid to the managing partner, directly or indirectly, from the members of the Apollo Operating Group;

amounts owed, directly or indirectly, to any managing partner or a related group member by an Apollo fund pursuant to any fee deferral arrangement in an investment management agreement;

any direct or indirect amounts owed to any managing partner or a related group member pursuant to any escrow of Fund VI carried interest payments (escrowed carry) to secure the clawback obligation of the general partner of Fund VI pursuant to its organizational documents;

Apollo Real Estate or Ares, which are funds formerly managed by us but in which neither we nor our managing partners continue to exert any managerial control although our managing partners continue to have minority interests in such entities, including their general partners and management companies;

the general partners of Funds I, II and III;

compensation and benefits paid or given to a managing partner consistent with the terms of his employment agreement;

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director options issued prior to January 1, 2007 by any portfolio company;

Hamlet Holdings, LLC, an entity partially owned by our managing partners (without any economics, which have been contributed) that has 100% voting control over the investment of Fund VI in Harrah s Entertainment, Inc. and that will remain exclusively in the personal control of the managing partners; and

other miscellaneous, non-core assets.

The excluded assets were not contributed to the Apollo Operating Group; however, due to the existence of a common control group, Funds I, II and III and the general partner are consolidated in our historical financial statements for the periods prior to July 13, 2007.

With respect to our contributing partners, excluded assets includes all points not contributed to the Apollo Operating Group or purchased in connection with the Strategic Investors Transaction, any personal investment or co-investment in any fund or co-investment vehicle by any contributing partner, the right to receive escrowed carry and all other assets not specifically described in this prospectus as being contributed to the Apollo Operating Group.

Related group member means, with respect to each of our managing partners, (i) such managing partner s spouse, (ii) a lineal descendant of such managing partner s parents, the spouse of any such descendant or a lineal descendent of any such spouse, (iii) a charitable institution controlled by such managing partner or one of his related group members, (iv) a trustee of a trust (whether inter vivos or testamentary), all of the current beneficiaries and presumptive remaindermen of which are one or more of such managing partners and persons described in clauses (i) through (iii) of this definition, (v) a corporation, limited liability company or partnership, of which all of the outstanding shares of capital stock or interests therein are owned by one or more of such managing partners and persons described in clauses (i) through (iv) of this definition, (vi) an individual mandated under a qualified domestic relations order, or (vii) a legal or personal representative of such managing partner in the event of his death or disability; for purposes of this definition, (x) lineal descendants shall not include individuals adopted after attaining the age of 18 years and such adopted person s descendants, (y) presumptive remaindermen shall refer to those persons entitled to a share of a trust s assets if it were then to terminate, and (z) no managing partner shall ever be deemed a related group member of another managing partner.

Equity Interests Retained by Our Managing Partners and Contributing Partners

Our managing partners, through their partnership interests in Holdings, own 62.0% of the Apollo Operating Group units and, through their ownership of BRH, the Class B share that we have issued to BRH. The Agreement Among Managing Partners provides that each managing partner s interest in the Apollo Operating Group units that he holds indirectly through his partnership interest in Holdings is subject to vesting. Each of Messrs. Harris and Rowan vests in his interest in the Apollo Operating Group units in 60 equal monthly installments, and Mr. Black vests in his interest in the Apollo Operating Group units and in 72 equal monthly installments. Although the Agreement Among Managing Partners was entered into on July 13, 2007, for purposes of its vesting provisions, our managing partners are credited for their employment with us since January 1, 2007. In the event that a managing partner terminates his employment with us for any reason, he will be required to forfeit the unvested portion of his Apollo Operating Group units to the other managing partners. The number of Apollo Operating Group units that must be forfeited upon termination depends on the cause of the termination. See Certain Relationships and Related Party Transactions Agreement Among Managing Partners. However, this agreement may be amended and the terms and conditions of the agreement may be changed or modified upon the unanimous approval of the managing partners. We, our shareholders (other than our Strategic Investors, as set forth under Certain Relationships and Related Party Transactions Lenders Rights Agreement Amendments to Managing Partner Transfer Restrictions) and the Apollo Operating Group have no ability to enforce any provision of this agreement or to prevent the managing partners from amending the agreement or waiving any of its obligations.

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Pursuant to the Managing Partner Shareholders Agreement, no managing partner may voluntarily effect transfers of his Equity Interests for a period of two years after the shelf effectiveness date, subject to certain exceptions, including an exception for certain transactions entered into by one or more managing partners the results of which are that the managing partners no longer exercise control over us or the Apollo Operating Group or no longer hold at least 50.1% of the economic interests in us or the Apollo Operating Group. The transfer restrictions applicable to Equity Interests held by our managing partners and the exceptions to such transfer restrictions are described in more detail under Certain Relationships and Related Party Transactions Managing Partner Shareholders Agreement Transfer Restrictions. Our managing partners and contributing partners also were granted demand, piggyback and shelf registration rights through Holdings which are exercisable six months after the shelf effectiveness date.

Our contributing partners, through their interests in Holdings, own 9.1% of the Apollo Operating Group units. Pursuant to the Roll-Up Agreements, no contributing partner may voluntarily effect transfers of his Equity Interests for a period of two years after the shelf effectiveness date. The transfer restrictions applicable to Equity Interests held by our contributing partners are described in more detail under Certain Relationships and Related Party Transactions Roll-Up Agreements.

Subject to certain procedures and restrictions (including the vesting schedules applicable to our managing partners and any applicable transfer restrictions and lock-up agreements), upon 60 days notice prior to a designated quarterly date, each managing partner and contributing partner will have the right to cause Holdings to exchange the Apollo Operating Group units that he owns through his partnership interest in Holdings for Class A shares, to sell such Class A shares at the prevailing market price (or at a lower price that such managing partner or contributing partner is willing to accept) and to distribute the net proceeds of such sale to such managing partner or contributing partner. We have reserved for issuance 240,000,000 Class A shares, corresponding to the number of existing Apollo Operating Group units held by our managing partners and contributing partners. To effect an exchange, a managing partner or contributing partner, through Holdings, must simultaneously exchange one Apollo Operating Group unit, being an equal limited partner interest in each Apollo Operating Group entity, for each Class A share received. As a managing partner or contributing partner exchanges his Apollo Operating Group units, our interest in the Apollo Operating Group units will be correspondingly increased and the voting power of the Class B share will be correspondingly decreased.

Deconsolidation of Apollo Funds

Certain of our private equity funds and capital markets funds have historically been consolidated into our financial statements, due to our controlling interest in certain funds notwithstanding that we have only a minority equity interest in these funds. Consequently, our pre-Reorganization financial statements do not reflect our ownership interest at fair value in these funds, but rather reflect on a gross basis the assets, liabilities, revenues, expenses and cash flows of our funds. We amended the governing documents of certain of our funds to provide that a simple majority of the fund s unaffiliated investors have the right to liquidate that fund, which deconsolidated these funds that have historically been consolidated in our financial statements. Accordingly, we no longer reflect the share that other parties own in total assets and non-controlling interest. We continue to consolidate AAA. See Unaudited Condensed Consolidated Pro Forma Financial Information for a more detailed description of the effect of the deconsolidation of these funds on our financial statements. We believe that the deconsolidation of these funds by means of the amendments to governing documents described above, result in our financial statements reflecting our asset management businesses, including our management fee and incentive income revenues, in a manner that reflects more closely both how our management evaluates our businesses and the risks of our assets and liabilities. Accordingly, we believe that deconsolidating these funds will provide investors reviewing our financial statements an enhanced understanding of our businesses. We did not seek or receive any consideration from the investors in our funds for granting them these rights. There was no change in either our equity or net income as a result of the deconsolidation.

Distribution to Our Managing Partners

On April 20, 2007, AMH, one of the entities in the Apollo Operating Group, entered into the AMH credit facility, under which AMH borrowed a $1.0 billion variable-rate term loan. We used these borrowings to make a $986.6 million distribution to our managing partners and to pay related fees and expenses. The AMH credit facility is guaranteed by Apollo Management, L.P.; Apollo Capital Management, L.P.; Apollo International Management, L.P.; Apollo Principal Holdings II, L.P.; Apollo Principal Holdings IV, L.P.; and AAA Holdings, L.P. and matures on April 20, 2014. It is secured by (i) a first priority lien on substantially all assets of AMH and the guarantors and (ii) a pledge of the equity interests of each of the guarantors, in each case subject to customary carveouts.

Distributions to Our Managing Partners and Contributing Partners Related to the Reorganization

We intend to make one or more distributions to our managing partners and contributing partners, representing all of the undistributed earnings generated by the businesses contributed to the Apollo Operating Group prior to July 13, 2007. For this purpose, income attributable to carried interest on private equity funds related to either carry-generating transactions that closed prior to July 13, 2007 or carry-generating transactions in respect of which a definitive agreement was executed, but that did not close, prior to July 13, 2007 shall be treated as having been earned prior to that date. We estimate that the aggregate amount of such distributions will be $387.0 million, which was included in our consolidated and combined statements of financial condition as of December 31, 2007.

Strategic Investors Transaction

On July 13, 2007, we sold securities to the Strategic Investors in return for a total investment of $1.2 billion. The Strategic Investors are two of the largest alternative asset investors in the world and have been significant investors with us in multiple funds, covering a variety of strategies. In total, from our inception through the date hereof, the Strategic Investors have invested or committed to invest approximately $6.4 billion of capital in us and our funds. The Strategic Investors are significant supporters of our integrated platform, having invested in multiple private equity and capital markets funds. With substantial combined assets, we believe the Strategic Investors will be an important source of future growth in the AUM in our existing and future funds for many years, as well as in new products and geographic expansions. Although they have no obligation to invest further in our funds, in connection with our sale of securities to the Strategic Investors, we granted to each of them the option, exercisable until July 13, 2010, to invest or commit to invest up to 10% of the aggregate dollar amount invested or committed by investors in the initial closing of any privately placed fund that we offer to third party investors, subject to limited exceptions.

Through our intermediate holding companies, we used all of the proceeds from the issuance of the securities to the Strategic Investors to purchase from our managing partners 17.4% of their Apollo Operating Group units for an aggregate purchase price of $1,067.9 million, and to purchase from our contributing partners a portion of their points for an aggregate purchase price of $156.4 million. Upon completion of the Offering Transactions, the securities sold to the Strategic Investors converted into non-voting Class A shares, which currently represents 61.6% of our issued and outstanding Class A shares and 17.8% of the economic interest in the Apollo Operating Group. Based on our agreement with the Strategic Investors, we will distribute to the Strategic Investors the greater of 7% on the convertible notes issued or a pro rata portion of our net income for our fiscal year 2007, based on (i) their proportionate interests in Apollo Operating Group units during the period after the Strategic Investors Transaction and prior to the date of the Offering Transactions, and (ii) the number of days elapsed during such period. For this purpose, income attributable to carried interest on private equity funds related to either carry-generating transactions that closed prior to the date of the Offering Transactions or carry-generating transactions in respect of which a definitive agreement was executed, but that did not close, prior to the date of the Offering Transactions shall be treated as having been earned prior to the date of the Offering Transactions. On August 8, 2007, we paid approximately $6 million in interest expense on the convertible notes and as a result of our net loss we have no further obligations for 2007 to pay the Strategic Investors.

In connection with the sale of securities to the Strategic Investors, we entered into the Lenders Rights Agreement with the Strategic Investors. For a more detailed summary of the Lenders Rights Agreement, see Certain Relationships and Related Party Transactions Lenders Rights Agreement.

Tax Considerations

We believe that under current law, Apollo Global Management, LLC will be treated as a partnership and not as a corporation for U.S. Federal income tax purposes. An entity that is treated as a partnership for U.S. Federal income tax purposes is not a taxable entity and incurs no U.S. Federal income tax liability. Instead, each partner is required to take into account its allocable share of items of income, gain, loss and deduction of the partnership in computing its own U.S. Federal income tax liability, regardless of whether or not cash distributions have been made. Investors in this offering will be deemed to be limited partners of Apollo Global Management, LLC for U.S. Federal income tax purposes. See Material Tax Considerations Material U.S. Federal Tax Considerations for a summary discussing certain U.S. Federal income tax considerations related to the purchase, ownership and disposition of our Class A shares as of the date of this offering.

Legislation was introduced in Congress in mid-2007 that would, if enacted in its present form, cause Apollo Global Management, LLC to become taxable as a corporation, which would substantially reduce our net income or increase our net loss, as applicable, or cause other significant adverse tax consequences for us and/or the holders of Class A shares. See Risk Factors Risks Related to Taxation The U.S. Federal income tax law that determines the tax consequences of an investment in Class A shares is under review and is potentially subject to adverse legislative, judicial or administrative change, possibly on a retroactive basis, including possible changes that would result in the treatment of our long-term capital gains as ordinary income, that would cause us to become taxable as a corporation and/or have other adverse effects and Risk Factors Risks Related to Our Organization and Structure Members of the U.S. Congress have introduced legislation that would, if enacted, preclude us from qualifying for treatment as a partnership for U.S. Federal income tax purposes under the publicly traded partnership rules. If this or any similar legislation or regulation were to be enacted and apply to us, we would incur a substantial increase in our tax liability and it could well result in a reduction in the value of our Class A shares and Material Tax Considerations Material U.S. Federal Tax Considerations Administrative Matters Possible New Legislation or Administrative or Judicial Action.

Offering Transactions

The CS Investor purchased from us in a private placement that closed on August 8, 2007, concurrently with the Rule 144A Offering an aggregate of $180 million of the Class A shares at a price per share equal to $24, or 7,500,000 Class A shares, representing 7.7% of the total number of our Class A shares outstanding.

Apollo Global Management, LLC contributed the net proceeds it received in the Offering Transactions to its wholly-owned subsidiaries, APO Asset Co., LLC and APO Corp. These wholly-owned subsidiaries then contributed the funds to the Apollo Operating Group.

Amounts contributed to the Apollo Operating Group concurrently with the Offering Transactions diluted (i) the percentage ownership interests of our managing partners (held indirectly through Holdings) in those entities by 7.7% to 62.0%, and (ii) the percentage ownership interests of our contributing partners (held indirectly through Holdings) in those entities by 1.1% to 9.1%. The relative percentage ownership interests in Apollo Operating Group held by the Apollo Global Management, LLC, our managing partners and our contributing partners will continue to change over time. Potential future events that would result in a relative increase in the number of Apollo Operating Group units held by Apollo Global Management, LLC, and result in a corresponding dilution of our managing partners and contributing partners percentage ownership interest in the Apollo Operating Group include (i) issuances of Class A shares (assuming that the proceeds of any such issuance is contributed to the Apollo Operating Group), (ii) the conversion by our managing partners or contributing partners of their Apollo Operating Group units for Class A shares and (iii) any offers, from time to time, at the discretion of our manager, to purchase from our managing partners and contributing partners their Apollo Operating Group units.

As a result of the Reorganization, the Strategic Investors Transaction and the Offering Transactions:

- Apollo Global Management, LLC, through its wholly-owned subsidiaries, holds 28.9% of the outstanding Apollo Operating Group units;

- our managing partners, through Holdings, hold 62.0% of the outstanding Apollo Operating Group units;

- our contributing partners, through Holdings, hold 9.1% of the outstanding Apollo Operating Group units;

- the Strategic Investors own 60,000,001 of our non-voting Class A shares representing 61.6% of our Class A shares outstanding, which represent 17.8% of the economic interests in the Apollo Operating Group units;

- the investors in the Rule 144A Offering and the CS Investor hold 37,324,540 Class A shares, representing 38.4% of our Class A shares outstanding, which represent 11.1% of the economic interests in the Apollo Operating Group units;

- our managing partners, through BRH, own the single Class B share of Apollo Global Management, LLC;

- on those few matters that may be submitted for a vote of the shareholders of Apollo Global Management, LLC, our Class A shareholders (other than the Strategic Investors) collectively have 13.5% of the voting power of, and our Class B shareholder have 86.5% of the voting power of, Apollo Global Management, LLC;

- APO Corp. or APO Asset Co., LLC, as applicable, is the sole general partner of each of the entities that constitute the Apollo Operating Group; accordingly, we operate and control the businesses of the Apollo Operating Group and its subsidiaries; and

- net profits, net losses and distributions of the Apollo Operating Group are allocated and made to its partners on a pro rata basis in accordance with their respective Apollo Operating Group units; accordingly, net profits and net losses allocable to Apollo Operating Group partners will initially be allocated, and distributions will initially be made, approximately 28.9% indirectly to us, approximately 62.0% indirectly to our managing partners and approximately 9.1% indirectly to our contributing partners.

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USE OF PROCEEDS

We are registering these Class A shares for resale pursuant to the registration rights granted to the selling shareholders in connection with the Rule 144A Offering. We will not receive any proceeds from the sale of the Class A shares offered by this prospectus. The net proceeds from the sale of the Class A shares by this prospectus will be received by the selling shareholders.

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CASH DIVIDEND POLICY

Dividend Policy for Class A Shares

Our intention is to distribute to our Class A shareholders on a quarterly basis substantially all of our net after-tax cash flow from operations in excess of amounts determined by our manager to be necessary or appropriate to provide for the conduct of our businesses, to make appropriate investments in our businesses and our funds, to comply with applicable law, to service our indebtedness or to provide for future distributions to our Class A shareholders for any one or more of the ensuing four quarters. We recently announced our first cash distribution amounting to $0.33 per Class A share, resulting from the first quarter 2008 quarterly distribution of $0.16 per Class A share plus a special distribution of $0.17 per Class A share primarily resulting from the realization of Goodman Global in February 2008. The distribution will be payable on April 18, 2008, to holders of record as of April 8, 2008. Because we will not know what our actual available cash flow from operations will be for any year until the end of such year, we expect that the fourth quarter dividend payment will be adjusted to take into account actual net after-tax cash flow from operations for that year. From time to time, management may also declare special quarterly distributions based on investment realizations.

The declaration, payment and determination of the amount of our quarterly dividend will be at the sole discretion of our manager. We cannot assure you that any dividends, whether quarterly or otherwise, will or can be paid. In making decisions regarding our quarterly dividend, our manager will take into account general economic and business conditions, our strategic plans and prospects, our businesses and investment opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, legal, tax and regulatory restrictions, restrictions and other implications on the payment of dividends by us to our common shareholders or by our subsidiaries to us and such other factors as our manager may deem relevant.

Because we are a holding company that owns intermediate holding companies, the funding of each dividend, if declared, will occur in three steps, as follows.

First, we will cause one or more entities in the Apollo Operating Group to make a distribution to all of its partners, including our wholly-owned subsidiaries APO Corp. and APO Asset Co., LLC (as applicable), and Holdings, on a pro rata basis;

Second, we will cause our intermediate holding companies, APO Corp. and APO Asset Co., LLC (as applicable), to distribute to us, from their net after-tax proceeds, amounts equal to the aggregate dividend we have declared; and

Third, we will distribute the proceeds received by us to our Class A shareholders on a pro rata basis.

If Apollo Operating Group units are issued to other parties, such as investment professionals, such parties would be entitled to a portion of the distributions from the Apollo Operating Group as partners described above.

We believe that the payment of dividends will provide transparency to our Class A shareholders and will impose upon us an investment discipline with respect to new products, businesses and strategies.

Payments that any of our intermediate holding companies make under the tax receivable agreement will reduce amounts that would otherwise be available for distribution by us on Class A shares.

The Apollo Operating Group intends to make periodic distributions to its partners (that is, Holdings and our intermediate holding companies) in amounts sufficient to cover hypothetical income tax obligations attributable to allocations of taxable income resulting from their ownership interest in the various limited partnerships making up the Apollo Operating Group, subject to compliance with any financial covenants or other obligations. Tax distributions will be calculated assuming each shareholder was subject to the maximum (corporate or individual, whichever is higher) combined U.S. Federal, New York State and New York City tax rates, without regard to whether any shareholder was subject to income tax liability at those rates. Because tax distributions to partners are made without regard to their particular tax situation, tax distributions to all partners, including our intermediate holding companies, will be increased to reflect the disproportionate income allocation to our managing partners and contributing partners with respect to built-in gain assets at the time of the Offering Transactions. Tax distributions will be made only to the extent all distributions from the Apollo Operating Group for such year are insufficient to cover such tax liabilities and all such distributions will be made to all partners on a pro rata basis based upon their respective interests in the applicable partnership.

Under Delaware law we are prohibited from making a distribution to the extent that our liabilities, after such distribution, exceed the fair value of our assets. Our operating agreement does not contain any restrictions on our ability to make distributions, except that we may only distribute Class A shares to holders of Class A shares. The AMH credit facility, however, restricts the ability of AMH to make cash distributions to us by requiring mandatory collateralization and restricting payments under certain circumstances. See Description of Indebtedness for a more detailed description of these restrictions. Instruments governing indebtedness that we or our subsidiaries incur in the future may contain further restrictions on our or our subsidiaries ability to pay dividends or make other cash distributions to equityholders.

In addition, the Apollo Operating Group s cash flow from operations may be insufficient to enable it to make required minimum tax distributions to its partners, in which case the Apollo Operating Group may have to borrow funds or sell assets, and thus our liquidity and financial condition could be materially adversely affected. Furthermore, by paying cash distributions rather than investing that cash in our businesses, we might risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations, new investments or unanticipated capital expenditures, should the need arise.

Our dividend policy has certain risks and limitations, particularly with respect to liquidity. Although we expect to pay dividends according to our dividend policy, we may not pay dividends according to our policy, or at all, if, among other things, we do not have the cash necessary to pay the intended dividends. To the extent we do not have cash on hand sufficient to pay dividends, we may have to borrow funds to pay dividends, or we may determine not to borrow funds to pay dividends. By paying cash dividends rather than investing that cash in our future growth, we risk slowing that pace of our growth, or not having a sufficient amount of cash to fund our operations or unanticipated capital expenditures, should the need arise.

Distributions to Our Managing Partners and Contributing Partners

We made a distribution to our managing partners in 2007 in respect of their Apollo Operating Group units totaling $986.6 million, which was paid out of the net proceeds of borrowings under the AMH credit facility. In addition, we used all of the proceeds received from the Strategic Investors Transaction to purchase Apollo Operating Group units from our managing partners and points from our contributing partners.

We intend to make one or more distributions to our managing partners and contributing partners, representing all of the undistributed earnings generated by the businesses contributed to the Apollo Operating Group prior to July 13, 2007. For this purpose, income attributable to carried interest on private equity funds related to either carry-generating transactions that closed prior to July 13, 2007 or carry-generating transactions in respect of which a definitive agreement was executed, but that did not close, prior to July 13, 2007 shall be treated as having been earned prior to that date. We estimate that the aggregate amount of such distributions will be approximately $387.0 million, which was included in our consolidated and combined statements of financial condition as of December 31, 2007.

Prior to the Apollo Operating Group Formation, 100% of the Apollo Operating Group was owned by our managing partners and contributing partners. Accordingly, all decisions regarding the amount and timing of distributions were made in prior periods by our managing partners with regard to their personal financial and tax situations and their assessments of appropriate amounts of distributions, taking into account Apollo s capital needs as well as actual and potential earnings and borrowings.

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CAPITALIZATION

The following table sets forth our capitalization and cash and cash equivalents as of December 31, 2007.

This table should be read in conjunction with Our Structure, Management s Discussion and Analysis of Financial Condition and Results of Operations, Unaudited Condensed Consolidated Pro Forma Financial Information and the financial statements and notes thereto included in this prospectus.

	As of December 31, 2007[(1)] (in thousands)	
Cash and cash equivalents	$	763,053
Total Debt	$	1,057,761
Non-Controlling Interest		2,312,286
Shareholders equity		96,043
Total Capitalization	$	3,466,090

The specific assets acquired by Caliber include, among other things, the leases relating to the Company's dedicated mortgage loan origination offices and rights to certain portions of the Company's unlocked pipeline of residential mortgage loan applications. Caliber has assumed certain obligations and liabilities of the Company under the acquired leases, and with respect to the employment of transferred employees. The Company received a $25.0 million cash premium payment, in addition to a cash payment for the net book value of certain assets acquired by Caliber, totaling $2.5 million, upon the closing of the transaction. Additionally, the Company is entitled to receive an earn-out, payable quarterly, based on performance over the 38 months following completion of the transaction. During the three and nine months ended September 30, 2018, the Company recognized an earn-out of $786 thousand and $2.2 million, respectively. During the three and nine months ended September 30, 2017, the Company recognized an earn-out of $228 thousand. Since the completion of the transaction, the Company has recognized a total earn-out of $3.3 million in Income from Discontinued Operations on the Consolidated Statements of Operations. Caliber retains an option to buy out the future earn-out payable to the Company for cash consideration of $35.0 million, less the aggregate amount of all earn-out payments made prior to the date on which Caliber pays the buyout amount.

