Alkermes plc.
Form 10-Q
November 02, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

Commission File Number 001-35299

ALKERMES PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

Ireland	98-1007018
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Connaught House

1 Burlington Road

Dublin 4, Ireland

(Address of principal executive offices)

+ 353-1-772-8000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

The number of the registrant's ordinary shares, $0.01 par value, outstanding as of October 24, 2016 was 151,970,482 shares.

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ALKERMES PLC AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

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Cautionary Note Concerning Forward-Looking Statements

This document contains and incorporates by reference "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, these statements can be identified by the use of forward-looking terminology such as "may," "will," "could," "should," "would," "expect," "anticipate," "continue," "believe," "plan," "estimate," "intend" or other similar words. These sta discuss future expectations, and contain projections of results of operations or of financial condition, or state trends and known uncertainties or other forward-looking information. Forward-looking statements in this Quarterly Report on Form 10-Q ("Form 10-Q") include, without limitation, statements regarding:

• our expectations regarding our financial performance, including revenues, expenses, gross margins, liquidity, capital expenditures and income taxes;

• our expectations regarding our products, including the development, regulatory (including expectations about regulatory filing, regulatory approval and regulatory timelines), therapeutic and commercial scope and potential of such products and the costs and expenses related thereto;

• our expectations regarding the initiation, timing and results of clinical trials of our products;

• our expectations regarding the competitive landscape, and changes therein, related to our products, including our development programs, and our industry generally;

• our expectations regarding the financial impact of currency exchange rate fluctuations and valuations;

• our expectations regarding future amortization of intangible assets;

• our expectations regarding our collaborations, licensing arrangements and other significant agreements with third parties relating to our products, including our development programs;

• our expectations regarding the impact of adoption of new accounting pronouncements;

• our expectations regarding near term changes in the nature of our market risk exposures or in management's objectives and strategies with respect to managing such exposures;

• our ability to comply with restrictive covenants of our indebtedness and our ability to fund our debt service obligations;

• our expectations regarding future capital requirements and capital expenditures and our ability to finance our operations and capital requirements; and

• other factors discussed elsewhere in this Form 10-Q.

Actual results might differ materially from those expressed or implied by these forward looking statements because these forward looking statements are subject to risks, assumptions and uncertainties. You are cautioned not to place undue reliance on forward looking statements, which speak only as of the date of this Form 10-Q. All subsequent written and oral forward looking statements concerning the matters addressed in this Form 10-Q and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except as required by applicable law or regulation, we do not undertake any obligation to update publicly or revise any forward looking statements, whether as a result of new information, future events or otherwise. In light of these risks, assumptions and uncertainties, the forward looking events discussed in this Form 10-Q might not occur. For more information regarding the risks and uncertainties of our business, see "Part I, Item 1A—Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2015 (the "Annual Report") and any subsequent reports filed with the United States ("U.S.") Securities and Exchange Commission ("SEC").

Unless otherwise indicated, information contained in this Form 10-Q concerning the disorders targeted by our products and the markets in which we operate is based on information from various sources (including, without limitation, industry publications, medical and clinical journals and studies, surveys and forecasts and our internal research), on assumptions that we have made, which we believe are reasonable, based on those data and other similar sources and on our knowledge of the markets for our products. Our internal research has not been verified by any independent source, and we have not independently verified any third party information. These projections, assumptions and estimates are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in "Part I, Item 1A—Risk Factors" of our Annual Report. These and other factors could cause our results to differ materially from those expressed in this Form 10-Q.

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Note Regarding Company and Product References

Alkermes plc (as used in this report, together with our subsidiaries, "Alkermes," the "Company," "us," "we" and "our") is a ful integrated, global biopharmaceutical company that applies its scientific expertise and proprietary technologies to research, develop and commercialize, both with partners and on its own, pharmaceutical products that are designed to address unmet medical needs of patients in major therapeutic areas. We have a diversified portfolio of marketed drug products and a clinical pipeline of products that address central nervous system ("CNS") disorders such as schizophrenia, depression, addiction and multiple sclerosis. Except as otherwise suggested by the context, references to "products" or "our products" in this Form 10-Q include our marketed products, marketed products using our proprietary technologies, our product candidates and product candidates using our proprietary technologies, and references to "licensees" are used interchangeably with references to "collaborative partners" and "partners."

Note Regarding Trademarks

We are the owner of various U.S. federal trademark registrations ("®") and other trademarks ("TM"), including ARISTADA®, LinkeRx®, NanoCrystal®, SECATM and VIVITROL®. The following are trademarks of the respective companies listed: AMPYRA® and FAMPYRA®—Acorda Therapeutics, Inc.; BYDUREON® —Amylin Pharmaceuticals, LLC; INVEGA SUSTENNA®, INVEGA TRINZA®, TREVICTA®, XEPLION®, and RISPERDAL CONSTA®—Johnson & Johnson (or its affiliate); RITALIN LA® and FOCALIN XR®—Novartis AG; TECFIDERA®—Biogen MA Inc.; and ZYPREXA®—Eli Lilly and Company. Other trademarks, trade names and service marks appearing in this Form 10-Q are the property of their respective owners. Solely for convenience, the trademarks and trade names in this Form 10-Q are referred to without the ® and TM symbols, but such references should not be construed as any indicator that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements:

ALKERMES PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	September 30, 2016	December 31, 2015
	(In thousands, except share and per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 202,239	$ 181,109
Investments—short-term	347,218	353,669
Receivables, net	177,446	155,487
Inventory	54,155	38,411
Prepaid expenses and other current assets	26,204	26,286
Total current assets	807,262	754,962
PROPERTY, PLANT AND EQUIPMENT, NET	262,181	254,819
INTANGIBLE ASSETS—NET	333,550	379,186
INVESTMENTS—LONG-TERM	75,147	264,071
GOODWILL	92,873	92,873
CONTINGENT CONSIDERATION	58,400	55,300
DEFERRED TAX ASSETS	50,296	40,856
OTHER ASSETS	27,667	13,677
TOTAL ASSETS	$ 1,707,376	$ 1,855,744
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 185,716	$ 168,735
Long-term debt—short-term	3,000	65,737
Deferred revenue—short-term	1,524	1,735
Total current liabilities	190,240	236,207
LONG-TERM DEBT	282,576	284,207
OTHER LONG-TERM LIABILITIES	17,206	13,080
DEFERRED REVENUE—LONG-TERM	7,660	7,975
Total liabilities	497,682	541,469
COMMITMENTS AND CONTINGENCIES (Note 13)		
SHAREHOLDERS' EQUITY:		
Preferred shares, par value, $0.01 per share; 50,000,000 shares authorized; zero issued and outstanding at September 30, 2016 and December 31, 2015, respectively	—	—
Ordinary shares, par value, $0.01 per share; 450,000,000 shares authorized; 153,451,571 and 152,128,941 shares issued; 151,805,300 and	1,531	1,518

150,700,989 shares outstanding at September 30, 2016, and December 31, 2015, respectively		
Treasury shares, at cost (1,646,271 and 1,427,952 shares at September 30, 2016 and December 31, 2015, respectively)	(67,255)	(58,661)
Additional paid-in capital	2,205,028	2,114,711
Accumulated other comprehensive loss	(2,808)	(3,795)
Accumulated deficit	(926,802)	(739,498)
Total shareholders’ equity	1,209,694	1,314,275
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$ 1,707,376	$ 1,855,744