Caliber also purchased MSRs of $37.8 million on approximately $3.86 billion in unpaid balances of conventional agency mortgage loans, subject to adjustment under certain circumstances. During the three and nine months ended September 30, 2018, the Company recorded $0 and $1.3 million, respectively, to net gain on disposal of discontinued operations included in Income from discontinued operations before income taxes in the Consolidated Statements of Operations. Net gain on disposal of discontinued operations recognized in the first half of 2018 was primarily the result of the release of $1.0 million in liability for estimated discretionary incentive compensation payments to certain employees transferred to Caliber as the amount paid was less than the accrued liability. To date, the entire transaction has resulted in a net gain on disposal of $15.1 million.

The following table summarizes the calculation of the net gain on disposal of discontinued operations:

($ in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Total Net Gain on Disposal After Completion

					of Sale
Proceeds from the transaction	$ —	$ (14)	$—	$63,054	$ 63,054
Compensation expense related to the transaction	—	—	1,003	(3,500)	(2,497)
Other transaction costs	—	225	272	(3,478)	(3,159)
Net cash proceeds	—	211	1,275	56,076	57,398
Book value of certain assets sold	—	—	—	(2,455)	(2,455)
Book value of MSRs sold	—	—	—	(37,772)	(37,772)
Goodwill	—	—	—	(2,100)	(2,100)
Net gain on disposal	$ —	$ 211	$1,275	$13,749	$ 15,071

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 values 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.

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The following tables present the financial information of discontinued operations as of the dates or for the periods indicated:

Statements of Financial Condition of Discontinued Operations

($ in thousands)	September 30, 2018	December 31, 2017
ASSETS		
Loans held-for-sale, carried at fair value (1) (2)	$ 20,290	$ 38,696
Other assets	—	204
Assets of discontinued operations	$ 20,290	$ 38,900
LIABILITIES		
Accrued expenses and other liabilities (1)	$ —	$ 7,819
Liabilities of discontinued operations	$ —	$ 7,819

(1) Includes $0 and $7.1 million of loans sold to Government National Mortgage Association (GNMA) that were delinquent more than 90 days and subject to a repurchase option by the Company at September 30, 2018 and December 31, 2017, respectively. As such, the Company was deemed to have regained control over those previously transferred assets and has re-recognized them with an offsetting liability in Accrued Expenses and Other Liabilities in the Statements of Financial Condition of Discontinued Operations, as a secured borrowing. Because the Company intends to exercise its option to repurchase and sell them within one year, they have been classified as part of discontinued operations.

(2) Includes $9.3 million and $24.1 million of non-performing loans at September 30, 2018 and December 31, 2017.

Statements of Operations of Discontinued Operations

($ in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Interest income				
Loans, including fees	$130	$917	$505	$6,979
Total interest income	130	917	505	6,979
Noninterest income				
Net gain on disposal	—	211	1,275	13,749
Loan servicing income	—	—	—	1,551
Net revenue from mortgage banking activities	108	13	396	43,083
All other income	786	238	2,200	990
Total noninterest income	894	462	3,871	59,373
Noninterest expense				
Salaries and employee benefits	5	416	20	38,384
Occupancy and equipment	—	359	—	3,754
Professional fees	—	270	—	2,462
Outside Service Fees	—	567	—	6,180
Data processing	—	141	—	668
Advertising	—	75	—	1,357
Restructuring expense	—	279	—	3,794
All other expenses	95	1,230	107	3,354
Total noninterest expense	100	3,337	127	59,953
Income (loss) from discontinued operations before income taxes	924	(1,958)	4,249	6,399
Income tax expense (benefit)	256	(799)	1,171	2,614
Income (loss) from discontinued operations	$668	$(1,159)	$3,078	$3,785

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Statements of Cash Flows of Discontinued Operations

($ in thousands)	Nine Months Ended September 30, 2018	2017
Net cash provided by operating activities	$13,869	$348,648
Net cash provided by investing activities	—	56,076
Net cash provided by discontinued operations	$13,869	$404,724

NOTE 3 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair Value Hierarchy

ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The topic describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities Measured on a Recurring Basis

Securities Available-for-Sale: The fair values of securities available-for-sale are generally determined by quoted market prices in active markets, if available (Level 1). If quoted market prices are not available, the Company primarily employs independent pricing services that utilize pricing models to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and respective terms and conditions for debt instruments. The Company employs procedures to monitor the pricing service's assumptions and establishes processes to challenge the pricing service's valuations that appear unusual or unexpected. Level 2 securities include U.S. Small Business Administration (SBA) loan pool securities, U.S. government agency and U.S. government sponsored enterprise (GSE) residential mortgage-backed securities, non-agency residential mortgage-backed securities, non-agency commercial mortgage-backed securities, collateralized loan obligations, and corporate debt securities. When a market is illiquid or there is a lack of transparency around the inputs to valuation, including at least one unobservable input, the securities are classified as Level 3 and reliance is placed upon internally developed models, and management judgment and evaluation for valuation. The Company had no securities available-for-sale classified as Level 3 at September 30, 2018 or December 31, 2017.

Loans Held-for-Sale, Carried at Fair Value: The fair value of loans held-for-sale is based on commitments outstanding from investors as well as what secondary market investors are currently offering for portfolios with similar characteristics, except for loans that are repurchased out of GNMA loan pools that become severely delinquent which are valued based on an internal model that estimates the expected loss the Company will incur on these loans. Loans previously sold to GNMA that are delinquent more than 90 days are subject to a repurchase option when that condition exists. These loans were re-recognized at fair value and offset by a secured borrowing, as the loans were still legally owned by GNMA but failed sale accounting treatment under GAAP due to the repurchase option. Loans held-for-sale subject to recurring fair value adjustments are classified as Level 2 or, in the case of loans repurchased, Level 3. The fair value includes the servicing value of the loans as well as any accrued interest. As of September 30, 2018, there were no loans that were delinquent more than 90 days and eligible to be repurchased out of GNMA loan pools. As of December 31, 2017, loans eligible to be repurchased out of GNMA loan pools of $66.0 million were classified as Level 3.

Derivative Assets and Liabilities: The Company offers interest rate swaps and caps products to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. The Company originates a variable rate loan and enters into a variable-to-fixed interest rate swap with the customer. The Company also enters into an offsetting swap with a correspondent bank. These back-to-back agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. The fair value of these derivatives is based on a discounted cash flow approach. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of interest rate swaps is classified as Level 2.

Mortgage Servicing Rights: The Company retains servicing on some of its mortgage loans sold and elected the fair value option for these MSRs. Generally, the value is estimated based on a valuation from a third party provider that calculates the present value of the expected net servicing income from the portfolio based on key factors that include interest rates, prepayment assumptions, discount rate and estimated cash flows. Because of the significance of unobservable inputs, these servicing rights are classified as Level 3. At September 30, 2018 and December 31, 2017, MSRs valued based on a third party provider's valuation were $2.0 million and $2.1 million, respectively. At September 30, 2018 and December 31, 2017, MSRs held-for-

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sale of $66 thousand and $29.8 million, respectively, were valued based on a market bid adjusted for value associated with early payoffs and paydowns and included as Level 3.

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis as of the dates indicated:

($ in thousands)	Carrying Value	Fair Value Measurement Level Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Assets				
Securities available-for-sale:				
SBA loan pools securities	$ 888	$ —	$ 888	$ —
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	439,468	—	439,468	—
Non-agency residential mortgage-backed securities	451	—	451	—
Non-agency commercial mortgage-backed securities	132,704	—	132,704	—
Collateralized loan obligations	1,486,321	—	1,486,321	—
Loans held-for-sale, carried at fair value (1)	28,314	—	2,558	25,756
Mortgage servicing rights (2)	2,029	—	—	2,029
Derivative assets:				
Interest rate swaps and caps (3)	2,099	—	2,099	—
Liabilities				
Derivative liabilities:				
Interest rate swaps and caps (4)	2,064	—	2,064	—
December 31, 2017				
Assets				
Securities available-for-sale:				
SBA loan pools securities	$ 1,058	$ —	$ 1,058	$ —
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	476,929	—	476,929	—
Non-agency residential mortgage-backed securities	756	—	756	—
Non-agency commercial mortgage-backed securities	310,511	—	310,511	—
Collateralized loan obligations	1,702,318	—	1,702,318	—
Corporate debt securities	83,897	—	83,897	—
Loans held-for-sale, carried at fair value (5)	105,299	—	6,359	98,940
Mortgage servicing rights (2)	31,852	—	—	31,852
Derivative assets:				
Interest rate swaps and caps (3)	1,005	—	1,005	—
Liabilities				
Derivative liabilities:				
Interest rate swaps and caps (4)	1,033	—	1,033	—

(1) Includes loans held-for-sale carried at fair value of $20.3 million ($2.6 million at Level 2 and $17.7 million at Level 3) of discontinued operations, which are included in Assets of Discontinued Operations in the Consolidated Statements of Financial Condition.
(2) Included in Servicing Rights, Net in the Consolidated Statements of Financial Condition.
(3) Included in Other Assets in the Consolidated Statements of Financial Condition.
(4) Included in Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.
(5) Includes loans held-for-sale carried at fair value of $38.7 million ($6.4 million at Level 2 and $32.3 million at Level 3) of discontinued operations, which are included in Assets of Discontinued Operations in the Consolidated Statements of Financial Condition.

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The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), on a consolidated operations basis, for the periods indicated:

($ in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Mortgage servicing rights				
Balance at beginning of period [1]	$2,062	$42,109	$31,852	$76,121
Total gains or losses (realized/unrealized):				
Included in earnings—fair value adjustment	33	(1,905)	(1,057)	(4,984)
Additions	—	574	—	12,126
Sales, paydowns, and other [2]	(66)	(2,063)	(28,766)	(44,548)
Balance at end of period	$2,029	$38,715	$2,029	$38,715
Loans repurchased or subject to repurchase option from GNMA Loan Pools [3]				
Balance at beginning of period	$33,234	$73,545	$98,940	$58,260
Total gains or losses (realized/unrealized):				
Included in earnings—fair value adjustment	(22)	(809)	(276)	(794)
Additions	711	24,537	28,096	59,768
Sales, settlements, and other	(8,167)	(12,909)	(101,004)	(32,870)
Balance at end of period	$25,756	$84,364	$25,756	$84,364

(1) Includes MSRs of discontinued operations, which is included in Assets of Discontinued Operations in the Consolidated Statements of Financial Condition, of $37.7 million for the nine months ended September 30, 2017 in balance at beginning of period.

(2) Includes $37.8 million of MSRs sold as a part of discontinued operations for the nine months ended September 30, 2017.

(3) Includes loans repurchased from GNMA Loan Pools of discontinued operations, which is included in Assets of Discontinued Operations in the Consolidated Statements of Financial Condition, of $20.9 million and $52.1 million, respectively, for the three months ended September 30, 2018 and 2017 and $32.3 million and $58.3 million, respectively, for the nine months ended September 30, 2018 and 2017 in balance at beginning of period, and $17.7 million and $41.2 million, respectively, for the three and nine months ended September 30, 2018 and 2017 in balance at end of period.

Loans repurchased from GNMA loan pools and loans previously sold to GNMA that are delinquent more than 90 days and subject to a repurchase option held by the Company had aggregate unpaid principal balances of $26.2 million and $99.7 million at September 30, 2018 and December 31, 2017, respectively.

The following table presents, as of the dates indicated, quantitative information about Level 3 fair value measurements on a recurring basis, other than loans that become severely delinquent and are repurchased out of GNMA loan pools that were valued based on an estimate of the expected loss the Company will incur on these loans, which was included as Level 3 at September 30, 2018 and December 31, 2017:

($ in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
September 30, 2018				
Mortgage servicing rights [1]	$1,963	Discounted cash flow	Discount rate	13.00% to 13.00% (13.00%)
			Prepayment rate	12.35% to 66.34% (16.25%)
December 31, 2017				
Mortgage servicing rights [1]	$2,059	Discounted cash flow	Discount rate	13.00% to 13.00% (13.00%)
			Prepayment rate	10.04% to 49.97% (16.54%)

(1) Excludes MSRs held-for-sale of $66 thousand and $29.8 million, respectively, which were valued based on a market bid adjusted for expected obligations arising from standard representations and warranties at September 30, 2018 and December 31, 2017.

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The significant unobservable inputs used in the fair value measurement of the Company’s servicing rights include the discount rate and prepayment rate. The significant unobservable inputs used in the fair value measurement of the Company's loans repurchased from GNMA loan pools at September 30, 2018 and December 31, 2017 included an expected loss rate of 1.55 percent for insured loans and 20.00 percent for uninsured loans. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results.

Fair Value Option

Loans Held-for-Sale, Carried at Fair Value: The Company elected the fair value option for certain SFR mortgage loans held-for-sale. Electing to measure SFR mortgage loans held-for-sale at fair value reduces certain timing differences and better matches changes in the value of these assets with changes in the value of derivatives used as economic hedges for these assets. The Company also elected to record loans repurchased from GNMA at fair value, as the Company intends to sell them after curing any defects and, accordingly, they are classified as held-for-sale. Loans previously sold to GNMA that are delinquent more than 90 days are subject to a repurchase option when that condition exists. These loans were re-recognized at fair value and offset by a secured borrowing, as the loans were still legally owned by GNMA but failed sale accounting treatment under GAAP due to the repurchase option.

The following table presents the fair value and aggregate principal balance of certain assets, on a consolidated operations basis, under the fair value option:

($ in thousands)	September 30, 2018 Fair Value	September 30, 2018 Unpaid Principal Balance	September 30, 2018 Difference	December 31, 2017 Fair Value	December 31, 2017 Unpaid Principal Balance	December 31, 2017 Difference
Loans held-for-sale, carried at fair value in continuing operations:						
Total loans	$8,024	$8,239	$(215)	$66,603	$67,415	$(812)
Non-accrual loans [1]	1,852	1,958	(106)	60,999	61,900	(901)
Loans held-for-sale, carried at fair value in discontinued operations:						
Total loans	$20,290	$20,842	$(552)	$38,696	$39,541	$(845)
Non-accrual loans [2]	9,254	9,312	(58)	24,073	24,297	(224)

(1) Includes loans guaranteed by the U.S. government of $1.5 million and $54.2 million, respectively, at September 30, 2018 and December 31, 2017.

(2) Includes loans guaranteed by the U.S. government of $8.0 million and $20.7 million, respectively, at September 30, 2018 and December 31, 2017.

There were no loans held-for-sale that were 90 days or more past due and still accruing as of September 30, 2018 and December 31, 2017.

The assets and liabilities accounted for under the fair value option are initially measured at fair value. Gains and losses from subsequent changes in fair value are recognized in earnings. The following table presents changes in fair value related to subsequent changes in fair value included in earnings for these assets and liabilities measured at fair value for the periods indicated:

($ in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net gains (losses) from fair value changes				
Other income (continuing operations)	$11	$(70)	$198	$(62)
Net loss from mortgage banking activities (discontinued operations)	30	(996)	127	(1,551)

Changes in fair value due to instrument-specific credit risk were insignificant for the three and nine months ended September 30, 2018 and 2017. Interest income on loans held-for-sale under the fair value option is measured based on the contractual interest rate and reported in Loans and Leases, including Fees under Interest and Dividend Income and

Income from Discontinued Operations in the Consolidated Statements of Operations.

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Assets and Liabilities Measured on a Non-Recurring Basis

Impaired Loans and Leases: Impairment of collateral dependent loans and leases with specific allocations of the ALLL are generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically deemed significant unobservable inputs used for determining fair value and result in a Level 3 classification.

Loans Held-for-Sale, Carried at Lower of Cost or Fair Value: The Company records non-conforming jumbo mortgage loans held-for-sale and certain non-residential mortgage loans held-for-sale at the lower of cost or fair value, on an aggregate basis. The Company obtains fair values from a third party independent valuation service provider or uses quoted prices from similar assets, adjusted for specific attributes of that loan or similar market data, such as outstanding commitment from third party investors. Loans held-for-sale accounted for at the lower of cost or fair value are considered to be recognized at fair value when they are recorded at below cost, on an aggregate basis, and are classified as Level 2.

SBA Servicing Assets: SBA servicing assets represent the value associated with servicing SBA loans that have been sold. SBA servicing assets are accounted for at the lower of cost or market value and considered to be recognized at fair value when they are recorded at below cost and are classified as Level 3. The fair value for SBA servicing assets is determined through a discounted cash flow analysis that utilizes estimated market yield and projected prepayment speeds as inputs. All of these assumptions require a significant degree of management estimation and judgment. The fair market valuation is performed on a quarterly basis for SBA servicing assets.

Other Real Estate Owned Assets: Other Real Estate Owned (OREO) assets are initially recorded at fair value at the time of foreclosure. Thereafter, they are recorded at the lower of cost or fair value. The fair value of other real estate owned assets is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and result in a Level 3 classification due to the unobservable inputs used for determining fair value. Only OREO assets with a valuation allowance are considered to be carried at fair value. There was $0 and $134 thousand valuation allowance expense for OREO assets for the three months ended September 30, 2018 and 2017. The Company recorded valuation allowance expense for OREO assets of $53 thousand and $143 thousand for the nine months ended September 30, 2018 and 2017 in All Other Expense in the Consolidated Statements of Operations.

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The following table presents the Company’s financial assets and liabilities measured at fair value on a non-recurring basis as of the dates indicated:

($ in thousands)	Carrying Value	Fair Value Measurement Level Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Assets				
Loans held-for-sale:				
Commercial and industrial	$ 538	$ —	$ 538	$ —
Impaired loans:				
Commercial and industrial	502	—	—	502
Other consumer	3	—	—	3
SBA	76	—	—	76
December 31, 2017				
Assets				
Impaired loans:				
SBA	$ 174	—	—	$ 174
Other real estate owned:				
Single family residential	1,415	—	—	1,415

The following table presents the gains and (losses) recognized on assets measured at fair value on a non-recurring basis for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Impaired loans:				
Single family residential mortgage	$ —	$ (27)	$ (115)	$ (27)
Commercial and industrial	(219)	—	(511)	—
SBA	1	(1)	(379)	(1)
Other consumer	—	—	(141)	
Construction	—	—	—	(29)
Other real estate owned:				
Single family residential	35	(264)	229	(236)

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Estimated Fair Values of Financial Instruments

The following table presents the carrying amounts and estimated fair values of financial assets and liabilities, on a consolidated operations basis, as of the dates indicated:

($ in thousands)	Carrying Amount	Fair Value Measurement Level Level 1	Level 2	Level 3	Total
September 30, 2018					
Financial assets					
Cash and cash equivalents	$372,221	$372,221	$ —	$ —	$372,221
Securities available-for-sale	2,059,832	—	2,059,832	—	2,059,832
Federal Home Loan Bank and other bank stock	71,308	—	71,308	—	71,308
Loans held-for-sale [(1)]	29,672	—	3,916	25,756	29,672
Loans and leases receivable, net of ALLL[(3)]	7,195,511	—	—	7,082,175	7,082,175
Accrued interest receivable	38,951	38,951	—	—	38,951
Derivative assets	2,099	—	2,099	—	2,099
Financial liabilities					
Deposits	7,401,742	—	—	7,200,816	7,200,816
Advances from Federal Home Loan Bank	1,640,000	—	1,636,772	—	1,636,772
Long term debt	173,096	—	177,048	—	177,048
Derivative liabilities	2,064	—	2,064	—	2,064
Accrued interest payable	13,226	13,226	—	—	13,226
December 31, 2017					
Financial assets					
Cash and cash equivalents	$387,699	$387,699	$ —	$ —	$387,699
Securities available-for-sale	2,575,469	—	2,575,469	—	2,575,469
Federal Home Loan Bank and other bank stock	75,654	—	75,654	—	75,654
Loans held-for-sale [(2)]	105,765	—	6,866	98,940	105,806
Loans and leases receivable, net of ALLL[(3)]	6,610,074	—	—	6,601,767	6,601,767
Accrued interest receivable	35,355	35,355	—	—	35,355
Derivative assets	1,005	—	1,005	—	1,005
Financial liabilities					
Deposits	7,292,903	—	—	7,063,613	7,063,613
Advances from Federal Home Loan Bank	1,695,000	—	1,695,039	—	1,695,039
Long term debt	172,941	—	180,560	—	180,560
Derivative liabilities	1,033	—	1,033	—	1,033
Accrued interest payable	7,321	7,321	—	—	7,321

(1) Includes loans held-for-sale carried at fair value of $20.3 million ($2.6 million at Level 2 and $17.7 million at Level 3) of discontinued operations.

(2) Includes loans held-for-sale carried at fair value of $38.7 million ($6.4 million at Level 2 and $32.3 million at Level 3) of discontinued operations.

(3) In accordance with the Company's adoption of ASU No. 2016-01 during the first quarter of 2018, the fair value of loans as of September 30, 2018 was measured using an exit price notion. The fair value of loans as of December 31, 2017 was measured using an entry price notion.

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NOTE 4 – INVESTMENT SECURITIES

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

($ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018				
Securities available-for-sale:				
SBA loan pool securities	$910	$ —	$ (22)	$888
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	472,581	—	(33,113)	439,468
Non-agency residential mortgage-backed securities	439	12	—	451
Non-agency commercial mortgage-backed securities	135,558	—	(2,854)	132,704
Collateralized loan obligations	1,481,415	6,835	(1,929)	1,486,321
Total securities available-for-sale	$2,090,903	$ 6,847	$ (37,918)	$2,059,832
December 31, 2017				
Securities available-for-sale:				
SBA loan pool securities	$1,056	$ 2	$—	$1,058
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	492,255	10	(15,336)	476,929
Non-agency residential mortgage-backed securities	741	16	(1)	756
Non-agency commercial mortgage-backed securities	305,172	5,339	—	310,511
Collateralized loan obligations	1,691,455	11,129	(266)	1,702,318
Corporate debt securities	76,714	7,183	—	83,897
Total securities available-for-sale	$2,567,393	$ 23,679	$ (15,603)	$2,575,469

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 held-to-maturity debt securities will be limited for the foreseeable future.

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. At September 30, 2018, the Company's investment securities portfolio consisted of SBA loan pool securities, mortgage-backed securities, and collateralized loan obligations. The expected maturities of these types of securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

At September 30, 2018 and December 31, 2017, there were no holdings of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10 percent of the Company's stockholders’ equity.

The following table presents proceeds from sales and calls of securities available-for-sale and the associated gross gains and losses realized through earnings upon the sales and calls of securities available-for-sale for the periods indicated:

($ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gross realized gains on sales and calls of securities available-for-sale	$13	$7,625	$5,532	$12,080
Gross realized losses on sales and calls of securities available-for-sale	—	—	—	—
Net realized gains on sales and calls of securities available-for-sale	$13	$7,625	$5,532	$12,080
Proceeds from sales and calls of securities available-for-sale	$283,114	$312,961	$896,070	$1,199,551

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Investment securities with carrying values of $139.8 million and $564.4 million as of September 30, 2018 and December 31, 2017, respectively, were pledged to secure FHLB advances, public deposits, repurchase agreements, and for other purposes as required or permitted by law.

The following table summarizes the investment securities with unrealized losses by security type and length of time in a continuous unrealized loss position as of the dates indicated:

	Less Than 12 Months		12 Months or Longer		Total	
($ in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2018						
Securities available-for-sale:						
SBA loan pool securities	$888	$(22)	$—	$—	$888	$(22)
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	$14,964	$(376)	$424,417	$(32,737)	$439,381	$(33,113)
Non-agency residential mortgage-backed securities	78	—	44	—	122	—
Non-agency commercial mortgage-backed securities	132,703	(2,854)	—	—	132,703	(2,854)
Collateralized loan obligations	335,446	(1,929)	—	—	335,446	(1,929)
Total securities available-for-sale	$484,079	$(5,181)	$424,461	$(32,737)	$908,540	$(37,918)
December 31, 2017						
Securities available-for-sale:						
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	$4,880	$(35)	$470,092	$(15,301)	$474,972	$(15,336)
Non-agency residential mortgage-backed securities	—	—	148	(1)	148	(1)
Collateralized loan obligations	104,334	(266)	—	—	104,334	(266)
Total securities available-for-sale	$109,214	$(301)	$470,240	$(15,302)	$579,454	$(15,603)

The Company did not record other-than-temporary-impairment (OTTI) for investment securities for the three and nine months ended September 30, 2018 or 2017.

At September 30, 2018, the Company’s securities available-for-sale portfolio consisted of 151 securities, 76 of which were in an unrealized loss position. At December 31, 2017, the Company’s securities available-for-sale portfolio consisted of 191 securities, 33 of which were in an unrealized loss position.

The Company monitors its securities portfolio to ensure it has adequate credit support. The majority of unrealized losses are related to the Company's mortgage-backed securities issued by U.S government sponsored entities and agencies. The Company also considers the lowest credit rating for identification of potential OTTI for other securities. As of September 30, 2018, nearly all of the Company's non-agency mortgage-backed securities or collateralized loan obligations investment securities in an unrealized loss position received an investment grade credit rating. The decline in fair value is attributable to changes in interest rates, and not credit quality. The Company believes there was no OTTI as of September 30, 2018 and does not have the intent to sell its securities in an unrealized loss position and further believes it is not likely that it will be required to sell these securities before their anticipated recovery.

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NOTE 5 – LOANS AND LEASES AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The Company's loan and lease portfolio includes Commercial and Industrial, Commercial Real Estate, Multifamily, SBA, Construction, Lease Financing, Single Family Residential Mortgage and Other Consumer loans. The Company's Non-Traditional Mortgage (NTM) loans are included in Single Family Residential Mortgage and Other Consumer loans. NTM loans are comprised of three interest only products: Green Account Loans (Green Loans), which are a type of home equity line of credit (HELOC), fixed or adjustable rate hybrid interest only mortgage (Interest Only) loans and a small number of additional loans with the potential for negative amortization.

The following table presents the balances in the Company's loans and leases portfolio as of the dates indicated:

($ in thousands)	NTM Loans	Traditional Loans and Leases	Total Loans and Leases Receivable
September 30, 2018			
Commercial:			
Commercial and industrial	$—	$1,673,055	$1,673,055
Commercial real estate	—	823,193	823,193
Multifamily	—	2,112,190	2,112,190
SBA	—	71,494	71,494
Construction	—	200,294	200,294
Lease financing	—	—	—
Consumer:			
Single family residential mortgage	831,169	1,468,900	2,300,069
Other consumer	3,132	69,866	72,998
Total loans and leases	$834,301	$6,418,992	$7,253,293
Allowance for loan and lease losses			(57,782)
Loans and leases receivable, net			$7,195,511
December 31, 2017			
Commercial:			
Commercial and industrial	$—	$1,701,951	$1,701,951
Commercial real estate	—	717,415	717,415
Multifamily	—	1,816,141	1,816,141
SBA	—	78,699	78,699
Construction	—	182,960	182,960
Lease financing	—	13	13
Consumer:			
Single family residential mortgage	803,355	1,252,294	2,055,649
Other consumer	3,578	103,001	106,579
Total loans and leases	$806,933	$5,852,474	$6,659,407
Allowance for loan and lease losses			(49,333)
Loans and leases receivable, net			$6,610,074

Non-Traditional Mortgage Loans

The following table presents the composition of the NTM portfolio as of the dates indicated:

	September 30, 2018			December 31, 2017		
($ in thousands)	Count	Amount	Percent	Count	Amount	Percent
Green Loans (HELOC) - first liens	91	$70,470	8.4 %	101	$82,197	10.2 %
Interest-only - first liens	517	757,135	90.8 %	468	717,484	88.9 %
Negative amortization	11	3,564	0.4 %	11	3,674	0.5 %
Total NTM - first liens	619	831,169	99.6 %	580	803,355	99.6 %
Green Loans (HELOC) - second liens	11	3,132	0.4 %	12	3,578	0.4 %
Total NTM - second liens	11	3,132	0.4 %	12	3,578	0.4 %
Total NTM loans	630	$834,301	100.0%	592	$806,933	100.0%
Total loans and leases		$7,253,293			$6,659,407	
% of NTM to total loans and leases		11.5 %			12.1 %	

Green Loans

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. These loans are generally interest only with a 15-year balloon payment due at maturity. As a result of their unique payment feature, Green Loans possess higher credit risk due to the potential for 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 (LTV) ratios and the Company’s contractual ability to curtail loans when the value of the underlying collateral declines. The Company discontinued origination of Green Loans in 2011.

Interest Only Loans

Interest only loans are primarily SFR first mortgage loans with payment features that allow interest only payments in initial periods before converting to a fully amortizing loan.

Loans with the Potential for Negative Amortization

The Company discontinued origination of negative amortization loans in 2007. Negative amortization loans other than Green Loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization. However, management believes the credit risk associated with these loans is mitigated through the loan terms and underwriting standards, including the Company’s policies on LTV ratios.

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Allowance for Loan and Lease Losses

The Company has established credit risk management processes that include regular management review of the loan and lease portfolio to identify problem loans and leases. During the ordinary course of business, management becomes aware of borrowers and lessees who may not be able to fulfill the contractual payment requirements of the loan and lease agreements. Such loans and leases are subject to increased monitoring. Consideration is given to placing the loan or lease on non-accrual status, assessing the need for additional ALLL, and partially or fully charging off the principal balance. The Company maintains the ALLL at a level that is considered adequate to cover the estimated incurred losses in the loan and lease portfolio.

The Company also maintains a separate reserve for unfunded loan commitments at a level that is considered adequate to cover the estimated incurred losses. The estimated funding of the loan commitments and credit risk factors determined based on outstanding loans that share similar credit risk exposure are used to establish the reserve. At September 30, 2018 and December 31, 2017, the reserve for unfunded loan commitments was $4.2 million and $3.7 million, respectively, which are recorded in Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition.

The credit risk monitoring system is designed to identify impaired and potential problem loans and to perform periodic evaluation of impairment and the adequacy of the allowance for credit losses in a timely manner. In addition, the Board of Directors of the Bank has adopted a credit policy that includes a credit review and control system that it believes is effective in ensuring that the Company maintains an adequate allowance for loan and lease losses. The Board of Directors also provides oversight and guidance for management's allowance evaluation process.

The following table presents a summary of activity in the ALLL for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Balance at beginning of period	$56,678	$42,385	$49,333	$40,444
Loans and leases charged off	(388)	(959)	(15,977)	(4,214)
Recoveries of loans and leases previously charged off	82	85	864	195
Provision for loan and lease losses	1,410	3,561	23,562	8,647
Balance at end of period	$57,782	$45,072	$57,782	$45,072

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 third party 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 extensive 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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The following table presents the activity and balance in the ALLL and the recorded investment, excluding accrued interest, in loans and leases based on the impairment methodology as of or for the three and nine months ended September 30, 2018:

($ in thousands)	Commercial and Industrial	Commercial Real Estate	Multifamily	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Total
ALLL:									
Balance at June 30, 2018	$16,864	$5,732	$14,630	$1,840	$3,419	$ —	$13,236	$957	$56,678
Charge-offs	(342)	—	—	—	—	—	(45)	(1)	(388)
Recoveries	61	—	—	8	—	3	—	10	82
Provision	(40)	280	843	22	(172)	(3)	407	73	1,410
Balance at September 30, 2018	$16,543	$6,012	$15,473	$1,870	$3,247	$ —	$13,598	$1,039	$57,782
Balance at December 31, 2017	$14,280	$4,971	$13,265	$1,701	$3,318	$ —	$10,996	$802	$49,333
Charge-offs	(689)	—	(8)	(683)	—	—	(524)	(14,073)	(15,977)
Recoveries	158	—	—	240	—	12	436	18	864
Provision	2,794	1,041	2,216	612	(71)	(12)	2,690	14,292	23,562
Balance at September 30, 2018	$16,543	$6,012	$15,473	$1,870	$3,247	$ —	$13,598	$1,039	$57,782
Individually evaluated for impairment	$122	$—	$—	$133	$—	$ —	$640	$7	$902
Collectively evaluated for impairment	16,421	6,012	15,473	1,737	3,247	—	12,958	1,032	56,880
Total ending ALLL balance	$16,543	$6,012	$15,473	$1,870	$3,247	$ —	$13,598	$1,039	$57,782
Loans:									
Individually evaluated for impairment	$5,614	$—	$—	$1,834	$—	$ —	$22,364	$739	$30,551
Collectively evaluated for impairment	1,667,441	823,193	2,112,190	69,660	200,294	—	2,277,705	72,259	7,222,742
Total ending loan balances	$1,673,055	$823,193	$2,112,190	$71,494	$200,294	$ —	$2,300,069	$72,998	$7,253,293

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The following table presents the activity and balance in the ALLL and the recorded investment, excluding accrued interest, in loans and leases based on the impairment methodology as of or for the three and nine months ended September 30, 2017:

($ in thousands)	Commercial and Industrial	Commercial Real Estate	Multifamily	SBA	Construction	Lease Financing	Single Family Residential Mortgage	Other Consumer	Total
ALLL:									
Balance at June 30, 2017	$10,495	$5,126	$10,686	$1,084	$2,974	$3	$11,009	$1,008	$42,385
Charge-offs	(571)	—	—	(58)	—	—	(78)	(252)	(959)
Recoveries	—	—	—	83	—	—	—	2	85
Provision	2,576	202	588	188	238	(1)	(564)	334	3,561
Balance at September 30, 2017	$12,500	$5,328	$11,274	$1,297	$3,212	$2	$10,367	$1,092	$45,072
Balance at December 31, 2016	$7,584	$5,467	$11,376	$939	$2,015	$6	$12,075	$982	$40,444
Charge-offs	(953)	(113)	—	(351)	(29)	—	(2,490)	(278)	(4,214)
Recoveries	—	—	—	157	—	29	1	8	195
Provision	5,869	(26)	(102)	552	1,226	(33)	781	380	8,647
Balance at September 30, 2017	$12,500	$5,328	$11,274	$1,297	$3,212	$2	$10,367	$1,092	$45,072
Individually evaluated for impairment	$195	$—	$—	$54	$—	$1	$165	$—	$415
Collectively evaluated for impairment	12,305	5,328	11,274	1,243	3,212	1	10,202	1,092	44,657
Acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Total ending ALLL balance	$12,500	$5,328	$11,274	$1,297	$3,212	$2	$10,367	$1,092	$45,072
Loans:									
Individually evaluated for impairment	$497	$—	$—	$377	$—	$41	$14,636	$364	$15,915
Collectively evaluated for impairment	1,602,308	713,120	1,617,890	78,227	176,397	50	1,905,674	117,316	6,210,982
Acquired with deteriorated	—	—	—	—	—	—	—	—	—

credit quality									
Total ending loan balances	$1,602,805	$713,120	$1,617,890	$78,604	$176,397	$ 91	$1,920,310	$117,680	$6,226,897

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The following table presents loans and leases individually evaluated for impairment by class of loans and leases as of the dates indicated. The recorded investment, excluding accrued interest, presents customer balances net of any partial charge-offs recognized on the loans and leases and net of any deferred fees and costs and any purchase premium or discount.

($ in thousands)	September 30, 2018 Unpaid Principal Balance	Recorded Investment	Allowance for Loan and Lease Losses	December 31, 2017 Unpaid Principal Balance	Recorded Investment	Allowance for Loan and Lease Losses
With no related ALLL recorded:						
Commercial:						
Commercial and industrial	$5,027	$ 4,990	$ —	$471	$ 453	$ —
SBA	1,717	1,624	—	342	335	—
Consumer:						
Single family residential mortgage	7,895	7,917	—	7,521	7,553	—
Other consumer	554	557	—	4,664	4,663	—
With an ALLL recorded:						
Commercial:						
Commercial and industrial	624	624	122	3,146	3,129	498
SBA	222	210	133	635	609	435
Consumer:						
Single family residential mortgage	14,343	14,447	640	7,090	7,146	277
Other consumer	209	182	7	157	162	7
Total	$30,591	$ 30,551	$ 902	$24,026	$ 24,050	$ 1,217

The following table presents information on impaired loans and leases, disaggregated by class, for the periods indicated:

($ in thousands)	Three Months Ended Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Nine Months Ended Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
September 30, 2018						
Commercial:						
Commercial and industrial	$5,423	$ —	$ —	$5,552	$ 4	$ 4
SBA	1,240	—	—	756	—	—
Consumer:						
Single family residential mortgage	20,908	60	50	20,299	175	146
Other consumer	744	3	4	751	9	9
Total	$28,315	$ 63	$ 54	$27,358	$ 188	$ 159
September 30, 2017						
Commercial:						
Commercial and industrial	$506	$ —	$ —	$169	$ —	$ —
SBA	378	—	—	126	—	—
Construction	—	—	—	509	—	—
Lease Financing	53	—	—	18	—	—
Consumer:						
Single family residential mortgage	14,673	57	45	11,904	142	134
Other consumer	366	2	3	711	6	6
Total	$15,976	$ 59	$ 48	$13,437	$ 148	$ 140

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Past Due Loans and Leases

The following table presents the aging of the recorded investment in past due loans and leases, excluding accrued interest receivable (which is not considered to be material), by class of loans and leases as of dates indicated:

($ in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past due	Total Past Due	Current	Total
September 30, 2018						
NTM loans:						
Single family residential mortgage	$ 6,079	$ —	$ —	$ 6,079	$ 825,090	$ 831,169
Other consumer	257	—	—	257	2,875	3,132
Total NTM loans	6,336	—	—	6,336	827,965	834,301
Traditional loans and leases:						
Commercial:						
Commercial and industrial	2,074	2,960	2,955	7,989	1,665,066	1,673,055
Commercial real estate	—	—	—	—	823,193	823,193
Multifamily	—	—	—	—	2,112,190	2,112,190
SBA	514	514	788	1,816	69,678	71,494
Construction	939	—	—	939	199,355	200,294
Consumer:						
Single family residential mortgage	3,933	2,549	11,263	17,745	1,451,155	1,468,900
Other consumer	442	4	263	709	69,157	69,866
Total traditional loans and leases	7,902	6,027	15,269	29,198	6,389,794	6,418,992
Total	$ 14,238	$ 6,027	$ 15,269	$ 35,534	$ 7,217,759	$ 7,253,293
December 31, 2017						
NTM loans:						
Single family residential mortgage	$ 9,060	$ 1,879	$ 1,171	$ 12,110	$ 791,245	$ 803,355
Other consumer	—	—	—	—	3,578	3,578
Total NTM loans	9,060	1,879	1,171	12,110	794,823	806,933
Traditional loans and leases:						
Commercial:						
Commercial and industrial	136	3,595	948	4,679	1,697,272	1,701,951
Commercial real estate	—	—	—	—	717,415	717,415
Multifamily	—	—	—	—	1,816,141	1,816,141
SBA	3,578	—	1,319	4,897	73,802	78,699
Construction	—	—	—	—	182,960	182,960
Lease financing	—	—	—	—	13	13
Consumer:						
Single family residential mortgage	6,862	3,370	6,012	16,244	1,236,050	1,252,294
Other consumer	3,194	413	92	3,699	99,302	103,001
Total traditional loans and leases	13,770	7,378	8,371	29,519	5,822,955	5,852,474
Total	$ 22,830	$ 9,257	$ 9,542	$ 41,629	$ 6,617,778	$ 6,659,407

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Non-accrual Loans and Leases

The following table presents non-accrual loans and leases, and loans past due 90 days or more and still accruing as of the dates indicated:

	September 30, 2018			December 31, 2017		
($ in thousands)	NTM Loans	Traditional Loans and Leases	Total	NTM Loans	Traditional Loans and Leases	Total
Non-accrual loans and leases [(1)]						
Commercial:						
Commercial and industrial	$—	$ 5,751	$5,751	$—	$ 3,723	$3,723
SBA	—	2,249	2,249	—	1,781	1,781
Consumer:						
Single family residential mortgage	1,520	15,558	17,078	1,171	8,176	9,347
Other consumer	—	445	445	—	4,531	4,531
Total non-accrual loans and leases	$1,520	$ 24,003	$25,523	$1,171	$ 18,211	$19,382
Loans past due 90 days or more and still accruing	$—	$ —	$—	$—	$ —	$—

(1) The Company maintained specific reserves in ALLL for these loans, which were individually evaluated for impairment, of $567 thousand and $1.1 million at September 30, 2018 and December 31, 2017, respectively.

Loans in Process of Foreclosure

At September 30, 2018 and December 31, 2017, consumer mortgage loans of $1.9 million and $4.3 million, respectively, were secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring (TDR) when the Company, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that it would not otherwise consider. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the amount of principal amortization, forgiveness of a portion of the loan balance or accrued interest, or extension of the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company’s internal underwriting policy.

TDR loans consist of the following as of the dates indicated:

	September 30, 2018			December 31, 2017		
($ in thousands)	NTM Loans	Traditional Loans	Total	NTM Loans	Traditional Loans	Total
Commercial:						
Commercial and industrial	$—	$ 2,522	$2,522	$—	$ 2,675	$2,675
SBA	—	162	162	—	—	—
Consumer:						
Single family residential mortgage	2,676	2,610	5,286	2,699	2,653	5,352
Other consumer	294	—	294	294	—	294
Total	$2,970	$ 5,294	$8,264	$2,993	$ 5,328	$8,321

The Company had no commitments to lend to customers with outstanding loans that were classified as TDRs as of September 30, 2018 or December 31, 2017. Accruing TDRs were $5.6 million and non-accrual TDRs were $2.7 million at September 30, 2018 compared to accruing TDRs of $5.6 million and non-accrual TDRs of $2.7 million at December 31, 2017.

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The following table summarizes the pre-modification and post-modification balances of the new TDRs for the periods indicated:

	Nine Months Ended		
($ in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
September 30, 2018			
Commercial:			
Commercial and industrial	2	$ 171	$ 163
Total	2	$ 171	$ 163
September 30, 2017			
Consumer:			
Single family residential mortgage	3	$ 2,416	$ 2,433
Total	3	$ 2,416	$ 2,433

During the three months ended September 30, 2018 and September 30, 2017, there were no new TDRs.

The following table summarizes new TDRs by modification type for the nine months ended September 30, 2018 and 2017:

	Nine Months Ended Modification Type					
	Change in Principal Payments and Interest Rates		Change in Principal Payments		Total	
($ in thousands)	Count	Amount	Count	Amount	Count	Amount
September 30, 2018						
Commercial:						
Commercial and industrial	—	$ —	2	$ 163	2	$ 163
Total	—	$ —	2	$ 163	2	$ 163
September 30, 2017						
Consumer:						
Single family residential mortgage	2	$ 1,290	1	$ 1,143	3	$ 2,433
Total	2	$ 1,290	1	$ 1,143	3	$ 2,433

The Company considers a TDR to be in payment default once it becomes 30 days or more past due following a modification. For the three and nine months ended September 30, 2018, there was one commercial and industrial loan with a principal balance of $100 thousand that was modified as a TDR during the preceding 12 months that had payment defaults during the period. For the three months ended September 30, 2017, there were no loans that were modified as TDRs during the preceding 12 months that had payment defaults during the period. For the nine months ended September 30, 2017, there was one single family residential mortgage loan with a principal balance of $124 thousand that was modified as a TDR during the preceding 12 months that had payment defaults during the period.

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Credit Quality Indicators

The Company categorizes loans and leases into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company performs historical loss analysis that is combined with a comprehensive loan or lease to value analysis to analyze the associated risks in the current loan and lease portfolio. The Company analyzes loans and leases individually by classifying the loans and leases as to credit risk. This analysis includes all loans and leases delinquent over 60 days and non-homogeneous loans and leases such as commercial and commercial real estate loans and leases. The Company uses the following definitions for risk ratings:

Pass: Loans and leases classified as pass are in compliance in all respects with the Bank’s credit policy and regulatory requirements, and do not exhibit any potential or defined weakness as defined under “Special Mention”, “Substandard” or “Doubtful”.

Special Mention: Loans and leases classified as special mention have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or lease or of the Company’s credit position at some future date.

Substandard: Loans and leases classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans and leases so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans and leases classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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The following table presents the risk categories for total loans and leases as of the dates indicated:

($ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2018					
NTM loans:					
Single family residential mortgage	$827,087	$1,576	$ 2,506	$ —	$831,169
Other consumer	3,132	—	—	—	3,132
Total NTM loans	830,219	1,576	2,506	—	834,301
Traditional loans and leases:					
Commercial:					
Commercial and industrial	1,600,534	34,482	38,039	—	1,673,055
Commercial real estate	807,803	11,320	4,070	—	823,193
Multifamily	2,110,589	—	1,601	—	2,112,190
SBA	56,649	4,754	9,811	280	71,494
Construction	196,857	3,437	—	—	200,294
Lease financing	—	—	—	—	—
Consumer:					
Single family residential mortgage	1,446,826	2,969	19,105	—	1,468,900
Other consumer	68,998	404	464	—	69,866
Total traditional loans and leases	6,288,256	57,366	73,090	280	6,418,992
Total	$7,118,475	$58,942	$ 75,596	$ 280	$7,253,293
December 31, 2017					
NTM loans:					
Single family residential mortgage	$800,589	$1,595	$ 1,171	$ —	$803,355
Other consumer	3,578	—	—	—	3,578
Total NTM loans	804,167	1,595	1,171	—	806,933
Traditional loans and leases:					
Commercial:					
Commercial and industrial	1,651,628	33,376	16,947	—	1,701,951
Commercial real estate	713,131	—	4,284	—	717,415
Multifamily	1,815,601	540	—	—	1,816,141
SBA	72,417	1,555	4,621	106	78,699
Construction	182,960	—	—	—	182,960
Lease financing	13	—	—	—	13
Consumer:					
Single family residential mortgage	1,240,866	2,282	9,146	—	1,252,294
Other consumer	98,030	422	4,549	—	103,001
Total traditional loans and leases	5,774,646	38,175	39,547	106	5,852,474
Total	$6,578,813	$39,770	$ 40,718	$ 106	$6,659,407

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Purchases, Sales, and Transfers

From time to time, the Company purchases and sells loans in the secondary market. Certain loans are transferred from held-for-investment to held-for-sale at the lower of cost of fair value and any reductions in value on transfer are reflected as write-downs to allowance for loan losses. The Company had no purchases of loans and leases, excluding loans held-for-sale, for the three and nine months ended September 30, 2018 and 2017. The following table presents loans and leases transferred from (to) loans held-for-sale by portfolio segment for the periods indicated:

($ in thousands)	Three Months Ended		Nine Months Ended	
	Transfers from Held-For-Sale	Transfers (to) Held-For-Sale	Transfers from Held-For-Sale	Transfers (to) Held-For-Sale
September 30, 2018				
Commercial:				
Commercial and industrial	$—	$ (1,133)	$—	$ (1,133)
Multifamily	—	—	—	(71,449)
Consumer:				
Single family residential mortgage	—	(18,886)	—	(154,899)
Other consumer	—	—	—	(4,362)
Total	$—	$ (20,019)	$—	$ (231,843)
September 30, 2017				
Commercial:				
Commercial and industrial	$—	$ —	$—	$ (3,924)
Commercial real estate	—	—	—	(1,329)
Multifamily	—	—	—	(6,583)
SBA	—	—	—	(1,865)
Construction	—	—	—	(1,528)
Consumer:				
Single family residential mortgage	88,591	(45,899)	88,591	(449,646)
Total	$88,591	$ (45,899)	$88,591	$ (464,875)

Purchased Credit Impaired Loans

The Company had no PCI loans at September 30, 2018 or December 31, 2017, due mainly to the sale of seasoned SFR mortgage PCI loans during the year ended December 31, 2017. The Company had acquired loans through business combinations and purchases of loan pools for which there was evidence of deterioration of credit quality subsequent to origination and it was probable, at acquisition, that all contractually required payments would not be collected.

The following table presents a summary of accretable yield, or income expected to be collected, for the periods indicated:

($ in thousands)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Balance at beginning of period	$ 2,237	$ 41,181
Accretion of income	—	(3,833)
Changes in expected cash flows	—	(225)
Disposals	—	(34,886)
Other	(2,237)	(2,237)
Balance at end of period	$ —	$ —

During the three months ended June 30, 2017, the Company transferred seasoned SFR mortgage PCI loans with an aggregate unpaid principal balance and aggregate carrying value of $147.5 million and $128.4 million, respectively, to loans held-for-sale. The Company transferred these PCI loans at lower of cost or fair value and recorded a fair value adjustment of $274 thousand against its ALLL. During the three months ended September 30, 2017, all of the transferred seasoned SFR mortgage PCI loans were sold and the Company recognized a net gain on sale of loans of $3.7 million.

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NOTE 6 – SERVICING RIGHTS

The Company retains MSRs from certain of its sales of residential mortgage loans. MSRs on residential mortgage loans are reported at fair value. Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs and third party subservicing costs. The Company retains servicing rights in connection with its SBA loan operations, which are measured using the amortization method.