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

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ALKERMES PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share amounts)			
REVENUES:				
Manufacturing and royalty revenues	$ 110,250	$ 114,072	$ 353,444	$ 355,978
Product sales, net	69,802	37,903	176,695	106,212
Research and development revenue	189	678	2,042	3,047
Total revenues	180,241	152,653	532,181	465,237
EXPENSES:				
Cost of goods manufactured and sold (exclusive of amortization of acquired intangible assets shown below)	35,456	33,806	97,165	104,198
Research and development	99,444	92,558	297,523	250,718
Selling, general and administrative	91,145	89,497	276,985	224,086
Amortization of acquired intangible assets	15,323	14,207	45,636	43,479
Total expenses	241,368	230,068	717,309	622,481
OPERATING LOSS	(61,127)	(77,415)	(185,128)	(157,244)
OTHER (EXPENSE) INCOME, NET:				
Interest income	912	865	2,917	2,320
Interest expense	(3,375)	(3,325)	(9,993)	(9,928)
Change in the fair value of contingent consideration	(1,000)	1,200	3,100	2,700
Gain on the Gainesville Transaction	—	26	—	9,937
Other (expense) income, net	(752)	629	(970)	1,003
Total other (expense) income, net	(4,215)	(605)	(4,946)	6,032
LOSS BEFORE INCOME TAXES	(65,342)	(78,020)	(190,074)	(151,212)
(BENEFIT) PROVISION FOR INCOME TAXES	(2,655)	2,995	(2,771)	6,569
NET LOSS	$ (62,687)	$ (81,015)	$ (187,303)	$ (157,781)
LOSS PER COMMON SHARE:				
Basic and diluted	$ (0.41)	$ (0.54)	$ (1.24)	$ (1.06)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic and diluted	151,652	149,512	151,261	148,828
COMPREHENSIVE LOSS:				
Net loss	$ (62,687)	$ (81,015)	$ (187,303)	$ (157,781)
Holding (loss) gains, net of a tax (benefit) provision of $(129), $(5), $445 and $165, respectively	(261)	14	988	424
COMPREHENSIVE LOSS	$ (62,948)	$ (81,001)	$ (186,315)	$ (157,357)

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

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ALKERMES PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended September 30,	
	2016	2015
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (187,303)	$ (157,781)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation and amortization	69,605	63,815
Share-based compensation expense	74,613	74,473
Deferred income taxes	(12,545)	(35,073)
Excess tax benefit from share-based compensation	(5,118)	(32,817)
Gain on the Gainesville Transaction	—	(9,937)
Change in the fair value of contingent consideration	(3,100)	(2,700)
Other non-cash charges	1,901	(520)
Changes in assets and liabilities:		
Receivables	(21,960)	(1,955)
Inventory, prepaid expenses and other assets	(18,266)	13,542
Accounts payable and accrued expenses	26,833	46,291
Deferred revenue	(526)	(1,172)
Other long-term liabilities	4,506	1,059
Cash flows used in operating activities	(71,360)	(42,775)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions of property, plant and equipment	(33,787)	(36,729)
Proceeds from the sale of equipment	100	181
Investment in Reset Therapeutics, Inc.	(15,000)	—
Net proceeds from the Gainesville Transaction	—	50,267
Purchases of investments	(296,712)	(350,157)
Sales and maturities of investments	493,520	335,169
Cash flows provided by (used in) investing activities	148,121	(1,269)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of ordinary shares under share-based compensation arrangements	12,746	31,633
Excess tax benefit from share-based compensation	5,118	32,817
Employee taxes paid related to net share settlement of equity awards	(8,432)	(17,065)
Principal payments of long-term debt	(65,063)	(5,064)
Cash flows (used in) provided by financing activities	(55,631)	42,321
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,130	(1,723)
CASH AND CASH EQUIVALENTS—Beginning of period	181,109	224,064
CASH AND CASH EQUIVALENTS—End of period	$ 202,239	$ 222,341
SUPPLEMENTAL CASH FLOW DISCLOSURE:		

Non-cash investing and financing activities:		
Purchased capital expenditures included in accounts payable and accrued expenses	$ 3,642	$ 2,409
Fair value of warrants received as part of the Gainesville Transaction	$ —	$ 2,123
Fair value of contingent consideration received as part of the Gainesville Transaction	$ —	$ 57,600

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

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED STATEMENTS — (Unaudited)

1. THE COMPANY

Alkermes plc is a fully integrated, global biopharmaceutical company that applies its scientific expertise and proprietary technologies to research, develop and commercialize, both with partners and on its own, pharmaceutical products that are designed to address unmet medical needs of patients in major therapeutic areas. Alkermes has a diversified portfolio of marketed drug products and a clinical pipeline of products that address CNS disorders such as schizophrenia, depression, addiction and multiple sclerosis. Headquartered in Dublin, Ireland, Alkermes has a research and development ("R&D") center in Waltham, Massachusetts; an R&D and manufacturing facility in Athlone, Ireland; and a manufacturing facility in Wilmington, Ohio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company for the three and nine months ended September 30, 2016 and 2015 are unaudited and have been prepared on a basis substantially consistent with the audited financial statements for the year ended December 31, 2015. The year-end condensed consolidated balance sheet data, which is presented for comparative purposes, was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the U.S. (commonly referred to as "GAAP"). In the opinion of management, the condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, that are necessary to state fairly the results of operations for the reported periods.

These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Alkermes, which are contained in the Company's Annual Report that has been filed with the SEC. The results of the Company's operations for any interim period are not necessarily indicative of the results of the Company's operations for any other interim period or for a full fiscal year.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Alkermes plc and its wholly owned subsidiaries as disclosed in Note 2, Summary of Significant Accounting Policies, within the "Notes to Consolidated Financial Statements" accompanying its Annual Report. Intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of the Company's condensed consolidated financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates and judgments and methodologies, including those related to revenue recognition and related allowances, its collaborative relationships, clinical trial expenses, the valuation of inventory, impairment and amortization of intangibles and long-lived assets, share-based compensation, income taxes including the valuation allowance for deferred tax assets, valuation of contingent consideration, valuation of investments and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Segment Information

The Company operates as one business segment, which is the business of developing, manufacturing and commercializing medicines. The Company's chief decision maker, the Chairman of the Board and Chief Executive Officer, reviews the Company's operating results on an aggregate basis and manages the Company's operations as a single operating unit.

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED STATEMENTS — (Unaudited) (Continued)

Income Taxes

The Company's income tax (benefit) provision in the three and nine months ended September 30, 2016 and 2015 relates primarily to U.S. federal and state taxes on income. The Company records a deferred tax asset or liability based on the difference between the financial statement and tax basis of its assets and liabilities, as measured by enacted jurisdictional tax rates assumed to be in effect when these differences reverse. At September 30, 2016, the Company maintained a valuation allowance against certain of its U.S. and foreign deferred tax assets. The Company evaluates, at each reporting period, the need for a valuation allowance on its deferred tax assets on a jurisdiction by jurisdiction basis.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

In May 2014, the FASB issued guidance that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. This guidance becomes effective for the Company in its year ending December 31, 2018, and the Company could early adopt the standard for its year ending December 31, 2017. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In June 2014, the FASB issued guidance that clarifies the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. Existing GAAP does not contain explicit guidance on how to account for these share-based payments. The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a

performance condition. Entities have the option of prospectively applying the guidance to awards granted or modified after the effective date or retrospectively applying the guidance to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements. The Company adopted this guidance on January 1, 2016, and this guidance does not have an impact on its consolidated financial statements.