The following table presents a composition of total income from servicing rights, which is reported in Loan Servicing Income on the Consolidated Statements of Operations, on a consolidated operations basis, for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Servicing fees for sold loans with servicing retained	$472	$4,521	$4,612	$15,352
Losses on the fair value and runoff of servicing rights	(33)	(3,968)	(914)	(10,360)
Total income from servicing rights	$439	$553	$3,698	$4,992

During the three months ended March 31, 2017, the Company suspended sales of MSRs under a flow-agreement with a third party investor that occurred contemporaneous with SFR mortgage loan sales to GSEs. The Company does not expect to resume sales under the flow-agreement, as the Company has discontinued its mortgage banking activities.

During the first half of 2018, the Company sold $28.5 million of MSRs on approximately $3.55 billion in unpaid principal balances of conventional agency mortgage loans for cash consideration of $30.1 million, subject to a prepayment protection provision and standard representations and warranties. There were no sales of MSRs during the three months ended September 30, 2018. During the three months ended September 30, 2018, the Company recorded a net gain on sale of mortgage servicing rights of $24 thousand primarily as a result of the release of liability of transaction costs as the amount paid was less than the accrued liability. The sale of MSRs resulted in a net loss of $2.4 million for the nine months ended September 30, 2018, primarily related to transaction costs, provision for early repayments of loans, and expected repurchase obligations under standard representations and warranties.

The following table presents a composition of servicing rights, on a consolidated operations basis, as of the dates indicated:

($ in thousands)	September 30, 2018	December 31, 2017
Mortgage servicing rights, at fair value	$ 2,029	$ 31,852
SBA servicing rights, at amortized cost	1,741	1,856
Total	$ 3,770	$ 33,708

Mortgage loans sold with servicing retained are subserviced by a third party vendor. The unpaid principal balance of these loans at September 30, 2018 and December 31, 2017 was $223.6 million and $3.94 billion, respectively. Custodial escrow balances maintained in connection with serviced loans were $479 thousand and $17.8 million at September 30, 2018 and December 31, 2017, respectively. The unpaid principal balance of the loans underlying our SBA servicing rights at September 30, 2018 and December 31, 2017 was $99.0 million and $101.0 million, respectively.

Mortgage Servicing Rights

At September 30, 2018 and December 31, 2017, MSRs of $66 thousand and $29.8 million, respectively, were held for sale and valued based on a market bid adjusted for expected repurchase obligations under standard representations and warranties as a Level 3 fair value measurement.

The value of retained MSRs is generally estimated based on a valuation from a third party provider that calculates the present value of the expected net servicing income from the portfolio based on key factors that include interest rates, prepayment assumptions, discount rate and estimated cash flows. The following table presents the key characteristics, inputs and economic assumptions used to estimate the fair value of the MSRs as of the dates indicated:

($ in thousands)	September 30, 2018	December 31, 2017
Fair value of retained MSRs	$ 1,963	$ 2,059

Discount rate	13.00 %	13.00 %
Constant prepayment rate	16.25 %	16.54 %
Weighted-average life	5.16 years	5.07 years

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The following table presents activity in the MSRs, on a consolidated operations basis, for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Balance at beginning of period	$2,062	$42,109	$31,852	$76,121
Additions	—	574	—	12,126
Sales of servicing rights [(1)]	—	—	(28,549)	(39,186)
Changes in fair value resulting from valuation inputs or assumptions	33	(1,905)	(1,057)	(4,984)
Other	(66)	(2,063)	(217)	(5,362)
Balance at end of period	$2,029	$38,715	$2,029	$38,715

(1) Includes $37.8 million of MSRs sold as a part of discontinued operations for the nine months ended September 30, 2017.

SBA Servicing Rights

The Company used a discount rate of 9.25 percent to calculate the present value of cash flows and used available prepayment data to estimate prepayment speed. Discount rates and prepayment speeds are reviewed quarterly and adjusted as appropriate. The following table presents activity in the SBA servicing rights for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Balance at beginning of period	$1,807	$1,725	$1,856	$1,496
Additions	18	133	127	479
Amortization, including prepayments	(75)	(59)	(228)	(159)
Impairment	(9)	(66)	(14)	(83)
Balance at end of period	$1,741	$1,733	$1,741	$1,733

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NOTE 7 – OTHER REAL ESTATE OWNED

The following table presents the activity in OREO for the periods indicated:

($ in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Balance at beginning of period	$710	$3,267	$1,796	$2,502
Additions	—	1,265	434	3,068
Sales and net direct write-downs	(327)	(716)	(2,038)	(1,751)
Net change in valuation allowance	51	(134)	242	(137)
Balance at end of period	$434	$3,682	$434	$3,682

The following table presents the activity in the OREO valuation allowance included in All Other Expense in the Consolidated Statements of Operations for the periods indicated:

($ in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Balance at beginning of period	$ 51	$ 9	$ 242	$ 6
Additions	—	134	143	143
Recoveries	—	—	(90)	—
Net direct write-downs and removals from sale	(51)	—	(295)	(6)
Balance at end of period	$ —	$ 143	$ —	$ 143

The following table presents expenses related to foreclosed assets included in All Other Expense in the Consolidated Statements of Operations for the periods indicated:

($ in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Net loss on sales	$(16)	$(130)	$(13)	$(99)
Operating expenses, net of rental income	(32)	(11)	(134)	(24)
Total	$(48)	$(141)	$(147)	$(123)

The Company did not provide loans to finance the purchase of its OREO properties during the three or nine months ended September 30, 2018 or 2017.

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NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS, NET

At September 30, 2018 and December 31, 2017, the Company had goodwill of $37.1 million. The Company conducts its evaluation of goodwill impairment as of August 31 each year, and more frequently if events or circumstances indicate that there may be impairment. The Company completed its most recent annual goodwill impairment test as of August 31, 2018 and determined that no goodwill impairment existed.

At December 31, 2016, goodwill of $37.1 million and $2.1 million was allocated to the Commercial Banking and Mortgage Banking segments, respectively. During the three months ended March 31, 2017, the Company discontinued its mortgage banking operations and wrote off the goodwill of $2.1 million allocated to its Mortgage Banking segment, against the gain on disposal of discontinued operations. See Note 2 for additional information.

Core deposit intangibles are amortized over their useful lives ranging from 4 to 10 years. As of September 30, 2018, the weighted average remaining amortization period for core deposit intangibles was approximately 5.5 years.

($ in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
September 30, 2018			
Core deposit intangibles	$ 30,904	$ 23,914	$ 6,990
December 31, 2017			
Core deposit intangibles	$ 30,904	$ 21,551	$ 9,353

Aggregate amortization of intangible assets was $693 thousand and $916 thousand for the three months ended September 30, 2018 and 2017, respectively, and $2.4 million and $3.1 million for the nine months ended September 30, 2018 and 2017, respectively. The following table presents estimated future amortization expenses as of September 30, 2018:

($ in thousands)	Remainder of 2018	2019	2020	2021	2022 and After	Total
Estimated future amortization expense	$ 644	$2,195	$1,518	$1,081	$1,552	$6,990

During the three months ended March 31, 2017, the Company wrote off a customer relationship intangible of $246 thousand and a trade name intangible of $90 thousand related to RenovationReady. RenovationReady was acquired in 2014 and provided specialized loan services to financial institutions and mortgage bankers that originate agency eligible residential renovation and construction loan products. During the three months ended March 31, 2017, the customer relationships with the third party buyers of residential renovation loans were transferred to Caliber in connection with the Company's sale of assets and activities relating to its Banc Home Loans division to Caliber and the Company ceased utilizing the RenovationReady trade name.

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NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

The following table presents the Company's advances from the FHLB as of the dates indicated:

($ in thousands)	September 30, 2018		December 31, 2017	
Fixed rate:				
Outstanding balance	$ 905,000		$ 550,000	
Interest rates ranging from	1.60	%	1.23	%
Interest rates ranging to	3.32	%	3.00	%
Weighted average interest rate	2.47	%	2.02	%
Variable rate:				
Outstanding balance	735,000		1,145,000	
Weighted average interest rate	2.33	%	1.40	%

Each advance is payable at its maturity date. Advances paid early are subject to a prepayment penalty. At September 30, 2018 and December 31, 2017, the Bank's advances from the FHLB were collateralized by certain real estate loans with an aggregate unpaid principal balance of $3.77 billion and $2.90 billion, respectively, and securities with carrying values of $0 and $405.6 million, respectively. The Bank's investment in capital stock of the FHLB of San Francisco totaled $44.3 million and $48.7 million at September 30, 2018 and December 31, 2017, respectively. Based on this collateral, the Bank's financing availability, and the Bank's holdings of FHLB stock, the Bank was eligible to borrow an additional $1.21 billion at September 30, 2018.

At September 30, 2018, the Bank maintained a line of credit of $43.9 million from the Federal Reserve Discount Window, to which the Bank pledged securities with a carrying value of $55.1 million, with no outstanding borrowings at that date. At September 30, 2018, the Bank maintained available unsecured federal funds lines with correspondent banks totaling $210.0 million.

The Bank also maintained repurchase agreements and had no outstanding securities sold under agreements to repurchase at September 30, 2018 and December 31, 2017. Availabilities and terms on repurchase agreements are subject to the counterparties' discretion and the pledging of additional investment securities.

On June 30, 2017, the Company voluntarily terminated a $75.0 million line of credit that was maintained at the holding company level with an unaffiliated financial institution. The line had a maturity date of July 17, 2017 and a floating interest rate equal to a London Interbank Offered Rate (LIBOR) rate plus 2.25 percent or The Wall Street Journal's prime rate (Prime Rate). The Company had $50.0 million of borrowings outstanding under the line, which were repaid in connection with the termination of the line. The proceeds of the line were used for working capital purposes.

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NOTE 10 – LONG-TERM DEBT

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

($ in thousands)	September 30, 2018 Par Value	September 30, 2018 Unamortized Debt Issuance Cost and Discount	December 31, 2017 Par Value	December 31, 2017 Unamortized Debt Issuance Cost and Discount
5.25% senior notes due April 15, 2025	$175,000	$ (1,904)	$175,000	$ (2,059)
Total	$175,000	$ (1,904)	$175,000	$ (2,059)

Senior Notes

On April 6, 2015, the Company completed the issuance and sale of $175.0 million aggregate principal amount of its 5.25 percent senior notes due April 15, 2025 (the Senior Notes). Net proceeds after discount were approximately $172.8 million.

The Senior Notes are the Company’s senior unsecured debt obligations and rank equally with all of the Company’s other present and future unsecured unsubordinated obligations. The Company makes interest payments on the Senior Notes semi-annually in arrears.

The Company may, at its option, on or after January 15, 2025 (i.e., 90 days prior to the maturity date), redeem the Senior Notes in whole at any time or in part from time to time, in each case on not less than 30 nor more than 60 days’ prior notice. The Senior Notes will be redeemable at a redemption price equal to 100 percent of the principal amount of the Senior Notes to be redeemed plus accrued and unpaid interest to the date of redemption.

The Senior Notes were issued under the Senior Debt Securities Indenture, dated as of April 23, 2012 (the Base Indenture), as supplemented by the Second Supplemental Indenture dated as of April 6, 2015 (the Supplemental Indenture and together with the Base Indenture, the Indenture). The Indenture contains several covenants which, among other things, restrict the Company’s and the Company’s subsidiaries' ability to dispose of or incur liens on the voting stock of certain subsidiaries and also contains customary events of default.

Tangible Equity Units – Junior Subordinated Amortizing Notes

On May 21, 2014, the Company issued and sold $69.0 million of 8.00 percent tangible equity units (TEUs) in an underwritten public offering. A total of 1,380,000 TEUs were issued, including 180,000 TEUs issued to the underwriter upon exercise of its overallotment option, with each TEU having a stated amount of $50.00. Each TEU was comprised of (i) a prepaid stock purchase contract (each a Purchase Contract) settled by delivery of a specified number of shares of Company Common Stock and (ii) a junior subordinated amortizing note due May 15, 2017 (each an Amortizing Note) that had an initial principal amount of $10.604556 per Amortizing Note, bore interest at a rate of 7.50 percent per annum and had a final installment payment date of May 15, 2017.

The Purchase Contracts and Amortizing Notes were accounted for separately. The Purchase Contract component of the TEUs was recorded in Additional Paid in Capital in the Consolidated Statements of Financial Condition. The Amortizing Note component was recorded in Long-Term Debt in the Consolidated Statements of Financial Condition. The relative fair values of the Amortizing Notes and Purchase Contracts were estimated to be approximately $14.6 million and $54.4 million, respectively, at the date of issuance. Total issuance costs associated with the TEUs were $4.0 million (including the underwriter discount of $3.3 million), of which $857 thousand was allocated to the debt component and $3.2 million was allocated to the equity component of the TEUs. The portion of the issuance costs allocated to the debt component of the TEUs was amortized over the term of the Amortizing Notes.

On each August 15, November 15, February 15 and May 15, commencing on August 15, 2014, the Company paid holders of Amortizing Notes equal quarterly cash installments of $1.00 per Amortizing Note (or, in the case of the installment payment due on August 15, 2014, $0.933333 per Amortizing Note) (such installments, the installment payments), which installment payments in the aggregate were equivalent to a 8.00 percent cash distribution per year with respect to each $50.00 stated amount of TEUs. Each installment payment constituted a payment of interest (at a rate of 7.50 percent per annum) and a partial repayment of principal on each Amortizing Note.

On May 15, 2017, the Company made the final installment payment on the Amortizing Notes and all Purchase Contracts that had not previously been settled were settled. See Note 15 for additional information.

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NOTE 11 – INCOME TAXES

For the three months ended September 30, 2018 and 2017, income tax expense (benefit) of continuing operations was $3.3 million and $(3.9) million, respectively, and the effective tax rate was 24.0 percent and (27.8) percent, respectively. For the nine months ended September 30, 2018 and 2017, income tax benefit of continuing operations was $(1.3) million and $(23.2) million, respectively, and the effective tax rate was (4.2) percent and (119.0) percent, respectively. The Company recognized lower income tax benefits for the 2018 periods mainly due to the reduction in the recognition of year-to-date tax credits from the investments in alternative energy partnerships of $412 thousand and $9.6 million respectively, for the three and nine months ended September 30, 2018, compared to $8.8 million and $33.3 million, respectively, of tax credits recognized for the three and nine months ended September 30, 2017. The reduction in tax credits received by the Bank on the investments in alternative energy partnerships is due to less new equipment being placed into service by the investments. The lower income tax benefit was also partially offset by the decrease in the federal statutory tax rate from 35% to 21% as a result of H.R. 1, originally known (and referred to below) as 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 bases of the investments are recognized as additional tax expense in the year they are earned.

The Company accounts for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the amounts for financial reporting purposes and tax bases of its assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management will continue to evaluate both positive and negative evidence on a quarterly basis, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, future taxable income and tax planning strategies. Based on this analysis, management determined that it was more likely than not that all of the deferred tax assets would be realized; therefore, no valuation allowance was provided against the net deferred tax assets of $47.9 million and $31.1 million at September 30, 2018 and December 31, 2017, respectively. The overall increase in net deferred tax assets was primarily due to a decrease of $6.1 million in deferred tax liabilities resulting from the sale of mortgage servicing rights and an increase of $11.5 million in deferred tax assets from the increase of unrealized loss on securities available-for-sale.

ASC 740-10-25 relates to the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740-10-25 prescribes a threshold and a measurement process for recognizing in the financial statements a tax position taken or expected to be taken in a tax return and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company had unrecognized tax benefits of $1.1 million and $1.0 million at September 30, 2018 and December 31, 2017, respectively. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months. As of September 30, 2018, the total unrecognized tax benefit that, if recognized, would impact the effective tax rate was $980 thousand. At September 30, 2018 and December 31, 2017, the Company had no accrued interest or penalties. In the event the Company is assessed interest and/or penalties by federal or state tax authorities, such amounts will be classified in the consolidated financial statements as income tax expense.

The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax in multiple state jurisdictions. The Company is no longer subject to the assessment of U.S. federal income tax for years before 2015. The statute of limitations for the assessment of California Franchise taxes has expired for tax years before 2014 (other state income and franchise tax statutes of limitations vary by state).

The Company early adopted ASU 2018-02 effective January 1, 2018. ASU 2018-02 permits companies to reclassify stranded tax effects due to the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. As a result of the adoption, the Company recorded an increase in accumulated other comprehensive income of $496 thousand and reduced retained earnings by $496 thousand to eliminate the stranded tax effects at that date from the reduction in the federal statutory tax rate that was enacted in December 2017 and became effective January 1, 2018.

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NOTE 12 – RESERVE FOR LOSS ON REPURCHASED LOANS

The Company records a representation and warranty reserve representing its estimate of losses expected on mortgage loan repurchases or loss reimbursements attributable to underwriting or documentation defects on previously sold loans. The reserve for loss on repurchased loans is initially recorded at fair value against net revenue on mortgage banking activities at the time of sale, and any subsequent change in the reserve is recorded on the Consolidated Statements of Operations as an increase or decrease to the provision for loan repurchases (noninterest expense). The following table presents a summary of activity in the reserve for loss on repurchased loans for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Balance at beginning of period	$3,149	$8,028	$6,306	$7,974
Initial provision for loan repurchases	18	98	73	1,613
Subsequent change in the provision	(360)	(749)	(2,366)	(1,477)
Utilization of reserve for loan repurchases	(232)	(1,204)	(1,438)	(1,937)
Balance at end of period	$2,575	$6,173	$2,575	$6,173

During the three and nine months ended September 30, 2018, reserve for loss on repurchased loans decreased by $574 thousand and $3.7 million, respectively. The decreases were primarily due to methodology and data enhancements. During the nine months ended September 30, 2018, approximately $1.5 million of the decrease was due to portfolio run-off and repurchase settlement activities, and approximately $2.2 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.

The Company believes that its obligations for mortgage loan repurchases or loss reimbursements were adequately reserved for at September 30, 2018.

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NOTE 13 – DERIVATIVE INSTRUMENTS

The Company uses derivative instruments and other risk management techniques to reduce its exposure to adverse fluctuations in interest rates in accordance with its risk management policies.

Interest Rate Swaps and Caps on Loans: The Company offers interest rate swap and cap products to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. When such products are issued, the Company also enters into an offsetting swap with institutional counterparties to eliminate the interest rate risk. These back-to-back agreements are intended to offset each other and allow the Company to retain the credit risk of the transaction with its customer in exchange for a fee. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer plus the fee. These swaps and caps are not designated as hedging instruments and are recorded at fair value in Other Assets and Accrued Expenses and Other Liabilities in the Consolidated Statement of Financial Condition. The changes in fair value are recorded in Other Income in the Consolidated Statements of Operations. For the three and nine months ended September 30, 2018 and 2017, changes in fair value recorded through Other Income in the Consolidated Statements of Operations were insignificant.

The following table presents the notional amount and fair value of derivative instruments included in the Consolidated Statements of Financial Condition as of the dates indicated.

($ in thousands)	September 30, 2018		December 31, 2017	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in assets:				
Interest rate swaps and caps on loans	$97,451	$2,099	$70,486	$1,005
Total included in assets	$97,451	$2,099	$70,486	$1,005
Included in liabilities:				
Interest rate swaps and caps on loans	$97,451	$2,064	$70,486	1,033
Total included in liabilities	$97,451	$2,064	$70,486	$1,033

The Company has entered into agreements with counterparty financial institutions, which include master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. However, the Company elected to account for all derivatives with counterparty institutions on a gross basis. Due to clearinghouse rule changes, beginning January 1, 2017, variation margin payments are treated as settlements of derivative exposure rather than as collateral.

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NOTE 14 – EMPLOYEE STOCK COMPENSATION

On May 31, 2018 (the Effective Date), the Company's stockholders approved the Company's 2018 Omnibus Stock Incentive Plan (2018 Omnibus Plan). As of the Effective Date, the Company discontinued granting awards under the Company's 2013 Omnibus Incentive Plan (2013 Omnibus Plan) or any prior equity incentive plans and future stock-based compensation awards to its directors and employees will be made pursuant to the 2018 Omnibus Plan. The 2018 Omnibus Plan provides that the maximum number of shares that will be available for awards is 4,417,882, which represents the number of shares that were available for new awards under the 2013 Omnibus Plan immediately prior to the Effective Date. As of September 30, 2018, 4,376,895 shares were available for future awards.

On December 28, 2017, the Company initiated the termination of the Banc of California Capital and Liquidity Enhancement Employee Compensation Trust, a Maryland statutory trust (the SECT), which was established to fund employee stock compensation and benefit obligations of the Company. The termination of the SECT was completed during the quarter ended September 30, 2018. See Note 15 for additional information.

Share-based Compensation Expense

The following table presents share-based compensation expense and the related tax benefits for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Stock options	$32	$36	$145	$703
Restricted stock awards and units	1,366	2,185	5,128	9,167
Stock appreciation rights	—	—	—	42
Total share-based compensation expense	$1,398	$2,221	$5,273	$9,912
Related tax benefits	$410	$927	$1,546	$4,122

The following table presents unrecognized share-based compensation expense as of September 30, 2018:

($ in thousands)	Unrecognized Expense	Weighted-Average Remaining Expected Recognition Period
Stock option awards	$ 173	1.6 years
Restricted stock awards and restricted stock units	10,853	2.4 years
Total	$ 11,026	2.4 years

Stock Options

The Company has issued stock options to certain employees, officers and directors. Stock options are issued at the closing market price immediately before the grant date, and generally have a three- to five- year vesting period and contractual terms of seven to ten years. The Company recognizes an income tax deduction upon exercise of a stock option to the extent taxable income is recognized by the option holder. In the case of a non-qualified stock option, the option holder recognizes taxable income based on the fair market value of the shares acquired at the time of exercise less the exercise price.

The following table represents stock option activity for the three months ended September 30, 2018:

	Three Months Ended September 30, 2018			
($ in thousands except per share data)	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value
Outstanding at beginning of period	186,973	$ 13.54	6.3 years	$ 1,123
Outstanding at end of period	186,973	$ 13.54	6.1 years	$ 1,002
Exercisable at end of period	123,125	$ 13.67	5.8 years	$ 644

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The following table represents stock option activity for the nine months ended September 30, 2018:

($ in thousands except per share data)	Nine Months Ended September 30, 2018			
	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value
Outstanding at beginning of period	210,973	$ 13.99	7.0 years	$ 1,405
Exercised	(24,000)	$ 17.50	8.2 years	$ —
Outstanding at end of period	186,973	$ 13.54	6.1 years	$ 1,002
Exercisable at end of period	123,125	$ 13.67	5.8 years	$ 644

The following table sets forth information regarding unvested stock options for the three and nine months ended September 30, 2018.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share
Outstanding at beginning of period	73,324	$ 13.32	105,432	$ 13.31
Vested	(9,476)	$ 13.46	(41,584)	$ 13.32
Outstanding at end of period	63,848	$ 13.30	63,848	$ 13.30

Restricted Stock Awards and Restricted Stock Units

The Company also has granted restricted stock awards and restricted stock units to certain employees, officers and directors. The restricted stock awards and units are valued at the closing price of the Company's stock on the date of award. The restricted stock awards and units fully vest after a specified period (generally ranging from one to five years) of continued service from the date of grant plus, in some cases, the satisfaction of performance conditions. The Company recognizes an income tax deduction in an amount equal to the taxable income reported by the holder of the restricted stock, generally upon vesting or, in the case of restricted stock units, when settled. The following table presents unvested restricted stock awards and restricted stock units activity for the three and nine months ended September 30, 2018:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of period	985,237	$ 18.84	911,633	$ 18.73
Granted (1)	41,108	$ 20.00	619,970	$ 18.92
Vested (1)	(68,506)	$ 18.02	(386,723)	$ 18.84
Forfeited (1)	(45,140)	$ 18.23	(232,181)	$ 18.27
Outstanding at end of period	912,699	$ 18.99	912,699	$ 18.99

(1) The number of granted shares/units includes aggregate performance-based shares of 0 and 306,801 for the three and nine months ended September 30, 2018, respectively. The number of vested shares includes aggregate performance-based shares of 0 and 44,817 for the three and nine months ended September 30, 2018, respectively. The number of forfeited shares includes aggregate performance-based shares of 12,958 and 60,378 for the three and nine months ended September 30, 2018, respectively. The vesting of these awards is subject to certain performance targets and goals being met. These performance targets include conditions relating to the Company's profitability and regulatory standing. The actual amounts of stock released upon vesting will be determined by the Compensation

Committee of the Company's Board of Directors upon the Committee's certification of the satisfaction of the target level of performance.