In January 2015, the FASB issued guidance that simplifies income statement presentation by eliminating the concept of extraordinary items. The Company adopted this guidance on January 1, 2016, and this guidance does not have an impact on its consolidated financial statements.

In January 2016, the FASB issued guidance that enhances the reporting model for financial instruments through addressing certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendments in this update include: requiring equity securities to be measured at fair value with changes in fair value recognized through the income statement; simplifying the impairment assessment of equity instruments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requiring an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments;

requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset; and clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This guidance becomes effective for the Company in its year ending December 31, 2018, and the Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In February 2016, the FASB issued guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between previous GAAP and this guidance is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. This guidance becomes effective for the Company in its year ending December 31, 2019, and the Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In March 2016, the FASB issued guidance as part of its simplification initiative to eliminate the requirement to retroactively adopt the equity method of accounting when an investment qualifies for the use of the equity method as a result of an increase in the level of ownership interest or degree of influence. This guidance becomes effective for the Company in its year ending December 31, 2017, and the Company does not currently expect this guidance to have an impact on its consolidated financial statements.

In March 2016, the FASB issued guidance as part of its simplification initiative that involves several aspects of the accounting for share-based payment transactions. The amendments in this update established that: all excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the income statement; excess tax benefits be classified as an operating activity in the statement of cash flows; the entity make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, which is current GAAP, or account for forfeitures as they occur; the threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions; and cash paid by an employer when directly withholding shares for tax-withholding purposes be classified as a financing activity in the statement of cash flows. This guidance becomes effective for the Company in its year ending December 31, 2017, and the Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In August 2016, the FASB issued guidance to address diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This guidance becomes effective for the Company in its year ending December 31, 2018, and the Company is currently assessing the impact that this standard will have on its consolidated financial statements.

3. DIVESTITURE

On March 7, 2015, the Company entered into a definitive agreement to sell its Gainesville, GA facility, the related manufacturing and royalty revenue associated with certain products manufactured at the facility, and the rights to IV/IM and other parenteral forms of Meloxicam and certain intellectual property related to IV/IM and parenteral forms of Meloxicam (the “Gainesville Transaction”) to Recro Pharma, Inc. (“Recro”) and Recro Pharma LLC (together with Recro, the “Purchasers”). The sale was completed on April 10, 2015 and, under the terms of the agreement, Recro paid the Company $54.0 million in cash and issued to the Company warrants to purchase an aggregate of 350,000 shares of Recro common stock at a per share exercise price of $19.46, which was two times the closing price of Recro’s common stock on the day prior to closing. The Company is also eligible to receive low double-digit royalties on net sales of IV/IM and parenteral forms of Meloxicam any other product with the same active ingredient as Meloxicam IV/IM that is discovered or identified using certain of the Company’s intellectual property to which Recro was provided a right of use, through license or transfer, pursuant to the Gainesville Transaction (together, the “Meloxicam Products”) and up to $120.0 million in milestone payments upon the achievement of certain regulatory and sales milestones related to the Meloxicam Products.

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED STATEMENTS — (Unaudited) (Continued)

The gain on the Gainesville Transaction was determined as follows:

	April 10, 2015 (In thousands)
Sales Proceeds:	
Cash	$ 54,010
Fair value of warrants	2,123
Fair value of contingent consideration	57,600
Total consideration received	$ 113,733
Less net assets sold	(101,373)
Less transaction costs	(2,724)
Gain on the Gainesville Transaction	$ 9,636

During the three and nine months ended September 30, 2015, the Gainesville, GA facility and associated intellectual property ("IP") generated income before income taxes of none and $4.5 million, respectively. The Company recorded the initial gain on the Gainesville Transaction in the three months ended June 30, 2015 and made adjustments in the third and fourth quarters of 2015 to record additional transaction costs. The Company determined that the sale of assets in connection with the Gainesville Transaction did not constitute a strategic shift and that it did not and will not have a major effect on its operations and financial results. Accordingly, the operations from the Gainesville Transaction are not reported in discontinued operations.

The Company determined the value of the Gainesville Transaction's contingent consideration using the following valuation approaches:

• The fair value of the two regulatory milestones was estimated based on applying the likelihood of achieving the regulatory milestone and applying a discount rate from the expected time the milestone occurs to the balance sheet date. The Company expects the regulatory milestone events to occur within the next one and two years, respectively, and used a discount rate of 3.2% and 4.1%, respectively, for each of these events.

• To estimate the fair value of future royalties on net sales of the Meloxicam Products, the Company assessed the likelihood of the Meloxicam Products being approved for sale and estimated the expected future sales given approval and IP protection. The Company then discounted these expected payments using a discount rate of 17.0%, which the Company believes captures a market participant's view of the risk associated with the expected payments.

• The sales milestones were determined through the use of a real options approach, where net sales are simulated in a risk-neutral world. To employ this methodology, the Company used a risk-adjusted expected growth rate based on its assessments of expected growth in net sales of the approved Meloxicam Products, adjusted by an appropriate factor capturing their respective correlation with the market. A resulting expected (probability-weighted) milestone payment was then discounted at a cost of debt plus an alpha, which ranged from 10.8% to 12.2%.

During the nine months ended September 30, 2016, the Company determined that the value of the Gainesville Transaction's contingent consideration increased due primarily to a shorter time to payment on the milestones and royalties included in the contingent consideration, although the value did decrease during the three months ended September 30, 2016 due to a change in the planned timing of the New Drug Application ("NDA") submission for Meloxicam. These changes were recorded as "Change in the fair value of contingent consideration" in the accompanying condensed consolidated statements of operations and comprehensive loss.

The warrants the Company received to purchase 350,000 shares of Recro common stock have a fair value of $1.5 million at September 30, 2016 and are being recorded within "Other assets" in the accompanying condensed consolidated balance sheets. The Company used a Black-Scholes model with the following assumptions to determine the fair value of these warrants at September 30, 2016:

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED STATEMENTS — (Unaudited) (Continued)

Closing stock price at September 30, 2016	$ 8.84
Warrant strike price	$ 19.46
Expected term (years)	5.52
Risk-free rate	1.26 %
Volatility	77.4 %

An increase in the fair value of the warrants of $0.2 million and a decrease in the fair value of the warrants of $0.3 million during the three and nine months ended September 30, 2016, respectively, was recorded within “Other (expense) income, net” in the accompanying condensed consolidated statements of operations and comprehensive loss. The fair value of the warrants decreased by $0.3 million in the three months ended September 30, 2015 and increased by $0.6 million in the nine months ended September 30, 2015.

4. INVESTMENTS

Investments consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(1)	Estimated Fair Value
	(In thousands)			
September 30, 2016				
Short-term investments:				
Available-for-sale securities:				
U.S. government and agency debt securities	$ 193,228	$ 219	$ (1)	$ 193,446
Corporate debt securities	142,692	108	(41)	142,759
International government agency debt securities	10,998	16	(1)	11,013
Total short-term investments	346,918	343	(43)	347,218
Long-term investments:				
Available-for-sale securities:				
U.S. government and agency debt securities	57,578	—	(81)	57,497
Corporate debt securities	8,774	—	(13)	8,761
International government agency debt securities	5,515	—	(8)	5,507
	71,867	—	(102)	71,765
Held-to-maturity securities:				

Fixed term deposit account	1,667	—	—	1,667
Certificates of deposit	1,715	—	—	1,715
	3,382	—	—	3,382
Total long-term investments	75,249	—	(102)	75,147
Total investments	$ 422,167	$ 343	$ (145)	$ 422,365
December 31, 2015				
Short-term investments:				
Available-for-sale securities:				
Corporate debt securities	$ 175,098	$ 20	$ (179)	$ 174,939
U.S. government and agency debt securities	141,789	51	(104)	141,736
International government agency debt securities	37,070	—	(76)	36,994
Total short-term investments	353,957	71	(359)	353,669
Long-term investments:				
Available-for-sale securities:				
U.S. government and agency debt securities	211,216	—	(764)	210,452
Corporate debt securities	38,381	—	(111)	38,270
International government agency debt securities	12,039	—	(71)	11,968
	261,636	—	(946)	260,690
Held-to-maturity securities:				
Fixed term deposit account	1,666	—	—	1,666
Certificates of deposit	1,715	—	—	1,715
	3,381	—	—	3,381
Total long-term investments	265,017	—	(946)	264,071
Total investments	$ 618,974	$ 71	$ (1,305)	$ 617,740

(1) Losses represent marketable securities that were in loss positions for less than one year.