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Stock Appreciation Rights

On August 21, 2012, the Company granted to Steven A. Sugarman, its then- (now former) chief executive officer a ten-year stock appreciation right (SAR) for 500,000 shares (Initial SAR) of the Company’s common stock with a base price of $12.12 per share with one-third of the Initial SAR vesting on the grant date and the remaining amount vesting over a period of 2 years. The Initial SAR entitles Mr. Sugarman to dividend equivalent rights and originally contained an anti-dilution provision pursuant to which additional SARs (Additional SARs) were issued to Mr. Sugarman upon certain stock issuances by the Company, as described below. On March 24, 2016, concurrent with entering into a new employment agreement with the Company, Mr. Sugarman entered into a letter agreement that eliminated this anti-dilution provision of the Initial SAR. Under the terms of the March 24, 2016 letter agreement, in consideration of the removal of the anti-dilution provision of the Initial SAR, the Company granted Mr. Sugarman a one-time performance, based restricted stock award with an aggregate grant date fair market value of $5.0 million, which was scheduled to vest in full on March 24, 2017, but was also subject to restrictions on sale or transfer through March 24, 2021.

In connection with Mr. Sugarman’s resignation as the Company’s chief executive officer on January 23, 2017, all unvested equity awards (including any unvested SARs) immediately vested and became free of all restrictions. In addition, the SARs continued (and continue) to remain exercisable for their full terms, with dividend equivalent rights of the SARs also continuing in effect during their full terms.

As described more fully in the SAR agreement, the original anti-dilution provision of the Initial SAR did not apply to certain issuances of the Company’s common stock for compensatory purposes, but did apply to certain other issuances of the Company’s common stock, including the issuances of common stock to raise capital. Pursuant to this anti-dilution provision, the Company issued Additional SARs to the former chief executive officer with a base price determined as of each date of issuance, but otherwise with the same terms and conditions as the Initial SAR, except for an Additional SAR granted relating to a public offering of the Company’s TEUs on May 21, 2014 that has different terms (Additional TEU SAR).

Regarding the Additional TEU SAR, each TEU contained a Purchase Contract that could be settled in shares of the Company’s voting common stock based on a maximum settlement rate (subject to adjustment) and a minimum settlement rate (subject to adjustment) as more fully described under Note 15. The Additional TEU SAR was calculated using the initial maximum settlement rate and, therefore, the number of shares underlying the Additional TEU SAR was subject to adjustment and forfeiture if the aggregate number of shares of stock issued in settlement of any single Purchase Contract was less than the initial maximum settlement rate. By its original terms, the Additional TEU SAR was to vest in full on May 15, 2017 or accelerate in vesting upon early settlement of a Purchase Contract at the holders' option, and until it vested, the Additional TEU SAR was to have no dividend equivalent rights and the shares underlying the Additional TEU SAR were subject to forfeiture.

The following table represents SARs activity as of and for the three months ended September 30, 2018:

	Three Months Ended September 30, 2018			
($ in thousands except per share data)	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value
Outstanding at beginning of period	1,559,012	$ 11.60	4.1 years	$ 12,390
Outstanding at end of period	1,559,012	$ 11.60	3.9 years	$ 11,377
Exercisable at end of period	1,559,012	$ 11.60	3.9 years	$ 11,377

The following table represents SARs activity as of and for the nine months ended September 30, 2018:

	Nine Months Ended September 30, 2018			
($ in thousands except per share data)	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value
Outstanding at beginning of period	1,559,012	$ 11.60	4.6 years	$ 14,105
Outstanding at end of period	1,559,012	$ 11.60	3.9 years	$ 11,377
Exercisable at end of period	1,559,012	$ 11.60	3.9 years	$ 11,377

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NOTE 15 – STOCKHOLDERS' EQUITY

Warrants

On November 1, 2010, the Company issued warrants to TCW Shared Opportunity Fund V, L.P. for up to 240,000 shares of non-voting common stock at an original exercise price of $11.00 per share, subject to certain adjustments to the number of shares underlying the warrants as well as certain adjustments to the warrant exercise price as applicable. These warrants were exercisable from the date of original issuance through November 1, 2015. On August 3, 2015, these warrants were exercised in full using a cashless (net) exercise, resulting in a net number of shares of non-voting common stock issued in the aggregate of 70,690, which were immediately thereafter exchanged pursuant to a separate exchange agreement entered into on May 29, 2013 for an aggregate of 70,690 shares of voting common stock. Based on automatic adjustments to the original $11.00 exercise price, the exercise price at the time of exercise of the warrants was $9.13 per share.

On November 1, 2010, the Company also issued warrants to COR Advisors LLC (COR Advisors), an entity controlled by Steven A. Sugarman, who became a director of the Company on that date and later became President and Chief Executive Officer of the Company (and resigned from those and all other positions with the Company and the Bank on January 23, 2017). The warrants entitled COR Advisors to purchase up to 1,395,000 shares of non-voting common stock at an exercise price of $11.00 per share, subject to certain adjustments to the number of shares underlying the warrants as well as certain adjustments to the warrant exercise price as applicable. On August 3, 2011, COR Advisors transferred warrants for the right to purchase 960,000 shares of non-voting common stock to COR Capital Holdings LLC (COR Capital Holdings), an entity controlled by Steven A. Sugarman, and transferred warrants for the right to purchase the remaining 435,000 shares of non-voting common stock to Jeffrey T. Seabold, the Company's then- (now former) Executive Vice President and Management Vice-Chair.

On August 22, 2012, COR Capital Holdings transferred its warrants for the right to purchase 960,000 shares of non-voting common stock to a living trust for Steven A. Sugarman and his spouse. These warrants vested in tranches, with each tranche being exercisable for five years after the tranche's vesting date. With respect to the warrants transferred by COR Capital Holdings to the living trust for Steven A. Sugarman and his spouse, warrants to purchase 50,000 shares vested on October 1, 2011 and the remainder vested in seven equal quarterly installments beginning January 1, 2012 and ending on July 1, 2013. With respect to the warrants transferred by COR Advisors to Mr. Seabold, warrants to purchase 95,000 shares vested on January 1, 2011; warrants to purchase 130,000 shares vested on each of April 1 and July 1, 2011, and warrants to purchase 80,000 shares vested on October 1, 2011.

On August 17, 2016, the living trust for Steven A. Sugarman and his spouse transferred warrants to purchase 480,000 shares to Steven A. Sugarman's brother, Jason Sugarman. These transferred warrants were last exercisable on September 30, 2016, December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017 for 50,000, 130,000, 130,000, 130,000, and 40,000 shares, respectively. On August 17, 2016, Jason Sugarman irrevocably elected to fully exercise each tranche of the transferred warrants. Under his irrevocable election, Jason Sugarman directed that each such exercise would occur on the last exercisable date for each tranche using a cashless (net) exercise method and also directed that each exercise be for either non-voting common stock, or, if allowed under the terms of the warrant, for voting common stock. At September 30, 2016, December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017, in accordance with Jason Sugarman's irrevocable election, warrants to purchase 50,000, 130,000, 130,000,130,000, and 40,000 shares, respectively, had been exercised, resulting in issuances of 25,051 and 64,962 shares of the Company's voting common stock and 75,875, 77,376 and 23,237 shares of the Company's non-voting common stock, respectively. Based on automatic adjustments to the original $11.00 exercise price, the exercise price at the time of exercise was $8.80, $8.72, $8.66, $8.61 and $8.55 per share, respectively. As a result of these exercises, Jason Sugarman no longer holds any warrants to purchase shares of the Company's stock. During the three months ended June 30, 2018, based on additional documentation received from Jason Sugarman, it was determined that Jason Sugarman was eligible to receive voting common stock under the terms of the transferred warrant for the exercises that previously occurred on March 31, 2017, June 30, 2017 and September 30, 2017. Accordingly, on June 6, 2018, an aggregate of 176,488 shares of Company's non-voting common stock owned by Jason Sugarman were canceled and he was issued 176,488 shares of the Company's voting common stock in lieu thereof.

On August 16, 2016, the living trust for Steven A. Sugarman and his spouse irrevocably elected to exercise its warrants to purchase 480,000 shares. Under its irrevocable election, the living trust for Steven A. Sugarman and his spouse directed that each such exercise would occur on the last exercisable date for each tranche of such warrants (September 30, 2017, December 31, 2017, March 31, 2018 and June 30, 2018 with respect to 90,000, 130,000, 130,000, and 130,000 shares, respectively) using a cashless net exercise method and also directed that each exercise be for non-voting common stock. On September 30, 2017, in accordance with its irrevocable election, warrants to purchase 90,000 shares were exercised by the living trust for Steven A. Sugarman and his spouse, resulting in the issuance of 52,284 shares of the Company's non-voting common stock. Based on an automatic adjustment to the original $11.00 exercise price, the exercise price at the time of exercise was $8.55 per share.

On each of December 27, 2017, March 30, 2018 and June 29, 2018, the Company was notified that the living trust for Steven A. Sugarman and his spouse purportedly transferred warrants with respect to 130,000 shares, with a last exercisable date of December 31, 2017, 130,000 shares with a last exercisable date of March 31, 2018 and 130,000 shares with a last exercisable date of June 30, 2018, respectively, to a separate entity, Sugarman Family Partners. In accordance with the irrevocable election to exercise previously submitted by the living trust for Steven A. Sugarman and his spouse, the Company considered these transferred warrants to have been exercised with respect to 130,000 shares on December 31, 2017, 130,000 shares on March 31, 2018 and 130,000 shares on June 30, 2018, respectively, resulting in the issuance of 77,413, 72,159, and 73,543 shares of the Company's non-voting common stock, respectively, on December 31, 2017, April 2, 2018 and July 2, 2018, respectively. Based on an automatic adjustment to the original $11.00 exercise price, the exercise price at the time of exercise was $8.49 per share, $8.44 per share and $8.38 per share, respectively. As a result of these exercises, none of these warrants remain outstanding.

On December 8, 2015, March 9, 2016, June 17, 2016, and September 30, 2016, Mr. Seabold exercised his warrants with respect to 95,000, 130,000, 130,000, and 80,000 shares, respectively, using cashless (net) exercises, resulting in a net number of shares of non-voting common stock issued in the aggregate of 37,355, 53,711, 70,775, and 40,081, respectively. Based on automatic adjustments to the original $11.00 exercise price, the exercise price at the time of exercise was $9.04, $8.90, $8.84, and $8.80 per share, respectively. As a result of these exercises, Mr. Seabold no longer holds any warrants to purchase shares of the Company's stock.

Preferred Stock

The Company is authorized to issue 50,000,000 shares of preferred stock with par value of $0.01 per share. Preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference but generally have no voting rights. All of the Company's outstanding shares of preferred stock have a $1,000 per share liquidation preference.

The following table presents the Company's total outstanding preferred stock as of dates indicated:

($ in thousands)	September 30, 2018			December 31, 2017		
	Shares Authorized and Outstanding	Liquidation Preference	Carrying Value	Shares Authorized and Outstanding	Liquidation Preference	Carrying Value
Series C 8.00% non-cumulative perpetual	$—	$ —	$—	$40,250	$ 40,250	$37,943
Series D 7.375% non-cumulative perpetual	115,000	115,000	110,873	115,000	115,000	110,873
Series E 7.00% non-cumulative perpetual	125,000	125,000	120,255	125,000	125,000	120,255
Total	$240,000	$ 240,000	$231,128	$280,250	$ 280,250	$269,071

On September 17, 2018, the Company completed the redemption of all 40,250 outstanding shares of the Company's 8.00 percent Series C Non-Cumulative Perpetual Preferred Stock (Series C Preferred Stock), which resulted in the simultaneous redemption of all 1,610,000 of the outstanding related depositary shares (Series C Depository Shares), each representing a 1/40th interest in a share of Series C Preferred Stock, at a redemption price of the liquidation amount of $1,000 per share of Series C Preferred Stock (equivalent to $25 per Series C Depository Share). The redemption price represented an aggregate amount of $40.3 million and did not accrue interest from and following the regularly scheduled dividend payment date of September 15, 2018. Deferred stock issuance costs of $2.3 million originally recorded as a reduction to preferred stock upon issuance of the Series C Preferred Stock were reclassified to retained earnings and resulted in a one-time, non-cash reduction to net income allocated to common stockholders. This affected the computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2018. See Note 18 for additional information.

Stock Employee Compensation Trust

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

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 (the SECT Termination Sale). Following the SECT Termination Sale, such shares of voting common stock were canceled. Of the proceeds from the SECT Termination Sale, $2.7 million was to 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. During the quarter ended September 30, 2018, the remaining cash balance in the SECT, including the aforementioned proceeds of $2.7 million from the SECT Termination Sale, was disbursed from the SECT to the Company to fund the Company's 401(k) plan as well as health and welfare plans. The termination of the SECT was completed upon the filing of a certificate of cancellation with the Maryland Department of Assessments and Taxation on September 24, 2018.

Tangible Equity Units - Prepaid Stock Purchase Contracts

On May 21, 2014, the Company completed an underwritten public offering of 1,380,000 of its tangible equity units (TEUs), which included 180,000 TEUs issued to the underwriter upon the full exercise of its over-allotment option, resulting in net proceeds of $65.0 million. The relative fair values of the Amortizing Notes and Purchase Contracts were estimated to be $14.6 million and $54.4 million, respectively, at the date of issuance. Total issuance costs associated with the TEUs were $4.0 million, of which $857 thousand was allocated to the debt component and $3.2 million was allocated to the equity component of the TEUs.

Each TEU was comprised of a Purchase Contract and an Amortizing Note. The terms of the Purchase Contracts provided that unless settled early at the holder's option as described below, on May 15, 2017, each Purchase Contract would automatically settle and the Company would deliver a number of shares of its voting common stock based on the then-applicable market value of the voting common stock, ranging from an initial minimum settlement rate of 4.4456 shares per Purchase Contract (subject to adjustment) if the applicable market value is equal to or greater than $11.247 per share to an initial maximum settlement rate of 5.1124 shares per Purchase Contract (subject to adjustment) if the applicable market value is less than or equal to $9.78 per share.

From the first business day following the issuance of the TEUs, excluding the third business day immediately preceding May 15, 2017, a holder of a Purchase Contract could settle its Purchase Contract early, and the Company would deliver to the holder 4.4456 shares of voting common stock. On May 15, 2017, all Purchase Contracts that had not previously been settled early as described above were settled. The Company issued an aggregate of 6,134,988 shares of voting common stock pursuant to the Purchase Contracts. See Note 10 for additional information.

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Change in Accumulated Other Comprehensive Income (Loss)

The Company's Accumulated Other Comprehensive Income (Loss) includes unrealized gain (loss) on securities available-for-sale. Changes to Accumulated Other Comprehensive Income (Loss) are presented net of tax effect as a component of stockholders' equity. Reclassifications from Accumulated Other Comprehensive Income (Loss) are recorded in the Consolidated Statements of Operations either as a gain or loss. The following table presents changes to Accumulated Other Comprehensive Income (Loss) for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Unrealized gain (loss) on securities available-for-sale				
Balance at beginning of period	$(19,370)	$8,881	$5,227	$(9,042)
Unrealized (loss) gain arising during the period	(3,633)	5,788	(34,111)	18,937
Unrealized gain arising from the reclassification of securities held-to-maturity to securities available-for-sale	—	—	—	21,990
Reclassification adjustment from other comprehensive income	(13)	(7,625)	(5,532)	(12,080)
Tax effect of current period changes	1,069	764	11,973	(11,997)
Total changes, net of taxes	(2,577)	(1,073)	(27,670)	16,850
Reclassification of stranded tax effects to retained earnings	—	—	496	—
Balance at end of period	$(21,947)	$7,808	$(21,947)	$7,808

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NOTE 16 – REGULATORY CAPITAL MATTERS

The following table presents the regulatory capital amounts and ratios for the Company and the Bank as of dates indicated:

			Minimum Capital Requirements		Minimum Required to Be Well-Capitalized Under Prompt Corrective Action Provisions	
($ in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2018						
Banc of California, Inc.						
Total risk-based capital	$970,217	14.05%	$552,550	8.00%	N/A	N/A
Tier 1 risk-based capital	908,187	13.15%	414,412	6.00%	N/A	N/A
Common equity tier 1 capital	677,059	9.80 %	310,809	4.50%	N/A	N/A
Tier 1 leverage	908,187	8.99 %	404,082	4.00%	N/A	N/A
Banc of California, NA						
Total risk-based capital	$1,099,966	15.94%	$552,068	8.00%	$690,085	10.00%
Tier 1 risk-based capital	1,037,936	15.04%	414,051	6.00%	552,068	8.00 %
Common equity tier 1 capital	1,037,936	15.04%	310,538	4.50%	448,555	6.50 %
Tier 1 leverage	1,037,936	10.29%	403,522	4.00%	504,402	5.00 %
December 31, 2017						
Banc of California, Inc.						
Total risk-based capital	$1,002,200	14.56%	$550,499	8.00%	N/A	N/A
Tier 1 risk-based capital	949,151	13.79%	412,874	6.00%	N/A	N/A
Common equity tier 1 capital	682,539	9.92 %	309,656	4.50%	N/A	N/A
Tier 1 leverage	949,151	9.39 %	404,339	4.00%	N/A	N/A
Banc of California, NA						
Total risk-based capital	$1,131,057	16.56%	$546,359	8.00%	$682,949	10.00%
Tier 1 risk-based capital	1,078,008	15.78%	409,769	6.00%	546,359	8.00 %
Common equity tier 1 capital	1,078,008	15.78%	307,327	4.50%	443,917	6.50 %
Tier 1 leverage	1,078,008	10.67%	404,060	4.00%	505,074	5.00 %

In July 2013, the Federal banking regulators approved a final rule to implement the revised capital adequacy standards of the Basel Committee on Banking Supervision, commonly called Basel III, and to address relevant provisions of the Dodd-Frank
Wall Street Reform and Consumer Protection Act (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.

The final rule:

- Permits banking organizations that had less than $15 billion in total consolidated assets as of December 31, 2009, to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock that were issued and included in Tier 1 capital prior to May 19, 2010, subject to a limit of 25 percent of Tier 1 capital elements, excluding any non-qualifying capital instruments and after all regulatory capital deductions and adjustments have been applied to Tier 1 capital.
- Establishes new qualifying criteria for regulatory capital, including new limitations on the inclusion of deferred tax assets and mortgage servicing rights.
- Requires a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5 percent.
- Increases the minimum Tier 1 capital to risk-weighted assets ratio requirement from 4 percent to 6 percent.

- Retains the minimum total capital to risk-weighted assets ratio requirement of 8 percent.
- Retains a minimum leverage ratio requirement of 4 percent.
- Changes the prompt corrective action standards so that in order to be considered well-capitalized, a depository institution must have a ratio of common equity Tier 1 capital to risk-weighted assets of 6.5 percent (new), a ratio of Tier 1 capital to risk-weighted assets of 8 percent (increased from 6 percent), a ratio of total capital to risk-weighted assets of 10 percent (unchanged), and a leverage ratio of 5 percent (unchanged).

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- Retains the existing regulatory capital framework for one-to-four family residential mortgage exposures.
- Permits banking organizations that are not subject to the advanced approaches rule, such as the Company and the Bank, to retain, through a one-time election, the existing treatment for most accumulated other comprehensive income, such that unrealized gains and losses on securities available-for-sale will not affect regulatory capital amounts and ratios.
- Implements a new capital conservation buffer requirement for a banking organization to maintain a common equity capital ratio more than 2.5 percent above the minimum common equity Tier 1 capital, Tier 1 capital and total risk-based capital ratios in order to avoid limitations on capital distributions, including dividend payments, and certain discretionary bonus payments. The capital conservation buffer requirement is being phased in, beginning on January 1, 2016 at 0.625 percent, with additional 0.625 percent increments annually, and will be fully phased in at 2.50 percent by January 1, 2019. A banking organization with a buffer of less than the required amount would be subject to increasingly stringent limitations on such distributions and payments as the buffer approaches zero. The new rule also generally prohibits a banking organization from making such distributions or payments during any quarter if its eligible retained income is negative and its capital conservation buffer ratio was 2.5 percent or less at the end of the previous quarter. The eligible retained income of a banking organization is defined as its net income for the four calendar quarters preceding the current calendar quarter, based on the organization's quarterly regulatory reports, net of any distributions and associated tax effects not already reflected in net income.
- Increases capital requirements for past due loans, high volatility commercial real estate exposures, and certain short-term commitments and securitization exposures.
- Expands the recognition of collateral and guarantors in determining risk-weighted assets.
- Removes references to credit ratings consistent with the Dodd-Frank Act and establishes due diligence requirements for securitization exposures.

NOTE 17 – VARIABLE INTEREST ENTITIES

The Company holds ownership interests in alternative energy partnerships and qualified affordable housing partnerships, and held an interest in the SECT prior to the termination of 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 September 30, 2018 and 2017, the Company funded $0 and $15.0 million, respectively, into these partnerships and recognized a loss on investment of $2.5 million and $8.3 million, respectively, through its HLBV application. During the nine months ended September 30, 2018 and 2017, the Company received a return of capital of $1.0 million and funded $45.9 million, respectively, from and into these partnerships and recognized a loss on investment of $4.3 million and $26.8 million, respectively, through its HLBV application. As a result, the balance of these investments was $41.8 million and $43.8 million, respectively, at September 30, 2018 and 2017. From an income tax benefit perspective, the Company recognized investment tax credits of $412 thousand and $8.8 million, respectively, during the three months ended September 30, 2018 and 2017, and $9.6 million and $33.3 million, respectively, during the nine months ended September 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 that 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.

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)	September 30, 2018	December 31, 2017
Cash	$ 6,281	$ 16,518
Equipment, net of depreciation	261,304	246,297
Other assets	3,952	2,444
Total unconsolidated assets	$ 271,537	$ 265,259
Total unconsolidated liabilities	$ 6,127	$ 7,181
Maximum loss exposure	$ 41,781	$ 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 $41.8 million, which is the Company's recorded investment amount at September 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 September 30, 2018 and December 31, 2017, the Company had a total investment in qualified affordable housing projects of $20.5 million and $22.0 million, respectively. During the three and nine months ended September 30, 2018, the Company funded $384 thousand and $2.0 million, respectively, and recognized proportional amortization expense of $498 thousand and $1.5 million, respectively. The Company has funded $15.6 million of its $29.3 million aggregated funding commitments and had an unfunded commitment of $13.6 million at September 30, 2018. During the three and nine months ended September 30, 2017, the Company funded $2.2 million and $4.2 million, respectively, into qualified affordable housing projects and recognized proportional amortization expense of $255 thousand and $982 thousand, respectively. From an income tax benefit perspective, the Company recognized investment tax credits of $470 thousand and $98 thousand, respectively, during the three months ended September 30, 2018 and 2017, and $1.4 million and $637 thousand, respectively, during the nine months ended September 30, 2018 and 2017. At September 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 $20.5 million and $22.0 million, respectively, 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 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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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.

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. On September 24, 2018, the termination of the SECT was completed. See Note 15 for additional information.

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NOTE 18 – EARNINGS PER COMMON SHARE

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

($ in thousands except per share data)	Three Months Ended September 30, 2018 Common Stock	Class B Common Stock	Total	Nine Months Ended September 30, 2018 Common Stock	Class B Common Stock	Total
Income from continuing operations	$10,330	$ 98	$ 10,428	$31,043	$ 313	$ 31,356
Less: participating securities dividends	(200)	(2)	(202)	(602)	(6)	(608)
Less: preferred stock dividends	(4,923)	(47)	(4,970)	(15,044)	(152)	(15,196)
Less: preferred stock redemption	(2,285)	(22)	(2,307)	(2,284)	(23)	(2,307)
Income from continuing operations allocated to common stockholders	2,922	27	2,949	13,113	132	13,245
Income from discontinued operations	662	6	668	3,047	31	3,078
Net income allocated to common stockholders	$3,584	$ 33	$ 3,617	$16,160	$ 163	$ 16,323
Weighted average common shares outstanding	50,179,555	476,521	50,656,076	50,108,501	505,089	50,613,590
Dilutive effects of stock units	195,508	—	195,508	140,200	—	140,200
Dilutive effects of stock options	47,068	—	47,068	44,856	—	44,856
Dilutive effects of warrants	812	—	812	74,356	—	74,356
Average shares and dilutive common shares	50,422,943	476,521	50,899,464	50,367,913	505,089	50,873,002
Basic earnings per common share						
Income from continuing operations	$0.06	$ 0.06	$ 0.06	$0.26	$ 0.26	$ 0.26
Income from discontinued operations	0.01	0.01	0.01	0.06	0.06	0.06
Net income	$0.07	$ 0.07	$ 0.07	$0.32	$ 0.32	$ 0.32
Diluted earnings per common share						
Income from continuing operations	$0.06	$ 0.06	$ 0.06	$0.26	$ 0.26	$ 0.26
Income from discontinued operations	0.01	0.01	0.01	0.06	0.06	0.06
Net income	$0.07	$ 0.07	$ 0.07	$0.32	$ 0.32	$ 0.32

For the three and nine months ended September 30, 2018, there were 17,495 and 279,249 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.