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED STATEMENTS — (Unaudited) (Continued)

The proceeds from the sales and maturities of marketable securities, which were primarily reinvested and resulted in realized gains and losses, were as follows:

	Nine Months Ended September 30,	
(In thousands)	2016	2015
Proceeds from the sales and maturities of marketable securities	$ 493,520	$ 335,169
Realized gains	$ 124	$ 109
Realized losses	$ 28	$ 3

The Company's available-for-sale and held-to-maturity securities at September 30, 2016 had contractual maturities in the following periods:

	Available-for-sale		Held-to-maturity	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within 1 year	$ 253,081	$ 253,156	$ 1,715	$ 1,715
After 1 year through 5 years	165,704	165,827	1,667	1,667
Total	$ 418,785	$ 418,983	$ 3,382	$ 3,382

At September 30, 2016, the Company believed that the unrealized losses on its available-for-sale investments were temporary. The investments with unrealized losses consisted primarily of corporate debt securities. In making the determination that the decline in fair value of these securities was temporary, the Company considered various factors, including, but not limited to: the length of time each security was in an unrealized loss position; the extent to which fair value was less than cost; financial condition and near-term prospects of the issuers; and the Company's intent not to sell these securities and the assessment that it is more likely than not that the Company would not be required to sell these securities before the recovery of their amortized cost basis.

In February 2016, the Company entered into a collaboration and license option agreement with Reset Therapeutics, Inc. ("Reset"). The Company made an upfront, non-refundable payment of $10.0 million in partial consideration of the

grant to the Company of the rights and licenses included in such agreement, which was included in R&D expense in the three months ended March 31, 2016, and simultaneously made a $15.0 million investment in exchange for shares of Reset's Series B Preferred Stock. The Company is accounting for its investment in Reset under the equity method based on its percentage of ownership, its seat on the board of directors and its belief that it can exert significant influence over the operating and financial policies of Reset. During the three and nine months ended September 30, 2016, the Company recorded a reduction in its investment in Reset of $0.7 million and $1.0 million, respectively, which represents the company's proportional share of Reset's net loss for the period. The Company's $14.0 million investment at September 30, 2016 is included within "Other assets" in the accompanying condensed consolidated balance sheets.

In May 2014, the Company entered into an agreement whereby it is committed to provide up to €7.4 million to a partnership, Fountain Healthcare Partners II, L.P. of Ireland ("Fountain"), which was created to carry on the business of investing exclusively in companies and businesses engaged in the healthcare, pharmaceutical and life sciences sectors. The Company's commitment represents approximately 7% of the partnership's total funding, and the Company is accounting for its investment in Fountain under the equity method. At September 30, 2016, the Company had made payments of, and its investment is equal to, $2.3 million (€1.8 million), which is included within "Other assets" in the accompanying condensed consolidated balance sheets. During the three and nine months ended September 30, 2016, the Company recorded a reduction in its investment in Fountain of $0.3 million and $0.4 million, respectively, which represents the Company's proportional share of Fountain's net loss for the period.

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED STATEMENTS — (Unaudited) (Continued)

5. FAIR VALUE MEASUREMENTS

The following table presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value:

(In thousands)	September 30, 2016	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 1,667	$ 1,667	$ —	$ —
U.S. government and agency debt securities	250,943	140,276	110,667	—
Corporate debt securities	151,520	—	151,520	—
International government agency debt securities	16,520	—	16,520	—
Contingent consideration	58,400	—	—	58,400
Common stock warrants	1,545	—	—	1,545
Total	$ 480,595	$ 141,943	$ 278,707	$ 59,945

	December 31, 2015	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 1,666	$ 1,666	$ —	$ —
U.S. government and agency debt securities	352,188	214,456	137,732	—
Corporate debt securities	213,209	—	213,209	—
International government agency debt securities	48,962	—	48,962	—
Contingent consideration	55,300	—	—	55,300
Common stock warrants	1,821	—	—	1,821
Total	$ 673,146	$ 216,122	$ 399,903	$ 57,121

The Company transfers its financial assets and liabilities, measured at fair value on a recurring basis, between the fair value hierarchies at the end of each reporting period. There were no transfers of any securities between the fair value hierarchies during the nine months ended September 30, 2016.

The Company's investments in U.S. government and agency debt securities, international government agency debt securities and corporate debt securities classified as Level 2 within the fair value hierarchy were initially valued at the transaction price and subsequently valued, at the end of each reporting period, utilizing market-observable data. The market-observable data included reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids, offers, current spot rates and other industry and economic events. The Company validated the prices developed using the market-observable data by obtaining market values from other pricing sources, analyzing pricing data in certain instances and confirming that the relevant markets are active.

The following table is a rollforward of the fair value of the Company's assets whose fair values were determined using Level 3 inputs at September 30, 2016:

(In thousands)	Fair Value
Balance, January 1, 2016	$ 57,121
Change in the fair value of contingent consideration	3,100
Decrease in the fair value of warrants	(276)
Balance, September 30, 2016	$ 59,945

The carrying amounts reflected in the condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses approximated fair value due to their short-term nature. The fair value of the remaining financial instruments not currently recognized at fair value on the Company's condensed consolidated balance sheets consisted of the $300.0 million, seven-year term loan bearing interest at LIBOR plus 2.75% with a LIBOR floor of 0.75% ("Term Loan B-1") and the $75.0 million, four-year term loan bearing interest at LIBOR plus 2.75%, with no LIBOR floor ("Term Loan B-2" and together with Term Loan B-1, the "Term Loan Facility"). In September 2016, Term Loan B-2 matured and the Company repaid the outstanding principal balance in its

entirety. The estimated fair value of Term-Loan B-1, which was based on quoted market price indications (Level 2 in the fair value hierarchy) and which may not be representative of the actual value that could have been or will be realized in the future, was as follows at September 30, 2016:

(In thousands)	Carrying Value	Estimated Fair Value
Term Loan B-1	$ 285,576	$ 287,761

6. INVENTORY

Inventory is stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Inventory consisted of the following:

(In thousands)	September 30, 2016	December 31, 2015
Raw materials	$ 18,159	$ 16,445
Work in process	16,634	12,423
Finished goods(1)	19,362	9,543
Total inventory	$ 54,155	$ 38,411

(1) At September 30, 2016 and December 31, 2015, the Company had $8.0 million and $3.0 million, respectively, of finished goods inventory located at its third-party warehouse and shipping service provider.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

(In thousands)	September 30, 2016	December 31, 2015
Land	$ 5,913	$ 5,913
Building and improvements	152,686	136,797
Furniture, fixture and equipment	244,740	218,718
Leasehold improvements	19,171	16,597
Construction in progress	37,968	51,542
Subtotal	460,478	429,567
Less: accumulated depreciation	(198,297)	(174,748)
Total property, plant and equipment, net	$ 262,181	$ 254,819

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consisted of the following:

		Nine Months Ended September 30, 2016		
(In thousands)	Weighted Amortizable Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill		$ 92,873	$ —	$ 92,873
Finite-lived intangible assets:				
Collaboration agreements	12	$ 465,590	$ (205,725)	$ 259,865
NanoCrystal technology	13	74,600	(22,853)	51,747
OCR technologies	12	42,560	(20,622)	21,938
Total		$ 582,750	$ (249,200)	$ 333,550

Based on the Company's most recent analysis, amortization of intangible assets included within its condensed consolidated balance sheet at September 30, 2016 is expected to be approximately $60.0 million, $60.0 million, $60.0

million, $55.0 million and $50.0 million in the years ending December 31, 2016 through 2020, respectively. Although the Company believes such available information and assumptions are reasonable, given the inherent risks and uncertainties underlying its expectations regarding such future revenues, there is the potential for the Company's actual results to vary significantly from such expectations. If revenues are projected to change, the related amortization of the intangible assets will change in proportion to the change in revenues.

On January 21, 2016, following the Company's press release regarding its ALKS 5461 development program, the Company's stock price declined by 44% from the previous day's closing price, which the Company considered to be an impairment triggering event. To determine if its goodwill was impaired, the Company assessed qualitative factors to determine whether it was necessary to perform the two-step impairment test. Based on the weight of all available evidence, the Company determined that the fair value of its reporting unit more-likely-than-not exceeded its carrying value.

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

(In thousands)	September 30, 2016	December 31, 2015
Accounts payable	$ 43,824	$ 37,401
Accrued compensation	38,490	40,371
Accrued sales discounts, allowances and reserves	51,845	28,449
Accrued taxes	766	1,195
Accrued other	50,791	61,319
Total accounts payable and accrued expenses	$ 185,716	$ 168,735

10. LONG-TERM DEBT

Long-term debt consisted of the following:

(In thousands)	September 30, 2016	December 31, 2015
Term Loan B-1, due September 25, 2019	$ 285,576	$ 287,207
Term Loan B-2, due September 25, 2016	—	62,737
Total	285,576	349,944
Less: current portion	(3,000)	(65,737)
Long-term debt	$ 282,576	$ 284,207

In September 2016, Term Loan B-2 matured and the Company repaid the outstanding principal balance of $60.9 million in its entirety.

In October 2016, the Company amended Term Loan B-1, pursuant to which, among other things, the due date of Term Loan B-1 was extended from September 25, 2019 to September 25, 2021 (the “Refinancing”). The Refinancing involved multiple lenders who were considered members of a loan syndicate. In determining whether the Refinancing is to be accounted for as a debt extinguishment or a debt modification, the Company will consider whether creditors remained the same or changed and whether the changes in debt terms are substantial. A change in the debt terms is considered to be substantial if the present value of the remaining cash flows under the new terms of Term Loan B-1 are at least 10% different from the present value of the remaining cash flows under the original terms of Term Loan B-1 (commonly referred to as the “10% Test”). The Company will perform a separate 10% Test for each individual creditor participating in the loan syndication. The loans of any creditors no longer participating in the loan syndication will be accounted for as a debt extinguishment.

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED STATEMENTS — (Unaudited) (Continued)

11. SHARE-BASED COMPENSATION

Share-based compensation expense consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Cost of goods manufactured and sold	$ 2,151	$ 4,311	$ 6,693	$ 6,806
Research and development	6,032	9,028	18,830	18,951
Selling, general and administrative	15,543	21,928	49,090	48,716
Total share-based compensation expense	$ 23,726	$ 35,267	$ 74,613	$ 74,473

At September 30, 2016 and December 31, 2015, $1.3 million and $1.1 million, respectively, of share-based compensation cost was capitalized and recorded as “Inventory” in the accompanying condensed consolidated balance sheets.

12. LOSS PER SHARE

Basic loss per ordinary share is calculated based upon net loss available to holders of ordinary shares divided by the weighted average number of shares outstanding. For the three and nine months ended September 30, 2016 and 2015, as the Company was in a net loss position, the diluted loss per share does not assume conversion or exercise of stock options and awards as they would have an anti-dilutive effect on loss per share.

The following potential ordinary equivalent shares have not been included in the net loss per ordinary share calculation because the effect would have been anti-dilutive:

(In thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Stock options	9,203	9,539	10,507	9,110
Restricted stock units	1,298	1,482	1,247	1,838
Total	10,501	11,021	11,754	10,948

13. COMMITMENTS AND CONTINGENCIES

From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of business. On a quarterly basis, the Company reviews the status of each significant matter and assesses its potential financial exposure. If the potential loss from any claim, asserted or unasserted, or legal proceeding is considered probable and the amount can be reasonably estimated, the Company would accrue a liability for the estimated loss. Because of uncertainties related to claims and litigation, accruals are based on the Company’s best estimates based on available information. On a periodic basis, as additional information becomes available, or based on specific events such as the outcome of litigation or settlement of claims, the Company may reassess the potential liability related to these matters and may revise these estimates, which could result in material adverse adjustments to the Company’s operating results. At September 30, 2016, there are no potential losses from claims, asserted or unasserted, or legal proceedings the Company feels are probable of occurring.

ARISTADA

On July 13, 2015, Otsuka Pharmaceutical Development & Commercialization, Inc. (“Otsuka PD&C”) filed a Citizen Petition with the U.S. Food and Drug Administration (“FDA”) which requested that the FDA refuse to approve the NDA for ARISTADA or delay approval of such NDA until the exclusivity rights covering long-acting aripiprazole expire in December 2017. The FDA approved ARISTADA on October 5, 2015 and, concurrent with such approval, denied Otsuka PD&C’s Citizen Petition.

ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED STATEMENTS — (Unaudited) (Continued)

On October 15, 2015, Otsuka Pharm. Co., Otsuka PD&C, and Otsuka America Pharmaceutical, Inc. (collectively, "Otsuka") filed an action for declaratory and injunctive relief with the United States District Court for the District of Columbia (the "DC Court") against Sylvia Mathews Burwell, Secretary, U.S. Department of Health and Human Services; Dr. Stephen Ostroff, Acting Commissioner, FDA; and the FDA, requesting that the DC Court (a) expedite the legal proceedings; (b) declare that the FDA's denial of Otsuka's claimed exclusivity rights and approval of the ARISTADA NDA were arbitrary, capricious, an abuse of discretion, and otherwise not in accordance with law; (c) vacate FDA's approval of the ARISTADA NDA and vacate any FDA decisions or actions underlying or supporting or predicated upon that approval; (d) declare that Otsuka's claimed exclusivity rights preclude FDA from granting approval of the Alkermes NDA until the expiration of such exclusivity rights in December 2017; and (e) grant any and all other, further, and additional relief, including all necessary and appropriate protective preliminary, interim, or permanent relief, as the nature of the cause may require, including all necessary and appropriate declarations of rights and injunctive relief. The Company successfully intervened in, and received the DC Court's approval to become a party to, this action.