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

($ in thousands except per share data)	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Common Stock	Class B Common Stock	Total	Common Stock	Class B Common Stock	Total
Income from continuing operations	$17,980	$ 128	$ 18,108	$42,384	$ 238	$ 42,622
Less: income allocated to participating securities	(152)	(1)	(153)	(327)	(2)	(329)
Less: participating securities dividends	(202)	(1)	(203)	(605)	(3)	(608)
Less: preferred stock dividends	(5,076)	(36)	(5,112)	(15,252)	(86)	(15,338)
Income from continuing operations allocated to common stockholders	12,550	90	12,640	26,200	147	26,347
Income from discontinued operations	(1,151)	(8)	(1,159)	3,764	21	3,785
Net income allocated to common stockholders	$11,399	$ 82	$ 11,481	$29,964	$ 168	$ 30,132
Weighted average common shares outstanding	50,006,370	355,944	50,362,314	49,881,231	279,697	50,160,928
Dilutive effects of stock units	130,700	—	130,700	96,899	—	96,899
Dilutive effects of stock options	147,424	—	147,424	187,206	—	187,206
Dilutive effects of warrants	292,920	—	292,920	365,374	—	365,374
Average shares and dilutive common shares	50,577,414	355,944	50,933,358	50,530,710	279,697	50,810,407
Basic earnings per common share						
Income from continuing operations	$0.25	$ 0.25	$ 0.25	$0.52	$ 0.52	$ 0.52
Income from discontinued operations	(0.02)	(0.02)	0.02	0.08	0.08	0.08
Net income	$0.23	$ 0.23	$ 0.23	$0.60	$ 0.60	$ 0.60
Diluted earnings per common share						
Income from continuing operations	$0.25	$ 0.25	$ 0.25	$0.52	$ 0.52	$ 0.52
Income from discontinued operations	(0.02)	(0.02)	(0.02)	0.07	0.08	0.07
Net income	$0.23	$ 0.23	$ 0.23	$0.59	$ 0.60	$ 0.59

For the three and nine months ended September 30, 2017, there were 99,287 and 106,361 stock units, respectively, and 120,000 and 199,121 stock options, respectively, that were not considered in computing diluted earnings per common share because they were anti-dilutive.

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:

($ in thousands)	September 30, 2018 Fixed Rate	September 30, 2018 Variable Rate	December 31, 2017 Fixed Rate	December 31, 2017 Variable Rate
Commitments to extend credit (1)	$2,547	$306,499	$1,851	$335,654
Unused lines of credit	1,662	1,178,559	19,085	1,309,170
Letters of credit	1,046	9,321	1,050	12,976

(1) Included no commitments to extend credit related to discontinued operations at September 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 September 30, 2018, the Bank has paid $14.0 million of the $100.0 million commitment. The prepaid commitment balance, net of amortization, was $9.0 million as of September 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.

At September 30, 2018, the Company had unfunded commitments of $13.6 million, $10.1 million, and $501 thousand for affordable housing fund investments, Small Business Investment Company (SBIC) investments, and other investments, respectively.

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NOTE 20 – RESTRUCTURINGS

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 reduced 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 fully completed during the fourth quarter of 2018. The Company incurred one-time severance-related costs in the second and third quarters of 2018 aggregating $4.5 million, pre-tax, related to the reduction in force. Additional one-time severance costs may be recognized in the fourth quarters of 2018 from executing the plan.

The Company had outstanding unpaid accrued liabilities of $688 thousand and $202 thousand, respectively, at September 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 nine months ended September 30, 2018:

($ in thousands)	Expense Continuing Operations	Discontinued Operations	Total	Accrued Liabilities
As of or For the Three Months Ended September 30, 2018				
Balance at beginning of period				$ 2,681
Accrual:				
Severance and other employee related costs	$553	$ —	$553	553
Total	$553	$ —	$553	553
Payments:				
Severance and other employee related costs				(2,546)
Balance at end of period				$ 688
As of or For the Nine Months Ended September 30, 2018				
Balance at beginning of period				$ 202
Accrual:				
Severance and other employee related costs	$4,536	$ —	$4,536	4,536
Total	$4,536	$ —	$4,536	4,536
Payments:				
Severance and other employee related costs				(4,050)
Balance at end of period				$ 688

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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 nine months ended September 30, 2017:

($ in thousands)	Expense Continuing Operations	Discontinued Operations	Total	Accrued Liabilities
As of or For the Three Months Ended September 30, 2017				
Balance at beginning of period				$ 687
Accrual:				
Severance and other employee related costs	$—	$ 279	$279	279
Total	$—	$ 279	$279	279
Payments:				
Severance and other employee related costs				(681)
Balance at end of period				$ 285
As of or For the Nine Months Ended September 30, 2017				
Balance at beginning of period				$ —
Accrual:				
Severance and other employee related costs	$5,369	$ 2,899	$8,268	8,268
Other restructuring expense	—	895	895	895
Total	$5,369	$ 3,794	$9,163	9,163
Payments:				
Severance and other employee related costs				(7,983)
Other restructuring expense				(895)
Total				(8,878)
Balance at end of period				$ 285

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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.

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 September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Noninterest Income				
In scope of Topic 606				
Deposit Service Fees	$783	$725	$2,269	$2,207
Debit Card Fees	127	446	529	1,373
Investment Commissions	380	432	1,322	1,265
Other	51	(101)	206	58

Noninterest Income (in-scope of Topic 606)	1,341	1,502	4,326	4,903
Noninterest Income (out-of-scope of Topic 606)	3,483	16,863	17,141	34,072
Total Noninterest Income	$4,824	$18,365	$21,467	$38,975

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

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 nine months ended September 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 September 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 $11.4 million and $2.2 million at September 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 nine months ended September 30, 2018, indemnification costs paid by the Company included $562 thousand incurred by director Halle J. Benett; $562 thousand incurred by director Jonah F. Schnel; and $562 thousand incurred by director Robert Sznewajs. Indemnification costs were paid on behalf of other executive officers and directors in lesser amounts for the nine months ended September 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 nine months ended September 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. On June 6, 2018, the revolving repurchase facility was extended for 90 days beyond its original maturity date of June 10, 2018. The repurchase facility's outstanding balance was $3.5 million before it was completely paid off in August 2018. The extension was not renewed and expired on September 10, 2018. Under the Sabal repurchase facility, commercial mortgage loans originated by Sabal were 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 were secured by commercial mortgage loans having a market value in excess of the balance of the advances under the facility. During the nine months ended September 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 September 30, 2018 and December 31, 2017 was $0 and $23.6 million, respectively. Interest on the outstanding balance under the Sabal repurchase facility accrued at the six-month LIBOR rate plus a margin. $210.4 million and $600.4 million in principal, respectively, and $370 thousand and $1.1 million in interest, respectively, was paid by Sabal on the facility to the Bank during the nine months ended September 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 acted as financial advisor to the Company in connection with the 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.

- 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.

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 the Company's voting common stock at a price of $9.78 per share and (ii) 824,000 shares of the Company's 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 nine months ended September 30, 2018, indemnification costs paid by the Company included $3.1 million incurred by the Company's former Chair, President and Chief Executive Officer Steven A. Sugarman; $387 thousand incurred by the Bank's former Management Vice Chair Jeffrey T. Seabold; $244 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; $289 thousand incurred by the Bank's former director Cynthia

Abercrombie; and $562 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 nine months ended September 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 September 30, 2018 and December 31, 2017, there were $0 and $23.3 million outstanding advances, respectively, by the Bank under the Stadco Loan. On August 30, 2018, all outstanding advances under Stadco Loan were paid off. During the nine months ended September 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 $66 thousand and $295 thousand, respectively, in unused loan fees during nine months ended September 30, 2018 and the year ended December 31, 2017. Interest on the outstanding balance under the Stadco Loan accrued at LIBOR plus a margin. During the nine months ended September 30, 2018 and the year ended December 31, 2017, $1.1 million and $325 thousand interest, respectively, was paid by Stadco to the Bank on the Stadco Loan.

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As of September 30, 2018 and December 31, 2017, there were $9.7 million and $5.4 million outstanding advances, respectively, by the Bank under the Team Loan. During the nine months ended September 30, 2018 and the year ended December 31, 2017, the largest aggregate amount of principal outstanding under the Team Loan was $9.7 million and $5.5 million, respectively. The Bank collected $22 thousand and $140 thousand, respectively, in unused loan fees during the nine months ended September 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 nine months ended September 30, 2018 and the year ended December 31, 2017, $269 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 of the issuer of the credit card. This letter of credit had never been drawn upon and was terminated as of September 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 nine months ended September 30, 2018, the Bank paid $4.0 million for the Team's 2018 MLS season and the related advertising and promotion expense recorded was $5.0 million. As of September 30, 2018, the Bank has paid $14.0 million of the $100.0 million commitment. The prepaid commitment balance, net of amortization, was $9.0 million as of September 30, 2018, which was recognized as a prepaid asset and included in Other Assets in the Consolidated Statements of Financial Condition.

As of September 30, 2018 and December 31, 2017, the various entities affiliated with LAFC held $42.2 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 September 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 September 30, 2018, the Company accrued $896 thousand for various legal actions 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.

NOTE 24 – SUBSEQUENT EVENTS

The Company evaluated events from the date of the consolidated financial statements on September 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.

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 nine months ended September 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 September 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 when 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 adoption of this guidance will result in additional assets and liabilities and impact the Company's regulatory capital ratios as the Company will be required to record its operating lease agreements as a right-of-use asset and a corresponding lease liability on its Consolidated Statement of Financial Condition. The Company believes the adoption of this guidance will not have a material impact 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 has established a management team to assess the impact of this guidance and develop an implementation strategy. The Company is continuing to evaluate the impact that adoption of this guidance may have on its consolidated financial statements.

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 believes the adoption of this guidance will not have a material impact 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 believes the adoption of this guidance will not have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13. "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." The FASB modifies certain disclosure requirements on fair value measurements as part of its disclosure framework project, which aims to improve the effectiveness of disclosures in the notes to financial statements. The ASU eliminates the disclosure requirements of the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for the timing of the transfer between levels and the valuation processes for Level 3 fair value measurements. The amendments requires public companies to disclose the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements for instruments held at the end of the reporting period and the range and weighted averaged used to develop significant unobservable inputs for Level 3 fair value measurements. This new guidance is effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. An entity may early adopt any eliminated or modified disclosure requirement and delay adoption of the additional disclosure requirements until their effective date. 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 September 30,		As of or For the Nine Months Ended September 30,	
($ in thousands, except per share data)	2018	2017	2018	2017
Selected financial condition data:				
Total assets	$10,260,822	$10,280,028	$10,260,822	$10,280,028
Cash and cash equivalents	372,221	611,826	372,221	611,826
Loans and leases receivable, net	7,195,511	6,181,825	7,195,511	6,181,825
Loans held-for-sale	9,382	50,130	9,382	50,130
Other real estate owned, net	434	3,682	434	3,682
Securities available-for-sale	2,059,832	2,755,664	2,059,832	2,755,664
Bank owned life insurance	106,468	104,292	106,468	104,292
Time deposits in financial institutions	—	1,000	—	1,000
FHLB and other bank stock	71,308	67,063	71,308	67,063
Assets of discontinued operations	20,290	59,575	20,290	59,575
Deposits	7,401,742	7,403,593	7,401,742	7,403,593
Total borrowings	1,813,096	1,679,385	1,813,096	1,679,385
Liabilities of discontinued operation	—	12,500	—	12,500
Total stockholders' equity	946,678	1,013,908	946,678	1,013,908
Selected operations data:				
Total interest and dividend income	$107,774	$96,751	$311,666	$292,033
Total interest expense	36,582	21,715	96,272	61,016
Net interest income	71,192	75,036	215,394	231,017
Provision for loan and lease losses	1,410	3,561	23,562	8,647
Net interest income after provision for loan and lease losses	69,782	71,475	191,832	222,370
Total noninterest income	4,824	18,365	21,467	38,975
Total noninterest expense	60,877	75,671	183,216	241,886
Income from continuing operations before income taxes	13,729	14,169	30,083	19,459
Income tax expense (benefit) on continuing operations	3,301	(3,939)	(1,273)	(23,163)
Income from continuing operations	10,428	18,108	31,356	42,622
Income (loss) from discontinued operations before income taxes	924	(1,958)	4,249	6,399
Income tax expense (benefit) on discontinued operations	256	(799)	1,171	2,614
Income (loss) from discontinued operations	668	(1,159)	3,078	3,785
Net income	11,096	16,949	34,434	46,407
Dividends paid on preferred stock	4,970	5,112	15,196	15,338
Impact of preferred stock redemption	2,307	—	2,307	—
Net income available to common stockholders	3,819	11,837	16,931	31,069
Basic earnings per total common share				
Income from continuing operations	$0.06	$0.25	$0.26	$0.52
Income (loss) from discontinued operations	$0.01	$(0.02)	$0.06	$0.08
Net income	$0.07	$0.23	$0.32	$0.60
Diluted earnings per total common share				
Income from continuing operations	$0.06	$0.25	$0.26	$0.52
Income (loss) from discontinued operations	$0.01	$(0.02)	$0.06	$0.07
Net income	$0.07	$0.23	$0.32	$0.59
Performance ratios of consolidated operations: [1]				

Return on average assets	0.43%	0.67%	0.45%	0.58%
Return on average equity	4.40%	6.69%	4.57%	6.16%

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($ in thousands, except per share data)	As of or For the Three Months Ended September 30, 2018	2017	As of or For the Nine Months Ended September 30, 2018	2017
Return on average tangible common equity (2)	2.49 %	7.16 %	3.61 %	6.46 %
Dividend payout ratio (3)	185.71 %	56.52 %	121.88 %	65.00 %
Net interest spread	2.62 %	2.92 %	2.70 %	2.96 %
Net interest margin (4)	2.93 %	3.15 %	2.97 %	3.14 %
Noninterest expense to average total assets	2.38 %	3.10 %	2.40 %	3.79 %
Efficiency ratio (5)	79.15 %	83.36 %	76.00 %	89.74 %
Efficiency ratio, as adjusted (2), (5)	77.88 %	72.49 %	71.97 %	77.58 %
Average interest-earning assets to average interest-bearing liabilities	120.37 %	123.99 %	120.50 %	122.82 %
Asset quality ratios:				
ALLL	$57,782	$45,072	$57,782	$45,072
Non-performing loans and leases	25,523	12,275	25,523	12,275
Non-performing assets	25,957	15,957	25,957	15,957
Non-performing assets to total assets	0.25 %	0.16 %	0.25 %	0.16 %
ALLL to non-performing loans and leases	226.39 %	367.19 %	226.39 %	367.19 %
ALLL to total loans and leases	0.80 %	0.72 %	0.80 %	0.72 %
Capital Ratios:				
Average equity to average assets	9.85 %	9.95 %	9.85 %	9.45 %
Total stockholders' equity to total assets	9.23 %	9.86 %	9.23 %	9.86 %
Tangible common equity to tangible assets (2)	6.57 %	6.82 %	6.57 %	6.82 %
Book value per common share	$14.13	$14.74	$14.13	$14.74
Tangible common equity (TCE) per common share (2)	13.25	13.80	13.25	13.80
Banc of California, Inc.				
Total risk-based capital ratio	14.05 %	14.48 %	14.05 %	14.48 %
Tier 1 risk-based capital ratio	13.15 %	13.77 %	13.15 %	13.77 %
Common equity tier 1 capital ratio	9.80 %	9.91 %	9.80 %	9.91 %
Tier 1 leverage ratio	8.99 %	9.55 %	8.99 %	9.55 %
Banc of California, NA				
Total risk-based capital ratio	15.94 %	16.39 %	15.94 %	16.39 %
Tier 1 risk-based capital ratio	15.04 %	15.68 %	15.04 %	15.68 %
Common equity tier 1 capital ratio	15.04 %	15.68 %	15.04 %	15.68 %
Tier 1 leverage ratio	10.29 %	10.88 %	10.29 %	10.88 %

(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 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 September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Average total stockholders' equity	$1,000,819	$1,005,462	$1,007,142	$1,007,185
Less average preferred stock	(260,822)	(269,071)	(266,291)	(269,071)
Less average goodwill	(37,144)	(37,144)	(37,144)	(37,829)
Less average other intangible assets	(7,412)	(10,760)	(8,159)	(11,910)
Average tangible common equity	$695,441	$688,487	$695,548	$688,375
Net income	$11,096	$16,949	$34,434	$46,407
Less preferred stock dividends and impact of preferred stock redemption	(7,277)	(5,112)	(17,503)	(15,338)
Add amortization of intangible assets	693	916	2,363	3,062
Add impairment on intangible assets	—	—	—	336
Less tax effect on amortization and impairment of intangible assets	(146)	(321)	(496)	(1,189)
Adjusted net income	$4,366	$12,432	$18,798	$33,278
Return on average equity	4.40%	6.69%	4.57%	6.16%
Return on average tangible common equity	2.49%	7.16%	3.61%	6.46%
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 September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Noninterest expense	$60,977	$79,008	$183,343	$301,839
Loss on investments in alternative energy partnerships	(2,484)	(8,348)	(4,258)	(26,791)
Total adjusted noninterest expense	$58,493	$70,660	$179,085	$275,048
Net interest income	$71,322	$75,953	$215,899	$237,996
Noninterest income	5,718	18,827	25,338	98,348
Total revenue	77,040	94,780	241,237	336,344
Tax credit from investments in alternative energy partnerships	412	8,777	9,647	33,287
Deferred tax expense on investments in alternative energy partnerships	(43)	(1,536)	(1,023)	(5,825)
Tax effect on tax credit and deferred tax expense	180	3,804	3,233	17,528
Loss on investments in alternative energy partnerships	(2,484)	(8,348)	(4,258)	(26,791)
Total pre-tax adjustments for investments in alternative energy partnerships	(1,935)	2,697	7,599	18,199
Total adjusted revenue	$75,105	$97,477	$248,836	$354,543
Efficiency ratio	79.15 %	83.36 %	76.00 %	89.74 %
Efficiency ratio as adjusted to include the pre-tax effect of investments in alternative energy partnerships	77.88 %	72.49 %	71.97 %	77.58 %
Effective tax rate utilized for calculating tax effect on tax credit and deferred tax expense	32.81 %	34.44 %	27.27 %	38.96 %

Tangible Common Equity to Tangible Assets and Tangible Common Equity Per Common Share

	September 30,	
($ in thousands)	2018	2017
Total stockholders' equity	$946,678	$1,013,908
Less goodwill	(37,144)	(37,144)
Less other intangible assets	(6,990)	(10,219)
Less preferred stock	(231,128)	(269,071)
Tangible common equity	$671,416	$697,474
Total assets	$10,260,822	$10,280,028
Less goodwill	(37,144)	(37,144)
Less other intangible assets	(6,990)	(10,219)
Tangible assets	$10,216,688	$10,232,665
Total stockholders' equity to total assets	9.23 %	9.86 %
TCE to tangible assets	6.57 %	6.82 %
Common shares outstanding	50,180,607	50,096,056
Class B non-voting non-convertible common shares outstanding	477,321	430,694
Total common shares outstanding	50,657,928	50,526,750
Total common shares outstanding and shares issuable under purchase contracts	50,657,928	50,526,750
Book value per common share	$14.13	$14.74
TCE per common share	$13.25	$13.80

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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 clients in order to serve all of their banking and financial needs.

Financial Highlights

For the three months ended September 30, 2018 and 2017, net income from continuing operations was $10.4 million and $18.1 million, respectively. Diluted earnings from continuing operations per total common share were $0.06 and $0.25, respectively, for the three months ended September 30, 2018 and 2017. For the nine months ended September 30, 2018 and 2017, net income from continuing operations was $31.4 million and $42.6 million, respectively. Diluted earnings from continuing operations per total common share were $0.26 and $0.52, respectively, for the nine months ended September 30, 2018 and 2017. The decrease in net income from continuing operations for the three months ended September 30, 2018 compared to same period last year was due mainly to decreases in net interest income, noninterest income and income tax benefit, partially offset by decreases in noninterest expense and provision for loan and lease losses. The decrease in net income from continuing operations for the nine months ended September 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 and lease losses, partially offset by a decrease in noninterest expense.

Total assets were $10.26 billion at September 30, 2018, a decrease of $67.0 million from $10.33 billion at December 31, 2017. The decrease was mainly due to decreases in cash and cash equivalents, investment securities, loans held-for-sale, FHLB stock, 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 $2.06 billion at September 30, 2018, a decrease of $515.6 million, or 20.0 percent, from $2.58 billion at December 31, 2017. The decrease was primarily due to a net decline in collateralized loan obligations due to call and sale activities and a decrease in commercial mortgage-backed-securities due to sales. The Company continued shrinking the mix of collateralized loan obligations in the investment securities portfolio and repositioned its securities available-for-sale portfolio to navigate a volatile rate environment by reducing the overall duration of the portfolio by selling longer-duration corporate debt securities and commercial mortgage-backed-securities. The proceeds from sales of securities and remix of assets were primarily used to fund loan originations.
- Loans and leases receivable, net of ALLL, were $7.20 billion at September 30, 2018, an increase of $585.4 million, or 8.9 percent, from $6.61 billion at December 31, 2017. The increase was due mainly to originations during the nine months ended September 30, 2018, partially offset by an increase of $8.4 million in the ALLL.
- Total deposits were $7.40 billion at September 30, 2018, an increase of $108.8 million, or 1.5 percent, from $7.29 billion at December 31, 2017. The Company completed its strategic reduction of high-rate and high-volatility deposits during the three months ended March 31, 2018 and reduced brokered deposits during the nine months ended September 30, 2018 by replacing them with core deposits to fund new loan originations.
- Total stockholders' equity was $946.7 million at September 30, 2018, a decrease of $65.6 million, or 6.5 percent, from $1.01 billion at December 31, 2017. The decrease was primarily the result of the redemption of the Company's Series C Preferred Stock for an aggregate amount of $40.3 million, $34.7 million of cash dividends on common stock and preferred stock, $27.7 million of other comprehensive loss on securities available-for-sale due primarily to increases in market interest rates, partially offset by net income of $34.4 million during the nine months ended September 30, 2018.