On July 28, 2016, the DC Court issued an unambiguous opinion in favor of Alkermes and the FDA, affirming in all respects FDA's decision to approve ARISTADA for the treatment of schizophrenia, and denying the action filed by Otsuka for declaratory and injunctive relief. Otsuka has filed an appeal of the DC Court's decision with the U.S. Court of Appeals for the District of Columbia Circuit ("DC Circuit") asking the DC Circuit to reverse the DC Court's decision, vacate FDA's approval of the ARISTADA NDA and remand the case to the DC Court for consideration of any appropriate equitable remedy for Otsuka's lost exclusivity. The DC Circuit has scheduled this appellate hearing for December 12, 2016. The Company believes Otsuka's action is without merit and will continue to vigorously defend ARISTADA against such action. For information about risks relating to this action, see "Part I, Item 1A—Risk Factors" in the Company's Annual Report and specifically the section entitled "Citizen Petitions and other actions filed with, or litigation against, the FDA or other regulatory agencies or litigation against Alkermes may negatively impact the approval of our products and our business."

AMPYRA

AMPYRA ANDA Litigation

Ten separate Paragraph IV Certification Notices have been submitted to us and/or the Company's licensee Acorda Therapeutics, Inc. ("Acorda") from Accord Healthcare, Inc. ("Accord"); Actavis Laboratories FL, Inc. ("Actavis"); Alkem Laboratories Ltd. ("Alkem"); Apotex, Inc.; Aurobindo Pharma Ltd. ("Aurobindo"); Mylan Pharmaceuticals, Inc. ("Mylan"); Par Pharmaceutical, Inc. ("Par"); Roxane Laboratories, Inc.; Sun Pharmaceutical Industries Limited and Sun Pharmaceuticals Industries Inc. (collectively, "Sun"); and Teva Pharmaceuticals USA, Inc., advising that each of these

companies had submitted an Abbreviated New Drug Application ("ANDA") to the FDA seeking marketing approval for generic versions of AMPYRA (dalfampridine) Extended Release Tablets, 10 mg. The ANDA filers have challenged the validity of the Orange Book-listed patents for AMPYRA, and they have also asserted that their generic versions do not infringe certain claims of these patents. In response, the Company and/or Acorda filed lawsuits against the ANDA filers in the U.S. District Court for the District of Delaware (the "Delaware Court") asserting infringement of U.S. Patent Nos. 5,540,938 (which the Company owns), 8,663,685; 8,440,703; 8,354,437 and 8,007,826 (which are owned by Acorda). Requested judicial remedies include recovery of litigation costs and injunctive relief. Lawsuits with eight of the ANDA filers have been consolidated into a single case. The Delaware Court held a bench trial that concluded on September 23, 2016. Mylan is challenging the jurisdiction of the Delaware Court with respect to the Delaware action. Due to Mylan's motion to dismiss, the Company, together with Acorda, also filed another patent infringement suit against Mylan in the U.S. District Court for the Northern District of West Virginia asserting the same U.S. patents and requesting the same judicial relief as in the Delaware action. In March 2016, the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit") upheld the Delaware Court's ruling that the litigation against Mylan can continue in the Delaware Court. In June 2016, the Federal Circuit denied Mylan's request for a rehearing to reconsider its previous ruling. Mylan has appealed the Federal Circuit's decision to the Supreme Court of the U.S. All lawsuits were filed within 45 days from the date of receipt of each of the Paragraph IV Certification Notices. As a result, a 30-month statutory stay of approval period applies to each of the ANDAs under the U.S. Drug Price Competition and Patent Term Restoration Act of 1984 (the "Hatch-Waxman Act"). The 30-month stay starts from January 22, 2015, which is the end of the new

chemical entity exclusivity period for AMPYRA. This stay restricts the FDA from approving the ANDAs until July 2017 at the earliest, unless a Federal district court issues a decision adverse to all of the asserted Orange Book-listed patents prior to that date. Such FDA approval would permit the ANDA filers to market generic versions of AMPYRA (dalfampridine) Extended Release Tablets, 10 mg.

The Company and/or Acorda has entered into a settlement agreement with each of Accord, Actavis, Alkem, Aurobindo, Par and Sun (collectively, the “Settling ANDA Filers”) to resolve the patent litigation that the Company and/or Acorda brought against the Settling ANDA Filers in the Delaware Court as described above. As a result of the settlement agreements, the Settling ANDA Filers will be permitted to market a generic version of AMPYRA in the U.S. at a specified date in 2027, or potentially earlier under certain circumstances. The parties have submitted their respective settlement agreements to the Federal Trade Commission and the Department of Justice, as required by federal law. The settlements with the Settling ANDA Filers do not resolve pending patent litigation that the Company and Acorda brought against the other ANDA filers, as described above.

The Company intends to vigorously enforce its intellectual property rights. For information about risks relating to the AMPYRA Paragraph IV litigations and other proceedings see “Part I, Item 1A—Risk Factors” in the Company’s Annual Report and specifically the section entitled “We face claims against our intellectual property rights and competition from generic drug manufacturers.”

AMPYRA IPR Proceedings

A hedge fund (acting with affiliated entities and individuals and proceeding under the name of the Coalition for Affordable Drugs) has filed inter partes review (“IPR”) petitions with the U.S. Patent and Trademark Office (the “USPTO”), challenging U.S. Patent Nos. 8,663,685; 8,440,703; 8,354,437 and 8,007,826 (which are owned by Acorda). In March 2016, the USPTO’s Patent Trials and Appeal Board instituted the IPR. A ruling on the IPR petitions is expected within one year of the IPR’s institution. The challenged patents are four of the five AMPYRA Orange-Book listed patents. The 30-month statutory stay period based on patent infringement suits filed by us and Acorda against ANDA filers is not impacted by these filings, and remains in effect.

BYDUREON, RISPERDAL CONSTA AND VIVITROL IPR Proceedings

On June 3, 2016, the USPTO accepted two separate IPR petitions filed by Luye Pharma Group Ltd., Luye Pharma (USA) Ltd., Shandong Luye Pharmaceutical Co., Ltd., and Nanjing Luye Pharmaceutical Co., Ltd. (collectively, "Luye") challenging U.S. Patent Number 6,667,061 (the "'061 Patent"), which is an Orange Book-listed patent for each of BYDUREON, RISPERDAL CONSTA and VIVITROL. On September 1, 2016, the Company filed a response to Luye's IPR petitions with the USPTO, following which the USPTO has a further three-month period to decide whether or not to institute a review of the challenged claims of the '061 Patent. If such review is instituted, a decision on the matter would be expected, pursuant to the statutory time frame, within one year of the USPTO's decision to institute such review.

The Company opposed Luye's requests to institute the IPRs against the '061 Patent. If the USPTO institutes such challenge, the Company will vigorously defend the '061 Patent. For information about risks relating to the '061 Patent IPR proceedings see "Part I, Item 1A—Risk Factors" in the Company's Annual Report and specifically the sections entitled "Patent protection for our products is important and uncertain" and "Uncertainty over intellectual property in the pharmaceutical industry has been the source of litigation, which is inherently costly and unpredictable".

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

The following discussion should be read in conjunction with our condensed consolidated financial statements and related notes beginning on page 5 of this Form 10-Q, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and notes thereto included in our Annual Report, which has been filed with the SEC.

Executive Summary

Net loss for the three months ended September 30, 2016 was $62.7 million, or $0.41 per ordinary share— basic and diluted, as compared to a net loss of $81.0 million, or $0.54 per ordinary share— basic and diluted for the three months ended September 30, 2015. Net loss for the nine months ended September 30, 2016 was $187.3 million, or $1.24 per ordinary share— basic and diluted, as compared to a net loss of $157.8 million, or $1.06 per ordinary share— basic and diluted for the nine months ended September 30, 2015. Included in the net loss during the nine months ended September 30, 2015 was $4.5 million of net income related to our Gainesville, GA manufacturing facility, which we sold as part of the Gainesville Transaction in April 2015.

The decrease in the net loss incurred in the three months ended September 30, 2016, as compared to the three months ended September 30, 2015, was primarily due to a 47% increase in net sales of VIVITROL and the addition of sales related to ARISTADA, which was first commercialized beginning in October 2015. The increase in net loss incurred in the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, was primarily due to increases in R&D expense, reflecting an increased investment in our CNS development pipeline, and selling, general and administrative (“SG&A”) expense, reflecting the commercialization of ARISTADA beginning in October 2015. The increase in R&D and SG&A expenses was partially offset by an increase in net sales of VIVITROL and ARISTADA. Additionally, in the nine months ended September 30, 2016, this increase in expenses was partially offset by a decrease in cost of goods manufactured and sold primarily due to the Gainesville Transaction. These items are discussed in greater detail later in the “Results of Operations” section of this Form 10-Q.

Products

Marketed Products

The key marketed products discussed below are expected to generate significant revenues for us. See the description of the marketed products below and refer to the “Patents and Proprietary Rights” section of our Annual Report for information with respect to the intellectual property protection for these marketed products.

Product	Indication(s)	Licensee	Territory
Proprietary Products			
ARISTADA	Schizophrenia	None	Commercialized by Alkermes in the U.S.
VIVITROL	Alcohol dependence and Opioid dependence	None	Commercialized by Alkermes in the U.S.
		Cilag GmbH International (“Cilag”)	Russia and Commonwealth of Independent States (“CIS”)
Products Using Our Proprietary Technologies			
RISPERDAL CONSTA	Schizophrenia and Bipolar I disorder	Janssen Pharmaceutica Inc. ("Janssen, Inc.") and Janssen Pharmaceutica International, a division of Cilag International AG ("Janssen International")	Worldwide
INVEGA SUSTENNA	Schizophrenia and Schizoaffective disorder	Janssen Pharmaceutica N.V. (together with Janssen, Inc. Janssen International and their affiliates "Janssen")	U.S.
XEPLION	Schizophrenia	Janssen	Rest of World (“ROW”)
INVEGA TRINZA / TREVICTA	Schizophrenia	Janssen	Worldwide

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AMPYRA / FAMPYRA	Treatment to improve walking in patients with multiple sclerosis ("MS"), as demonstrated by an increase in walking speed	Acorda	U.S.
		Biogen International GmbH ("Biogen"), under sublicense from Acorda	ROW
BYDUREON	Type 2 diabetes	AstraZeneca plc ("AstraZeneca")	Worldwide

Proprietary Products

We develop and commercialize products designed to address the unmet needs of patients suffering from addiction and schizophrenia.

ARISTADA

ARISTADA (aripiprazole lauroxil) is an extended-release injectable suspension approved in the U.S. for the treatment of schizophrenia. ARISTADA is the first of our products to utilize our proprietary LinkeRx technology. ARISTADA is a prodrug; once in the body, ARISTADA is likely converted by enzyme-mediated hydrolysis to N-hydroxymethyl aripiprazole, which is then hydrolyzed to aripiprazole. ARISTADA is the first atypical antipsychotic with once-monthly and six-week dosing options for delivering and maintaining therapeutic levels of medication in the body through an intramuscular injection. ARISTADA has three dosing options (441 mg, 662 mg and 882 mg) and is packaged in a ready-to-use, pre-filled product format. We developed, manufacture and commercialize ARISTADA in the U.S.

On September 27, 2016, U.S. Patent No. 9,452,131 relating to ARISTADA was granted. This patent was added to the patents listed in the Orange Book for ARISTADA, has claims that cover methods of treatment for schizophrenia, and expires in 2035.

VIVITROL

VIVITROL (naltrexone for extended-release injectable suspension) is the only once monthly, non-addictive, injectable medication approved in the U.S., Russia and certain countries of the CIS for the treatment of alcohol dependence and for the prevention of relapse to opioid dependence, following opioid detoxification. VIVITROL uses our polymer based microsphere injectable extended release technology to deliver and maintain therapeutic medication levels in the body through one injection every four weeks. We developed and exclusively manufacture VIVITROL.

We commercialize VIVITROL in the U.S., and Cilag commercializes VIVITROL in Russia and certain countries of the CIS.

Products Using Our Proprietary Technologies

We have granted licenses under our proprietary technologies to enable third parties to develop, commercialize and, in some cases, manufacture products for which we receive royalties and/or manufacturing revenues. Such arrangements include the following:

INVEGA SUSTENNA/XEPLION, INVEGA TRINZA/TREVICTA and RISPERDAL CONSTA

INVEGA SUSTENNA/XEPLION (paliperidone palmitate), INVEGA TRINZA/TREVICTA (paliperidone palmitate) and RISPERDAL CONSTA (risperidone long acting injection) are long-acting atypical antipsychotics owned and commercialized worldwide by Janssen that incorporate our proprietary technologies.

INVEGA SUSTENNA is approved in the U.S. for the treatment of schizophrenia and for the treatment of schizoaffective disorder as either a monotherapy or adjunctive therapy. Paliperidone palmitate extended-release injectable suspension is approved in the European Union ("EU") and other countries outside of the U.S. for the treatment of schizophrenia and is marketed and sold under the trade name XEPLION. INVEGA SUSTENNA/XEPLION uses our nanoparticle injectable extended-release technology to increase the rate of dissolution and enable the formulation of an aqueous suspension for once-monthly intramuscular administration. INVEGA SUSTENNA/XEPLION is manufactured by Janssen.

INVEGA TRINZA is an atypical antipsychotic injection for the treatment of schizophrenia used in people who have been treated with INVEGA SUSTENNA for at least four months. INVEGA TRINZA, the first schizophrenia treatment to be taken once every three months, became commercially available in the U.S. in June 2015. In May 2016, TREVICTA (paliperidone palmitate a 3-monthly injection), was approved in the EU for the maintenance treatment of schizophrenia in adult patients who are clinically stable on XEPLION. INVEGA TRINZA/TREVICTA uses our proprietary technology and is manufactured by Janssen.

RISPERDAL CONSTA is approved in the U.S. for the treatment of schizophrenia and as both monotherapy and adjunctive therapy to lithium or valproate in the maintenance treatment of bipolar I disorder. RISPERDAL CONSTA is approved in numerous countries outside of the U.S. for the treatment of schizophrenia and the maintenance treatment of bipolar I disorder. RISPERDAL CONSTA uses our polymer-based microsphere injectable extended-release technology to deliver and maintain therapeutic medication levels in the body through just one injection every two weeks. RISPERDAL CONSTA microspheres are exclusively manufactured by us.

AMPYRA/FAMPYRA

AMPYRA (dalfampridine)/FAMPYRA (fampridine), to our knowledge, is the first treatment approved in the U.S. and in over 50 countries across Europe, Asia and the Americas to improve walking in adults with MS who have walking disability, as demonstrated by an increase in walking speed. Extended-release dalfampridine tablets are marketed and sold by Acorda in the U.S. under the trade name AMPYRA and by Biogen outside the U.S. under the trade name FAMPYRA. In July 2011, the European Medicines Agency conditionally approved FAMPYRA in the EU for the improvement of walking in adults with MS. This authorization was renewed as of August 2015. AMPYRA and FAMPYRA incorporate our oral controlled-release technology. AMPYRA and FAMPYRA are manufactured by us.