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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 September 30, 2018			Nine Months Ended September 30, 2018		
($ in thousands)	Continuing Operations	Discontinued Operations	Consolidated Operations	Continuing Operations	Discontinued Operations	Consolidated Operations
Interest and dividend income	$107,774	$ 130	$ 107,904	$311,666	$ 505	$ 312,171
Interest expense	36,582	—	36,582	96,272	—	96,272
Net interest income	71,192	130	71,322	215,394	505	215,899
Provision for loan and lease losses	1,410	—	1,410	23,562	—	23,562
Noninterest income	4,824	894	5,718	21,467	3,871	25,338
Noninterest expense	60,877	100	60,977	183,216	127	183,343
Income from continuing operations before income taxes	13,729	924	14,653	30,083	4,249	34,332
Income tax expense (benefit)	3,301	256	3,557	(1,273)	1,171	(102)
Net income	$10,428	$ 668	$ 11,096	$31,356	$ 3,078	$ 34,434

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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 corresponding yields and costs expressed both in dollars and rates, on a consolidated operations basis, for the three months ended September 30, 2018 and 2017:

	Three Months Ended September 30,					
	2018			2017		
($ in thousands)	Average Balance	Interest	Yield/Cost	Average Balance	Interest	Yield/Cost
Interest-earning assets:						
Total loans and leases [1]	$7,166,373	$84,925	4.70 %	$6,268,915	$71,125	4.50 %
Securities	2,163,037	20,599	3.78 %	2,791,585	24,337	3.46 %
Other interest-earning assets [2]	335,160	2,380	2.82 %	519,593	2,206	1.68 %
Total interest-earning assets	9,664,570	107,904	4.43 %	9,580,093	97,668	4.04 %
ALLL	(56,730)			(42,696)		
BOLI and non-interest earning assets [3]	554,636			563,784		
Total assets	$10,162,476			$10,101,181		
Interest-bearing liabilities:						
Savings	$1,231,696	5,122	1.65 %	$968,158	2,263	0.93 %
Interest-bearing checking	1,789,679	5,054	1.12 %	2,037,729	3,871	0.75 %
Money market	966,165	3,455	1.42 %	1,935,262	5,095	1.04 %
Certificates of deposit	2,332,181	11,523	1.96 %	1,560,078	4,239	1.08 %
Total interest-bearing deposits	6,319,721	25,154	1.58 %	6,501,227	15,468	0.94 %
FHLB advances	1,528,674	8,996	2.33 %	962,391	3,352	1.38 %
Securities sold under repurchase agreements	6,418	47	2.91 %	88,810	500	2.23 %
Long term debt and other interest-bearing liabilities	174,361	2,385	5.43 %	173,772	2,395	5.47 %
Total interest-bearing liabilities	8,029,174	36,582	1.81 %	7,726,200	21,715	1.12 %
Noninterest-bearing deposits	1,023,890			1,178,062		
Non-interest-bearing liabilities	108,593			191,457		
Total liabilities	9,161,657			9,095,719		
Total stockholders' equity	1,000,819			1,005,462		
Total liabilities and stockholders' equity	$10,162,476			$10,101,181		
Net interest income/spread		$71,322	2.62 %		$75,953	2.92 %
Net interest margin [4]			2.93 %			3.15 %

(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 $323 thousand and $756 thousand and accretion of discount on purchased loans of $20 thousand and $280 thousand for the three months ended September 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 $106.1 million and $103.9 million for the three months ended September 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 corresponding yields and costs expressed both in dollars and rates, on a consolidated operations basis, for the nine months ended September 30, 2018 and 2017:

	Nine Months Ended September 30,					
	2018			2017		
($ in thousands)	Average Balance	Interest	Yield/Cost	Average Balance	Interest	Yield/Cost
Interest-earning assets:						
Total loans and leases [1]	$7,010,232	$241,519	4.61 %	$6,562,641	$216,355	4.41 %
Securities	2,321,231	63,685	3.67 %	3,055,468	76,572	3.35 %
Other interest-earning assets [2]	377,925	6,967	2.46 %	512,426	6,085	1.59 %
Total interest-earning assets	9,709,388	312,171	4.30 %	10,130,535	299,012	3.95 %
ALLL	(53,657)			(42,297)		
BOLI and non-interest earning assets [3]	564,856			570,108		
Total assets	$10,220,587			$10,658,346		
Interest-bearing liabilities:						
Savings	$1,114,888	12,308	1.48 %	$1,004,058	6,817	0.91 %
Interest-bearing checking	1,862,215	13,345	0.96 %	2,020,208	10,894	0.72 %
Money market	1,058,451	9,978	1.26 %	2,340,484	15,268	0.87 %
Certificates of deposit	2,107,782	26,633	1.69 %	1,699,865	11,391	0.90 %
Total interest-bearing deposits	6,143,336	62,264	1.36 %	7,064,615	44,370	0.84 %
FHLB advances	1,688,355	25,927	2.05 %	922,421	7,549	1.09 %
Securities sold under repurchase agreements	51,542	1,008	2.61 %	42,061	686	2.18 %
Long term debt and other interest-bearing liabilities	174,360	7,073	5.42 %	219,080	8,411	5.13 %
Total interest-bearing liabilities	8,057,593	96,272	1.60 %	8,248,176	61,016	0.99 %
Noninterest-bearing deposits	1,028,245			1,206,881		
Non-interest-bearing liabilities	127,607			196,104		
Total liabilities	9,213,445			9,651,161		
Total stockholders' equity	1,007,142			1,007,185		
Total liabilities and stockholders' equity	$10,220,587			$10,658,346		
Net interest income/spread		$215,899	2.70 %		$237,996	2.96 %
Net interest margin [4]			2.97 %			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 $551 thousand and $917 thousand and accretion of discount on purchased loans of $583 thousand and $4.5 million for the nine months ended September 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 nine months ended September 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 September 30, 2018 vs. 2017			Nine Months Ended September 30, 2018 vs 2017		
	Increase (Decrease) Due to		Net Increase (Decrease)	Increase (Decrease) Due to		Net Increase (Decrease)
($ In thousands)	Volume	Rate		Volume	Rate	
Interest and dividend income:						
Total loans and leases	$10,531	$3,269	$13,800	$15,114	$10,050	$25,164
Securities	(5,842)	2,104	(3,738)	(19,687)	6,800	(12,887)
Other interest-earning assets	(966)	1,140	174	(1,876)	2,758	882
Total interest and dividend income	$3,723	$6,513	$10,236	$(6,449)	$19,608	$13,159
Interest expense:						
Savings	$744	$2,115	$2,859	$822	$4,669	$5,491
Interest-bearing checking	(518)	1,701	1,183	(913)	3,364	2,451
Money market	(3,091)	1,451	(1,640)	(10,418)	5,128	(5,290)
Certificates of deposit	2,753	4,531	7,284	3,272	11,970	15,242
FHLB advances	2,601	3,043	5,644	8,918	9,460	18,378
Securities sold under repurchase agreements	(570)	117	(453)	172	150	322
Long term debt and other interest-bearing liabilities	8	(18)	(10)	(1,792)	454	(1,338)
Total interest expense	1,927	12,940	14,867	61	35,195	35,256
Net interest income	$1,796	$(6,427)	$(4,631)	$(6,510)	$(15,587)	$(22,097)

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

Net interest income was $71.3 million for the three months ended September 30, 2018, a decrease of $4.6 million, or 6.1 percent, from $76.0 million for the three months ended September 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, higher average balances of total loans and leases and lower average balances of interest-bearing deposits.

Interest income on total loans and leases was $84.9 million for the three months ended September 30, 2018, an increase of $13.8 million, or 19.4 percent, from $71.1 million for the three months ended September 30, 2017. The increase in interest income on loans and leases was due to an $897.5 million increase in the average balance of total loans and leases and a 20 basis points (bps) increase in average yield. The increase in average balance was due mainly to increased loan originations. 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 during the three months ended September 30, 2018.

Interest income on securities was $20.6 million for the three months ended September 30, 2018, a decrease of $3.7 million, or 15.4 percent, from $24.3 million for the three months ended September 30, 2017. The decrease in interest income on securities was due to a $628.5 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 $2.4 million for the three months ended September 30, 2018, an increase of $174 thousand, or 7.9 percent, from $2.2 million for the three months ended September 30, 2017. The increase in dividends and interest income on other interest-earning assets was due to a 114 bps increase in average yield, partially offset by a $184.4 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 a reduced cash balance from decreases in deposits and an increase in total loans and leases and redemption of Series C preferred stock, partially offset by a decrease in securities and increases in FHLB advances.

Interest expense on interest-bearing deposits was $25.2 million for the three months ended September 30, 2018, an increase of $9.7 million, or 62.6 percent, from $15.5 million for the three months ended September 30, 2017. The increase in interest expense on interest-bearing deposits was due to a 64 bps increase in average cost, partially offset by a $181.5 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 $9.0 million for the three months ended September 30, 2018, an increase of $5.6 million, or 168.4 percent, from $3.4 million for the three months ended September 30, 2017. The increase was due mainly to a 95 bps increase in average cost and a $566.3 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 three- to ten-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 $47 thousand for the three months ended September 30, 2018, a decrease of $453 thousand, or 90.6% from $500 thousand for the three months ended September 30, 2017. The Company utilized an increased amount of repurchase agreements to diversify its funding sources during the three months ended September 30, 2017 as compared to the three months ended September 30, 2018.

Interest expense on long term debt and other interest-bearing liabilities was $2.4 million for the three months ended September 30, 2018, a decrease of $10 thousand, or 0.4 percent, from $2.4 million for the three months ended September 30, 2017. The average balance and average cost remained relatively flat during the three months ended September 30, 2018 as compared to the same period last year.

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

Net interest income was $215.9 million for the nine months ended September 30, 2018, a decrease of $22.1 million, or 9.3 percent, from $238.0 million for the nine months ended September 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, higher average balances of total loans and leases and lower average balances of interest-bearing deposits and long term debt and other interest-bearing liabilities.

Interest income on total loans and leases was $241.5 million for the nine months ended September 30, 2018, an increase of $25.2 million, or 11.6 percent, from $216.4 million for the nine months ended September 30, 2017. The increase in interest income on loans and leases was due to a $447.6 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 the sales of the Banc Home Loans division during the three months ended March 31, 2017 and 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 nine months ended September 30, 2017.

Interest income on securities was $63.7 million for the nine months ended September 30, 2018, a decrease of $12.9 million, or 16.8 percent, from $76.6 million for the nine months ended September 30, 2017. The decrease in interest income on securities was due to a $734.2 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 $7.0 million for the nine months ended September 30, 2018, an increase of $882 thousand, or 14.5 percent, from $6.1 million for the nine months ended September 30, 2017. The increase in dividends and interest income on other interest-earning assets was due to an 87 bps increase in average yield, partially offset by a $134.5 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 a reduced cash balance from decreases in deposits and an increase in total loans and leases and redemption of Series C preferred stock, partially offset by a decrease in securities and increases in FHLB advances.

Interest expense on interest-bearing deposits was $62.3 million for the nine months ended September 30, 2018, an increase of $17.9 million, or 40.3 percent, from $44.4 million for the nine months ended September 30, 2017. The increase in interest expense on interest-bearing deposits was due to a 52 bps increase in average cost, partially offset by a $921.3 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 $25.9 million for the nine months ended September 30, 2018, an increase of $18.4 million, or 243.4 percent, from $7.5 million for the nine months ended September 30, 2017. The increase was due mainly to a 96 bps increase in average cost and a $765.9 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 three- to ten-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 $1.0 million for the nine months ended September 30, 2018, an increase of $322 thousand, or 46.9 percent, from $686 thousand for the nine months ended September 30, 2017. The increase was mainly due to a 43 bps increase in average cost and an increased amount of repurchase agreements utilized by the Company to diversify its funding sources during the nine months ended September 30, 2018.

Interest expense on long term debt and other interest-bearing liabilities was $7.1 million for the nine months ended September 30, 2018, a decrease of $1.3 million, or 15.9 percent, from $8.4 million for the nine months ended September 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 $1.4 million and $3.6 million, respectively, for the three months ended September 30, 2018 and 2017, and $23.6 million and $8.6 million, respectively, for the nine months ended September 30, 2018 and 2017. The increase in the provision during the nine months ended September 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 an increase of $881 thousand in provision due to a downgrade of a commercial and industrial loan with a carrying value of $23.8 million from Special Mention to Substandard due to credit deterioration, as well as an increase in loan balances during the nine months ended September 30, 2018.

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

Noninterest Income

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

($ in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Customer service fees	$1,446	$1,576	$4,529	$4,868
Loan servicing income	439	553	3,698	3,441
Income from bank owned life insurance	551	583	1,617	1,780
Net gain on sale of securities available-for-sale	13	7,625	5,532	12,080
Net gain on sale of loans	279	5,735	1,059	10,737
Net gain (loss) on sale of mortgage servicing rights	24	—	(2,426)	—
Other income	2,072	2,293	7,458	6,069
Total noninterest income	$4,824	$18,365	$21,467	$38,975

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

Noninterest income was $4.8 million for the three months ended September 30, 2018, a decrease of $13.5 million, or 73.7 percent, from $18.4 million for the three months ended September 30, 2017. The decrease in noninterest income was mainly due to decreases in net gain on sale of loans and net gain on sale of securities available-for-sale.

Customer service fees were $1.4 million for the three months ended September 30, 2018, a decrease of $130 thousand, or 8.2 percent, from $1.6 million for the three months ended September 30, 2017. The decrease was mainly due to the decrease in average balance of noninterest-bearing checking accounts.

Loan servicing income was $439 thousand for the three months ended September 30, 2018, a decrease of $114 thousand, or 20.6 percent, from $553 thousand for the three months ended September 30, 2017. On a consolidated operations basis, total income from servicing rights was $439 thousand and $553 thousand, respectively, for the three months ended September 30, 2018 and 2017. The decrease was mainly due to sales of MSRs during the first half of 2018, partially offset by higher losses on the fair value of mortgage servicing rights during the three months ended September 30, 2017. Losses on fair value and runoff of servicing assets were $33 thousand and $4.0 million for the three months ended September 30, 2018 and 2017, respectively. Servicing fees were $472 thousand and $4.5 million for the three months ended September 30, 2018 and 2017, respectively.

Net gain on sale of securities available-for-sale was $13 thousand for the three months ended September 30, 2018, compared to $7.6 million for the three months ended September 30, 2017. The Company sold securities available-for-sale of $25.3 million and $118.8 million, respectively, during the three months ended September 30, 2018 and 2017. The Company further repositioned its securities available-for-sale portfolio to reduce duration by selling corporate debt securities during the three months ended September 30, 2017.

Net gain on sale of loans was $279 thousand for the three months ended September 30, 2018, a decrease of $5.5 million, or 95.1 percent, from $5.7 million for the three months ended September 30, 2017. During the three months ended September 30, 2018, the Company sold jumbo SFR mortgage loans of $23.6 million with a gain of $229 thousand, and SBA loans of $1.0 million with a gain of $50 thousand. During the three months ended September 30, 2017, the Company sold seasoned SFR mortgage loans of $144.2 million with a gain of $4.7 million, SFR mortgage loans of $58.0 million with a loss of $157 thousand, and SBA loans of $6.5 million with a gain of $627 thousand.

Net gain on sale of mortgage servicing rights was $24 thousand for the three months ended September 30, 2018 primarily as a result of the release of liability of transaction costs related to sale of MSRs during the first half of 2018 as the amount paid was less than the accrued liability. During the first half of 2018, the Company sold $28.5 million of MSRs on approximately $3.55 billion in unpaid principal balances of conventional agency mortgage loans for cash consideration of $30.1 million, subject to adjustment under certain circumstances. There were no sales of MSRs during the three months ended September 30, 2018 or September 30, 2017.

Other income was $2.1 million for the three months ended September 30, 2018, a decrease of $221 thousand, or 9.6 percent, from $2.3 million for the three months ended September 30, 2017. Other income remained relatively flat during the three months ended September 30, 2018 as compared to the same period last year.

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

Noninterest income was $21.5 million for the nine months ended September 30, 2018, a decrease of $17.5 million, or 44.9 percent, from $39.0 million for the nine months ended September 30, 2017. The decrease in noninterest income was mainly due to decreases in net gain on sale of loans, net gain on sale of securities available-for-sale and a net loss on sale of mortgage servicing rights, partially offset by increases in other income.

Customer service fees were $4.5 million for the nine months ended September 30, 2018, a decrease of $339 thousand, or 7.0 percent, from $4.9 million for the nine months ended September 30, 2017. The decrease was mainly due to the decreases in average deposit balances.

Loan servicing income was $3.7 million for the nine months ended September 30, 2018, an increase of $257 thousand, or 7.5 percent, from $3.4 million for the nine months ended September 30, 2017. On a consolidated operations basis, total income from servicing rights was $3.7 million and $5.0 million, respectively, for the nine months ended September 30, 2018 and 2017. The decrease was mainly due to sales of MSRs during the first half of 2018, partially offset by higher losses on the fair value of mortgage servicing rights during the nine months ended September 30, 2017. Losses on fair value and runoff of servicing assets were $914 thousand and $10.4 million for the nine months ended September 30, 2018 and 2017, respectively. Servicing fees were $4.6 million and $15.4 million for the nine months ended September 30, 2018 and 2017, respectively.

Net gain on sale of securities available-for-sale was $5.5 million for the nine months ended September 30, 2018, a decrease of $6.5 million, or 54.2 percent, from $12.1 million for the nine months ended September 30, 2017. The Company sold securities available-for-sale of $406.8 million and $925.1 million, respectively, during the nine months ended September 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 nine months ended September 30, 2018.

Net gain on sale of loans was $1.1 million for the nine months ended September 30, 2018, a decrease of $9.7 million from $10.7 million for the nine months ended September 30, 2017. During the nine months ended September 30, 2018, the Company sold jumbo SFR mortgage loans of $158.9 million with a loss of $408 thousand, SBA loans of $6.3 million with a gain of $480 thousand and multifamily and other consumer loans of $75.7 million with a gain of $171 thousand. During the nine months ended September 30, 2017, the Company sold seasoned SFR mortgage loans of $144.2 million with a gain of $4.7 million, jumbo SFR mortgage loans of $674.7 million with a gain of $2.8 million, SBA loans of $25.0 million with a gain of $2.4 million, and multifamily loans of $14.6 million with a gain of $413 thousand.

Net loss on sale of mortgage servicing rights was $2.4 million for the nine months ended September 30, 2018. During the nine months ended September 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 $2.4 million, primarily related to transaction costs, provision for early repayments of loans and expected repurchase obligations under standard representations and warranties.

Other income was $7.5 million for the nine months ended September 30, 2018, an increase of $1.4 million, or 22.9 percent, from $6.1 million for the nine months ended September 30, 2017. The increase was mainly due to proceeds of a legal settlement of $2.1 million received during the three months ended September 30, 2018, partially offset by a decrease in loan brokerage income of $1.2 million as the Company did not have any brokered loans activity during the nine months ended September 30, 2018.

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Noninterest Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Salaries and employee benefits	$24,832	$30,216	$85,387	$96,007
Occupancy and equipment	8,213	10,085	23,783	30,529
Professional fees	11,966	7,697	27,446	34,564
Outside service fees	954	881	3,913	3,883
Data processing	1,884	1,901	5,218	6,326
Advertising	3,152	1,051	9,293	3,893
Regulatory assessments	2,138	2,350	6,426	5,931
Reversal of provision for loan repurchases	(360)	(749)	(2,366)	(1,477)
Amortization of intangible assets	693	916	2,363	3,062
Impairment on intangible assets	—	—	—	336
Restructuring expense	553	—	4,536	5,369
All other expense	4,368	12,975	12,959	26,672
Noninterest expense before loss on investments in alternative energy partnerships	58,393	67,323	178,958	215,095
Loss on investments in alternative energy partnerships	2,484	8,348	4,258	26,791
Total noninterest expense	$60,877	$75,671	$183,216	$241,886

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

Noninterest expense was $60.9 million for the three months ended September 30, 2018, a decrease of $14.8 million, or 19.6 percent, from $75.7 million for the three months ended September 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, professional fees and advertising expense.

Salaries and employee benefits expense was $24.8 million for the three months ended September 30, 2018, a decrease of $5.4 million, or 17.8 percent, from $30.2 million for the three months ended September 30, 2017. The decrease was mainly due to decreases in number of employees, commissions, and temporary staff expenses.

Occupancy and equipment expenses were $8.2 million for the three months ended September 30, 2018, a decrease of $1.9 million, or 18.6 percent, from $10.1 million for the three months ended September 30, 2017. The decrease was mainly due to the remaining lease payments for the previous headquarters building in Irvine during the three months ended September 30, 2017, which expense was not incurred during the three months ended September 30, 2018.

Professional fees were $12.0 million for the three months ended September 30, 2018, an increase of $4.3 million, or 55.5 percent, from $7.7 million for the three months ended September 30, 2017. The increase was mainly due to expenses related to loan fraud investigation, ongoing expenses related to the SEC investigation, and various other litigation during the three months ended September 30, 2018, partially offset by insurance recoveries of $1.7 million received during the three months ended September 30, 2018.

Outside service fees were $1.0 million for the three months ended September 30, 2018, an increase of $73 thousand, or 8.3 percent, from $881 thousand for the three months ended September 30, 2017. The increase was mainly due to higher courier service expense during the three months ended September 30, 2018, partially offset by higher loan subservicing costs and higher recruiting expense incurred during the three months ended September 30, 2017.

Data processing expense was $1.9 million for the three months ended September 30, 2018, a decrease of $17 thousand, or 0.9 percent, from $1.9 million for the three months ended September 30, 2017. The decrease was mainly due to a decreased volume of transactions from the lower deposit average balances during the three months ended September 30, 2018.

Advertising costs were $3.2 million for the three months ended September 30, 2018, an increase of $2.1 million, or 199.9 percent, from $1.1 million for the three months ended September 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 September 30, 2018.

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Regulatory assessments were $2.1 million for the three months ended September 30, 2018, a decrease of $212 thousand, or 9.0 percent, from $2.4 million for the three months ended September 30, 2017. The decrease was mainly due to the adjustment for an increased assessment rate for large institutions for the second and third quarter of 2017 being recorded in the third quarter of 2017. The decrease was partially offset by an increased assessment rate as a result of lower average balance of core deposits over total liabilities and lower balance sheet liquidity ratio during the three months ended September 30, 2018.

Loss on investments in alternative energy partnerships was $2.5 million for the three months ended September 30, 2018, a decrease of $5.9 million, or 70.2 percent, from a loss of $8.3 million for the three months ended September 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 $360 thousand and $749 thousand for the three months ended September 30, 2018 and 2017, respectively. Additionally, the Company recorded an initial provision for loan repurchases of $18 thousand and $98 thousand during the three months ended September 30, 2018 and 2017, respectively. As a result, total reversal of provision for loan repurchases was $342 thousand and $651 thousand for the three months ended September 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 $693 thousand for the three months ended September 30, 2018, a decrease of $223 thousand, or 24.3 percent, from $916 thousand for the three months ended September 30, 2017. The decrease was mainly due to a regular amount of amortization of intangible assets during the period with no new additional intangible assets between the periods.

Restructuring expense was $553 thousand for the three months ended September 30, 2018, compared with $0 for the three months ended September 30, 2017. The expense for the three months ended September 30, 2018 was primarily due to one-time severance-related costs as a result of the reduction in force in the third quarter of 2018.

All other expenses were $4.4 million for the three months ended September 30, 2018, a decrease of $8.6 million, or 66.3 percent, from $13.0 million for the three months ended September 30, 2017. The decrease was mainly due to a legal settlement accrual of $4.5 million and a loss from the equity method accounting on CRA investments of $3.8 million during the three months ended September 30, 2017, partially offset by an impairment on capitalized software projects of $1.5 million during three months ended September 30, 2018.

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

Noninterest expense was $183.2 million for the nine months ended September 30, 2018, a decrease of $58.7 million, or 24.3 percent, from $241.9 million for the nine months ended September 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 $85.4 million for the nine months ended September 30, 2018, a decrease of $10.6 million, or 11.1 percent, from $96.0 million for the nine months ended September 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 $23.8 million for the nine months ended September 30, 2018, a decrease of $6.7 million, or 22.1 percent, from $30.5 million for the nine months ended September 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 the previous headquarters building in Irvine in December 2017.

Professional fees were $27.4 million for the nine months ended September 30, 2018, a decrease of $7.1 million, or 20.6 percent, from $34.6 million for the nine months ended September 30, 2017. The decrease was mainly due to insurance recoveries of $8.2 million received during the nine months ended September 30, 2018 and higher external audit fees in connection with special committee investigation and pending SEC investigation during the nine months ended September 30, 2017, partially offset by expenses related to the special committee investigation, pending SEC investigation, fraud investigation, and various other litigation during the nine months ended September 30, 2018.

Outside service fees were $3.9 million for the nine months ended September 30, 2018, an increase of $30 thousand, or 0.8 percent, from $3.9 million for the nine months ended September 30, 2017. Outside service fees remained relatively flat during the nine months ended September 30, 2018 as compared to the same period last year.

Data processing expense was $5.2 million for the nine months ended September 30, 2018, a decrease of $1.1 million, or 17.5 percent, from $6.3 million for the nine months ended September 30, 2017. The decrease was mainly due to a decreased volume of transactions from the lower deposit average balances during the nine months ended September 30, 2018.

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Advertising costs were $9.3 million for the nine months ended September 30, 2018, an increase of $5.4 million, or 138.7 percent, from $3.9 million for the nine months ended September 30, 2017. The increase was mainly due to $5.0 million of LAFC naming rights commitment being expensed to marketing and advertising expenses during the nine months ended September 30, 2018.

Regulatory assessments were $6.4 million for the nine months ended September 30, 2018, an increase of $495 thousand, or 8.3 percent, from $5.9 million for the nine months ended September 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 and lower balance sheet liquidity ratio during the nine months ended September 30, 2018.

Loss on investments in alternative energy partnerships was $4.3 million for the nine months ended September 30, 2018, a decrease of $22.5 million, or 84.1 percent, from a loss of $26.8 million for the nine months ended September 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 $2.4 million and $1.5 million for the nine months ended September 30, 2018 and 2017, respectively. Additionally, the Company recorded an initial provision for loan repurchases of $73 thousand and $1.6 million during the nine months ended September 30, 2018 and 2017, respectively. As a result, total (reversal of) provision for loan repurchases was $(2.3) million and $136 thousand for the nine months ended September 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 $2.4 million for the nine months ended September 30, 2018, a decrease of $699 thousand, or 22.8 percent, from $3.1 million for the nine months ended September 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 $4.5 million for the nine months ended September 30, 2018, a decrease of $833 thousand, from $5.4 million for the nine months ended September 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 and third quarters of 2018 totaling $4.5 million, pre-tax, as a result of the reduction in force.

All other expenses were $13.0 million for the nine months ended September 30, 2018, a decrease of $13.7 million, or 51.4 percent, from $26.7 million for the nine months ended September 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 September 30, 2018 and 2017, income tax expense (benefit) of continuing operations was $3.3 million and $(3.9) million, respectively, and the effective tax rate was 24.0 percent and (27.8) percent, respectively. For the nine months ended September 30, 2018 and 2017, income tax benefit of continuing operations was $(1.3) million and $(23.2) million, respectively, and the effective tax rate was (4.2) percent and (119.0) 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 $412 thousand and $8.8 million, respectively, for the three months ended September 30, 2018 and 2017 and $9.6 million and $33.3 million, respectively, for the nine months ended September 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 $130 thousand for the three months ended September 30, 2018, a decrease of $787 thousand, or 85.8 percent, from $917 thousand for the three months ended September 30, 2017. For the nine months ended September 30, 2018, interest income of discontinued operations was $505 thousand, a decrease of $6.5 million, or 92.8 percent, from $7.0 million for the nine months ended September 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 $894 thousand for the three months ended September 30, 2018, an increase of $432 thousand, or 93.5 percent, from $462 thousand for the three months ended September 30, 2017. The increase was due to higher earn-out received from Caliber. For the nine months ended September 30, 2018, noninterest income of discontinued operations was $3.9 million, a decrease of $55.5 million, or 93.5 percent, from $59.4 million for the nine months ended September 30, 2017. The decrease of $55.5 million was mainly due to a decrease in net revenue from discontinued operations in the 2018 period.

Net gain on disposal of discontinued operations was $0 and $211 thousand, respectively, for the three and nine months ended September 30, 2018 and 2017 and $1.3 million and $13.7 million, respectively, for the nine months ended September 30, 2018 and 2017.

Loan servicing income was $0 for the nine months ended September 30, 2018, compared to $1.6 million for the nine months ended September 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 the Banc Home Loans division.

Net revenue on mortgage banking activities was $108 thousand and $396 thousand for the three and nine months ended September 30, 2018, compared to $13 thousand and $43.1 million, respectively, for the three and nine months ended September 30, 2017. During the three months ended September 30, 2018, the Bank sold $5.6 million of conforming SFR mortgage loans from discontinued operation in the secondary market. The net gain and margin was $81 thousand and 1.4 percent, respectively. During the nine months ended September 30, 2018, the Bank sold $8.1 million of conforming SFR mortgage loans from discontinued operation in the secondary market. The net gain and margin was $256 thousand and 3.2 percent, respectively. During the three and nine months ended September 30, 2017, the Bank originated $22.5 million and $1.53 billion and sold $111.6 million and $1.86 billion, respectively, of conforming SFR mortgage loans in the secondary market. The net loss and negative margin was $86 thousand and 0.38 percent, respectively, and loan origination fees were $99 thousand for the three months ended September 30, 2017. For the nine months ended September 30, 2017, the net gain and margin was $37.5 million and 2.5 percent, respectively, and loan origination fees were $5.5 million. Included in the net gain is the initial capitalized value of our MSRs, which totaled $574 thousand and $11.7 million, respectively, on loans sold to Fannie Mae, Freddie Mac and GNMA for the three and nine months ended

September 30, 2017.

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Noninterest Expense

Noninterest expense of discontinued operations was $100 thousand and $127 thousand, respectively, for the three and nine months ended September 30, 2018, compared to $3.3 million and $60.0 million, respectively, for the three and nine months ended September 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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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 September 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:

($ in thousands)	September 30, 2018			December 31, 2017		
	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Securities available-for-sale:						
SBA loan pool securities	$910	$888	$(22)	$1,056	$1,058	$2
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	472,581	439,468	(33,113)	492,255	476,929	(15,326)
Non-agency residential mortgage-backed securities	439	451	12	741	756	15
Non-agency commercial mortgage-backed securities	135,558	132,704	(2,854)	305,172	310,511	5,339
Collateralized loan obligations	1,481,415	1,486,321	4,906	1,691,455	1,702,318	10,863
Corporate debt securities	—	—	—	76,714	83,897	7,183
Total securities available-for-sale	$2,090,903	$2,059,832	$(31,071)	$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 debt securities to maturity will be limited for the foreseeable future.

Securities available-for-sale were $2.06 billion at September 30, 2018, a decrease of $515.6 million, or 20.0 percent, from $2.58 billion at December 31, 2017. The decrease was mainly due to sales of $406.8 million, calls and payoffs of $478.2 million, principal payments of $33.1 million and increases in net unrealized losses of $39.1 million, partially offset by purchases of $442.6 million.

The Company repositioned its securities available-for-sale portfolio throughout the nine months ended September 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 continued shrinking the mix of collateralized loan obligations in investment securities portfolio. 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. During the nine months ended September 30, 2018, the balance of collateralized loan obligations declined by $216.0 million due primarily to call and sale activities, partially offset by purchase activities. The net proceeds from the sale of securities and the run-off in collateralized loan obligations were redeployed to support loan growth.

Collateralized loan obligations (CLOs) totaled $1.48 billion and $1.69 billion, respectively, in amortized cost basis at September 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 September 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 nine months ended September 30, 2018 or 2017. The Company monitors its securities portfolio to ensure it has adequate credit support. As of September 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 September 30, 2018. The Company considers the lowest credit rating for identification of potential OTTI. As of September 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 September 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	$—	— %	$—	— %	$—	— %	$910	2.73 %	$910	2.73 %
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	312	2.92 %	3,946	1.78 %	—	— %	468,323	2.55 %	472,581	2.54 %
Non-agency residential mortgage-backed securities	173	4.73 %	—	— %	—	— %	266	5.81 %	439	5.38 %
Non-agency commercial mortgage-backed securities	—	— %	—	— %	135,558	3.75 %	—	— %	135,558	3.75 %
Collateralized loan obligations	1,481,415	4.11 %	—	— %	—	— %	—	— %	1,481,415	4.11 %
Total securities available-for-sale	$1,481,900	4.11 %	$3,946	1.78 %	$135,558	3.75 %	$469,499	2.55 %	$2,090,903	3.73 %

Loans Held-for-Sale

Total loans held-for-sale on a consolidated operations basis were $29.7 million and $105.8 million, respectively, at September 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 September 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 $28.3 million and $105.3 million, respectively, at September 30, 2018 and December 31, 2017. The $77.0 million, or 73.1 percent, decrease was mainly due to a net decrease of $66.0 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 $14.5 million of loans, partially offset by repurchases of $12.7 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 $20.3 million and $38.7 million, respectively, at September 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 September 30, 2018 and December 31, 2017. The $892 thousand, or 191.4 percent, increase was due mainly to loans transferred from loans and leases receivable of $231.8 million and originations of $6.3 million, partially offset by sales of $236.1 million.

During the three months ended June 30, 2017, the Company transferred all of its seasoned SFR mortgage loans, which had an aggregate unpaid principal balance and an 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)	September 30, 2018	December 31, 2017	Amount Change	Percentage Change
Commercial:				
Commercial and industrial	$ 1,673,055	$ 1,701,951	$ (28,896)	(1.7)%
Commercial real estate	823,193	717,415	105,778	14.7 %
Multifamily	2,112,190	1,816,141	296,049	16.3 %
SBA	71,494	78,699	(7,205)	(9.2)%
Construction	200,294	182,960	17,334	9.5 %
Lease financing	—	13	(13)	(100.0)%
Consumer:				
Single family residential mortgage	2,300,069	2,055,649	244,420	11.9 %
Other consumer	72,998	106,579	(33,581)	(31.5)%
Total loans and leases	7,253,293	6,659,407	593,886	8.9 %
ALLL	(57,782)	(49,333)	(8,449)	17.1 %
Loans and leases receivable, net	$ 7,195,511	$ 6,610,074	$ 585,437	8.9 %

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 September 30, 2018 and December 31, 2017, the NTM portfolio totaled $834.3 million, or 11.5 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 $27.4 million, or 3.4 percent during the period. The increase was primarily due to originations of $186.0 million, partially offset by paydowns and amortization of $104.7 million and loans transferred to held-for-sale of $45.6 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 $73.6 million at September 30, 2018, a decrease of $12.2 million, or 14.2 percent from $85.8 million at December 31, 2017, primarily due to reductions in principal balances and payoffs. At September 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 held 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.

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

	September 30, 2018								
	By FICO Scores Obtained During the Quarter Ended September 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	$10,140	14.4 %	12	$7,820	11.1 %	5	$2,320	3.3 %
700-799	53	39,101	55.4 %	47	30,623	43.5 %	6	8,478	11.9 %
600-699	16	14,024	19.9 %	23	23,427	33.2 %	(7)	(9,403)	(13.3)%
<600	2	3,421	4.9 %	5	4,682	6.6 %	(3)	(1,261)	(1.7)%
No FICO	3	3,784	5.4 %	4	3,918	5.6 %	(1)	(134)	(0.2)%
Totals	91	$70,470	100.0%	91	$70,470	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 $757.1 million at September 30, 2018, an increase of $39.7 million, or 5.5 percent, from $717.5 million at December 31, 2017. The increase was primarily due to originations of $186.0 million, partially offset by paydowns and amortization of $92.4 million and loans transferred to held-for-sale of $45.6 million. As of September 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 September 30, 2018, a decrease of $110 thousand, or 3.0 percent, from $3.7 million as of December 31, 2017. The Company discontinued origination of negative amortization loans in 2007. At September 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.

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.

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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 of the line or reduction in the 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 nine months ended September 30, 2018, the Company made no curtailment in available commitments on Green Loans.

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.

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
September 30, 2018												
< 61%	61	$46,072	65.4 %	271	$458,092	60.5 %	11	$ 3,564	100.0%	343	$507,728	61.1 %
61-80%	23	19,130	27.1 %	241	294,352	38.9 %	—	—	— %	264	313,482	37.7 %
81-100%	7	5,268	7.5 %	5	4,691	0.6 %	—	—	— %	12	9,959	1.2 %
Total	91	$70,470	100.0%	517	$757,135	100.0%	11	$ 3,564	100.0%	619	$831,169	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 %
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 September 30, 2018 or December 31, 2017.
During the three months ended June 30, 2017, the Company transferred all of its seasoned SFR mortgage loans, which had an aggregate unpaid principal balance and an 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 or nine months ended September 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)	September 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	25,523	19,382	6,141	31.7 %
Total non-performing loans	25,523	19,382	6,141	31.7 %
Other real estate owned	434	1,796	(1,362)	(75.8)%
Total non-performing assets	$ 25,957	$ 21,178	$4,779	22.6 %
Performing restructured loans (1)	$ 5,580	$ 5,646	$(66)	(1.2)%
Total non-performing loans and leases to total loans and leases	0.35 %	0.29 %		
Total non-performing assets to total assets	0.25 %	0.21 %		
ALLL to non-performing loans and leases	226.39 %	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 $361 thousand and $957 thousand would have been recorded during the three and nine months ended September 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 September 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 September 30, 2018, of the 14 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. 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:

($ in thousands)	September 30, 2018 ALLL	September 30, 2018 Loans and Leases Receivable	December 31, 2017 ALLL	December 31, 2017 Loans and Leases Receivable
Commercial:				
Commercial and industrial	$16,543	$1,673,055	$14,280	$1,701,951
Commercial real estate	6,012	823,193	4,971	717,415
Multifamily	15,473	2,112,190	13,265	1,816,141
SBA	1,870	71,494	1,701	78,699
Construction	3,247	200,294	3,318	182,960
Lease financing	—	—	—	13
Consumer:				
Single family residential mortgage	13,598	2,300,069	10,996	2,055,649
Other consumer	1,039	72,998	802	106,579
Total	$57,782	$7,253,293	$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)	September 30, 2018	December 31, 2017	Amount Change	Percentage Change
Loan breakdown by ALLL evaluation type:				
Originated loans and leases	$6,683,683	$5,988,101	$695,582	11.6 %
Acquired loans not impaired at acquisition	569,610	671,306	(101,696)	(15.1)%
Total loans	$7,253,293	$6,659,407	$593,886	8.9 %
ALLL breakdown:				
Originated loans and leases	$56,672	$48,110	$8,562	17.8 %
Acquired loans not impaired at acquisition	1,110	1,223	(113)	(9.2)%
Total ALLL	$57,782	$49,333	$8,449	17.1 %
Discount on purchased/acquired Loans:				
Acquired loans not impaired at acquisition	$12,311	$14,943	$(2,632)	(17.6)%
Total discount	$12,311	$14,943	$(2,632)	(17.6)%
Percentage of ALLL to:				
Originated loans and leases	0.85 %	0.80 %	0.05 %	
Originated loans and leases and acquired loans not impaired at acquisition	0.80 %	0.74 %	0.06 %	
Total loans and leases	0.80 %	0.74 %	0.06 %	

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
ALLL at beginning of period	$56,678	$42,385	$49,333	$40,444
Charge-offs:				
Commercial and industrial	(342)	(571)	(689)	(953)
Commercial real estate	—	—	—	(113)
Multifamily	—	—	(8)	—
SBA	—	(58)	(683)	(351)
Construction	—	—	—	(29)
Single family residential mortgage	(45)	(78)	(524)	(2,490)
Other consumer	(1)	(252)	(14,073)	(278)
Total charge-offs	(388)	(959)	(15,977)	(4,214)
Recoveries:				
Commercial and industrial	61	—	158	—
SBA	8	83	240	157
Lease financing	3	—	12	29
Single family residential mortgage	—	—	436	1
Other consumer	10	2	18	8
Total recoveries	82	85	864	195
Provision for loan and lease losses	1,410	3,561	23,562	8,647
ALLL at end of period	$57,782	$45,072	$57,782	$45,072
Average total loans and leases held-for-investment	$7,123,619	$5,938,112	$6,945,551	$6,028,076
Total loans and leases held-for-investment at end of period	$7,253,293	$6,226,897	$7,253,293	$6,226,897
Ratios:				
Annualized net charge-offs to average total loans and leases held-for-investment	0.02%	0.06%	0.44%	0.09%
ALLL to total loans and leases held-for-investment	0.80%	0.72%	0.80%	0.72%

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 extensive 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 $3.8 million and $33.7 million at September 30, 2018 and December 31, 2017, respectively. The fair value of the MSRs amounted to $2.0 million and $31.9 million and the amortized cost of the SBA servicing rights was $1.7 million and $1.9 million at September 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 $223.6 million and $99.0 million, respectively, at September 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 0.91 percent and 1.76 percent, respectively, at September 30, 2018 as compared to 0.81 percent and 1.84 percent, respectively, at December 31, 2017.

During the first half of 2018, the Company sold $28.5 million of MSRs on approximately $3.55 billion in unpaid principal balances of conventional agency mortgage loans for cash consideration of $30.1 million, subject to prepayment protection provision and standard representations and warranties. There were no sales of MSRs during the three months ended September 30, 2018. During the three months ended September 30, 2018, the Company recorded a net gain on sale of mortgage servicing rights of $24 thousand primarily as a result of the release of liability of transaction costs as the amount paid was less than the accrued liability. The sale of MSRs resulted in a net loss of $2.4 million for the nine months ended September 30, 2018, 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 nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Balance at beginning of period	$44,806	$37,605	$48,826	$25,639
New funding	—	14,986	—	45,926
Return of unused capital	—	—	(1,027)	—
Cash distribution from investments	(541)	(426)	(1,760)	(957)
Loss on investments using HLBV method	(2,484)	(8,348)	(4,258)	(26,791)
Balance at end of period	$41,781	$43,817	$41,781	$43,817
Unfunded equity commitments	$—	$96,733	$—	$96,733

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 nine months ended September 30, 2018, the Company recognized energy tax credits of $412 thousand and $9.6 million, respectively, offset by $43 thousand and $1.0 million, respectively, of deferred tax expenses in connection with new equipment being placed into service as well as income tax benefits of $682 thousand and $1.2 million, respectively (based on a current effective tax rate of 32.81 percent and 27.27 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 nine months ended September 30, 2017, the Company recognized energy tax credits of $8.8 million and $33.3 million, respectively, offset by $1.5 million and $5.8 million, respectively, of deferred tax expenses in connection with new equipment being placed into service as well as income tax benefits of $3.0 million and $10.4 million, respectively (based on an effective tax rate of 34.44 percent and 38.96 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)	September 30, 2018	December 31, 2017	Amount Change	Percentage Change
Noninterest-bearing deposits	$ 1,061,557	$ 1,071,608	$(10,051)	(0.9)%
Interest-bearing demand deposits	1,713,790	2,089,016	(375,226)	(18.0)%
Money market accounts	856,886	1,146,859	(289,973)	(25.3)%
Savings accounts	1,269,489	1,059,628	209,861	19.8 %
Certificates of deposit of $250,000 or less	1,730,565	1,365,452	365,113	26.7 %
Certificates of deposit of more than $250,000	769,455	560,340	209,115	37.3 %
Total deposits	$ 7,401,742	$ 7,292,903	$108,839	1.5 %

Total deposits were $7.40 billion at September 30, 2018, an increase of $108.8 million, or 1.5 percent, from $7.29 billion at December 31, 2017. The increase was mainly due to the Company's continuous efforts to build core deposits across the Company's business units, including strong growth from the community banking and private banking channel, partially offset by the completion of the Company's strategic reduction of high-rate and high-volatility deposits during the three months ended March 31, 2018 and reduced brokered deposits. Brokered deposits were $1.19 billion at September 30, 2018, a decrease of $268.5 million, or 18.4 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 $1.64 billion and $1.70 billion, respectively, at September 30, 2018 and December 31, 2017. The Company did not utilize repurchase agreements at September 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)	September 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	$ (1,904)	$175,000	$ (2,059)
Total	$175,000	$ (1,904)	$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 September 30, 2018 and December 31, 2017, the reserve for unfunded loan commitments was $4.2 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 September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Balance at beginning of period	$4,031	$4,014	$3,716	$2,385
Provision for unfunded loan commitments	217	628	532	2,257
Balance at end of period	$4,248	$4,642	$4,248	$4,642

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 $2.6 million at September 30, 2018, a decrease of $3.7 million, or 59.2 percent, from $6.3 million at December 31, 2017. Approximately $1.5 million of the decrease was due to portfolio run-off and repurchase settlement activities, and approximately $2.2 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 $18 thousand and $98 thousand, respectively, and subsequent changes in the provision were $(360) thousand and $(749) thousand, respectively, for the three months ended September 30, 2018 and 2017. Initial provision for loan repurchases were $73 thousand and $1.6 million, respectively, and subsequent changes in the provision were $(2.4) million and $(1.5) million, respectively, for the nine months ended September 30, 2018 and 2017.

The Company believes that all repurchase demands received were adequately reserved for at September 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.

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 borrowings, 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. At September 30, 2018, the Bank had $185.8 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 nine months ended September 30, 2018, the Bank paid dividends of $94.3 million to Banc of California, Inc. At September 30, 2018, Banc of California, Inc. had $42.7 million in cash, all of which was on deposit at the Bank.
On a consolidated basis, the Company maintained $372.2 million of cash and cash equivalents, which was 3.6 percent of total assets at September 30, 2018. The Company's cash and cash equivalents decreased by $15.5 million, or 4.0 percent, from $387.7 million, or 3.8 percent of total assets, at December 31, 2017. The decrease was mainly due to an increase in loans, a decrease in FHLB advances and redemption of the Company's Series C Preferred Stock, partially offset by an increase in deposits 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 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 and continued allowing collateralized loan obligations to runoff. 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 September 30, 2018, the Company had available unused secured borrowing capacities of $1.21 billion from FHLB and $43.9 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 September 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 $1.92 billion at September 30, 2018.
The Company believes that its liquidity sources are stable and are adequate to meet its day-to-day cash flow requirements. As of September 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 September 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	$309,046	$51,257	$184,037	$28,018	$ 45,734
Unused lines of credit	1,180,221	920,361	90,447	51,331	118,082
Standby letters of credit	10,367	8,421	1,926	—	20
Total commitments	$1,499,634	$980,039	$276,410	$79,349	$ 163,836
FHLB advances	$1,640,000	$860,000	$269,000	$191,000	$ 320,000
Long-term debt	239,313	9,188	18,375	18,375	193,375
Operating and capital lease obligations	31,202	6,958	11,316	5,139	7,789
Certificate of deposits	2,500,020	1,966,859	526,055	7,106	—
Total contractual obligations	$4,410,535	$2,843,005	$824,746	$221,620	$ 521,164

During the three months ended March 31, 2017, the Bank entered into certain definitive agreements which grant the Bank the exclusive naming rights to 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 September 30, 2018, the Bank has paid $14.0 million of the $100.0 million commitment. The prepaid commitment balance, net of amortization, was $9.0 million as of September 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.

At September 30, 2018, the Company had unfunded commitments of $13.6 million, $10.1 million, and $501 thousand for affordable housing fund investments, SBIC investments, and other investments, including investments in alternative energy partnerships, 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)	
September 30, 2018								
Total risk-based capital ratio	14.05	%	15.94	%	8.00	%	10.00	%
Tier 1 risk-based capital ratio	13.15	%	15.04	%	6.00	%	8.00	%
Common equity tier 1 capital ratio	9.80	%	15.04	%	4.50	%	6.50	%
Tier 1 leverage ratio	8.99	%	10.29	%	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 review 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 September 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
September 30, 2018						
+200 bps	$1,090,249	$(62,403)	(5.4)%	$241,002	$6,907	3.0 %
+100 bps	1,132,175	(20,477)	(1.8)%	237,675	3,580	1.5 %
0 bp	1,152,652			234,095		
-100 bps	1,149,401	(3,251)	(0.3)%	229,347	(4,748)	(2.0)%

(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 September 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 September 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 September 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 nine months ended September 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.

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 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. Trial is set for June 2019. The Bank believes that the action is without merit and intends to vigorously contest it.

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. The arbitration was set for October 22, 2018 but that date was vacated and the arbitration has not yet been rescheduled. 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. On August 22, 2018, Banc of California, Inc. and Banc of California, N.A. moved to compel arbitration of all of Endresen’s claims except for the Sarbanes-Oxley Act claim, pursuant to Endresen’s binding arbitration agreement. On September 20, 2018, the court granted the motion to compel arbitration and stayed the litigation on the Sarbanes-Oxley Act claim pending arbitration. Endresen has not yet commenced arbitration. The Company believes that the claims are without merit and intends to vigorously contest them.

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On February 2, 2018, Colleen Witmer, a stockholder, filed a stockholder 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, Chad T. Brownstein, 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 filed a motion to dismiss on the grounds that it did not refuse to consider Witmer's demand. On August 23, 2018, the Court granted the Company's motion to dismiss.

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 estimated that we will recognize annual savings of approximately $15.0 million from the reduction in force and planned reduction in use of third party advisors in 2019. We incurred one-time severance-related costs in the second and third quarters of 2018 of $4.0 million, pre-tax, and $553 thousand, pre-tax, respectively, as a result of the reduction in force. 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 July 1, 2018 to July 31, 2018	—	$ —	—	—
From August 1, 2018 to August 31, 2018	—	$ —	—	—
From September 1, 2018 to September 30, 2018	—	$ —	—	—
Total	—	$ —	—	

During the three months ended September 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 September 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

ITEM 5 - OTHER INFORMATION

On November 5, 2018, it was determined that effective November 15, 2018, the annual base salary of John C. Grosvenor will be reduced from $300,000 to $150,000. Mr. Grosvenor has been employed by the Company as General Counsel Emeritus since his retirement as General Counsel and Corporate Secretary effective May 15, 2018.

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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
10.5	Separation Agreement, dated October 18, 2018, by and among the Registrant, Banc of California, National Association and Jason Pendergist.	Footnote 44
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
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 September 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

(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.

(44) Filed as an exhibit to the Registrant’s Current Report on Form 8-K filed on October 19, 2018 and incorporated herein by reference.

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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:	November 9, 2018	/s/ Douglas H. Bowers Douglas H. Bowers President/Chief Executive Officer (Principal Executive Officer)
Date:	November 9, 2018	/s/ John A. Bogler John A. Bogler Executive Vice President/Chief Financial Officer (Principal Financial Officer)
Date:	November 9, 2018	/s/ Mike Smith Mike Smith Senior Vice President/Chief Accounting Officer (Principal Accounting Officer)

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