BYDUREON

BYDUREON (exenatide extended-release for injectable suspension) is approved in the U.S. and the EU for the treatment of type 2 diabetes. AstraZeneca is responsible for the development and commercialization of BYDUREON worldwide. BYDUREON, a once-weekly formulation of exenatide, uses our polymer-based microsphere injectable extended-release technology. BYDUREON is manufactured by AstraZeneca.

BYDUREON Pen 2 mg, a pre filled, single use pen injector that contains the same formulation and dose as the original BYDUREON single dose tray, is available in the U.S., certain countries in the EU and Japan.

Key Development Programs

Our research and development is focused on leveraging our formulation expertise and proprietary product platforms to develop novel, competitively advantaged medications designed to enhance patient outcomes in major CNS disorders, such as schizophrenia, addiction, depression and MS. As part of our ongoing research and development efforts, we have devoted, and will continue to devote, significant resources to conducting clinical studies to advance the development of new pharmaceutical products. The discussion below highlights our key current research and development programs. Drug development involves a high degree of risk and investment, and the status, timing and scope of our development programs are subject to change. Important factors that could adversely affect our drug development efforts are discussed in “Part I, Item 1A—Risk Factors” of our Annual Report. Refer to the “Patents and Proprietary Rights” section of our Annual Report for information with respect to the intellectual property protection for our product candidates.

Product Candidate	Target Indication(s)	Status
Aripiprazole Lauroxil Two-Month Dose	Schizophrenia	sNDA Submitted
ALKS 5461	Major Depressive Disorder	Phase 3
ALKS 3831	Schizophrenia	Phase 3
ALKS 8700	MS	Phase 3
ALKS 6428	Transition from Physical Dependence on Opioids to VIVITROL	Phase 3
ALKS 4230 (formerly referred to as RDB 1450)	Cancer Immunotherapy	Phase 1

Aripiprazole Lauroxil Two-Month Dose

Aripiprazole lauroxil is an injectable atypical antipsychotic, currently commercially available as ARISTADA with once-monthly and six-week dosing options for the treatment of schizophrenia. Aripiprazole lauroxil is also in development with a two-month dosing interval. In February 2016, we announced positive topline results from a randomized, open-label, pharmacokinetic study evaluating a two-month dosing interval of aripiprazole lauroxil extended-release injectable suspension for the treatment of schizophrenia. Based on these phase 1 results, we submitted a supplemental NDA ("sNDA") to the FDA in August 2016 and the sNDA was accepted by the FDA in October 2016.

ALKS 5461

ALKS 5461 is a once-daily, oral investigational medicine with a novel mechanism of action for the adjunctive treatment of major depressive disorder ("MDD") in patients with an inadequate response to standard antidepressant therapies. ALKS 5461 is composed of samidorphan in combination with buprenorphine. Samidorphan, formerly referred to as ALKS 33, is a proprietary oral opioid modulator characterized by limited hepatic metabolism and durable pharmacologic activity in modulating brain opioid receptors. In October 2013, the FDA granted Fast Track status for ALKS 5461 for the adjunctive treatment of MDD in patients with inadequate response to standard antidepressant therapies.

In October 2016, we announced positive topline results from FORWARD-5, a phase 3 randomized, double-blind, multicenter, placebo-controlled, sequential parallel comparison design study of ALKS 5461 in MDD from the FORWARD (Focused on Results With a Rethinking of Depression) pivotal program. ALKS 5461 2mg/2mg met the prespecified primary endpoint of significantly reducing depression scores compared to placebo, as measured by the 6-item Montgomery—Åsberg Depression Rating Scale ("MADRS-6"). ALKS 5461 2mg/2mg also demonstrated statistically significant reductions in the 10-item Montgomery—Åsberg Depression Rating Scale ("MADRS-10") scores compared to placebo. The 1mg/1mg dose of ALKS 5461 showed improvement in depressive symptoms in the study, but did not separate significantly from placebo. The most commonly reported adverse events for ALKS 5461 in the

FORWARD-5 study were nausea, dizziness and fatigue. FORWARD-5 was conducted in two sequential stages: Stage 1 was 5 weeks in duration, Stage 2 was 6 weeks. In Stage 1, the average change from baseline depression scores was calculated for weeks 3 through 5. For Stage 2, the average change was calculated for weeks 3 through 6. The results of Stages 1 and 2 were then averaged. Depression scores were assessed using MADRS-6 and MADRS-10. MADRS-6, a subscale of the MADRS-10 assessment tool for depression, focuses on the core symptoms of depression.

In January 2016, we announced the topline results of FORWARD-3 and FORWARD-4. Neither study met the prespecified primary efficacy endpoint, which compared ALKS 5461 to placebo on the change from baseline in MADRS-10 total scores. FORWARD-4 tested two dose levels of ALKS 5461 (2mg/2mg and 0.5mg/0.5mg) compared to placebo. There was a clear trend toward efficacy with the 2mg/2mg dose of ALKS 5461 on the primary endpoint, and post hoc analyses achieved statistical significance for the entire 2mg/2mg dose group on the MADRS-10 endpoint. Based on these analyses, we believe that FORWARD-4 provides supportive evidence of the efficacy of ALKS 5461 in the treatment of MDD. The most commonly reported adverse events in FORWARD-4 were nausea, headache and dizziness. FORWARD-3 tested ALKS 5461 (2mg/2mg) compared to placebo. Placebo response was greater than that observed in FORWARD-4 and no treatment effect of ALKS 5461 was observed.

Based on the results of FORWARD-5, along with the substantial data collected to date on the efficacy and safety of ALKS 5461 for the treatment of MDD from the previously completed successful, randomized, placebo-controlled phase

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2 study, together with supportive evidence from FORWARD-4, we plan to request a meeting with the FDA's Division of Psychiatric Products to discuss the filing strategy for ALKS 5461.

ALKS 3831

ALKS 3831 is a novel, proprietary, oral investigational medicine designed as a broad-spectrum antipsychotic for the treatment of schizophrenia. ALKS 3831 is composed of samidorphan in combination with the established antipsychotic drug olanzapine, which is generally available under the name ZYPREXA. ALKS 3831 is designed to provide the strong efficacy of olanzapine and a differentiated safety profile with favorable weight and metabolic properties and to have utility in the treatment of schizophrenia in patients with co-occurring alcohol use disorder.

In December 2015 and February 2016, we announced the initiation of ENLIGHTEN-1 and ENLIGHTEN-2, respectively, the two phase 3 studies from the ENLIGHTEN pivotal program for ALKS 3831. The ENLIGHTEN pivotal program will also include supportive studies to evaluate the pharmacokinetic, metabolic and long-term safety profile of ALKS 3831. We expect to use safety and efficacy data from the ENLIGHTEN pivotal program to serve as the basis for an NDA to be submitted to the FDA, pending study results.

In October 2016, we announced the initiation of a phase 1 metabolic study of ALKS 3831 to assess the effects of ALKS 3831 on whole body insulin sensitivity, lipid metabolism and other important metabolic parameters compared to olanzapine. Subjects will be randomized to receive ALKS 3831, olanzapine or placebo for 21 days. Results from the study are expected in the first half of 2017.

ALKS 8700

ALKS 8700 is a novel, proprietary, oral investigational monomethyl fumarate ("MMF") molecule in development for the treatment of MS. ALKS 8700 is designed to rapidly and efficiently convert to MMF in the body and to offer differentiated features as compared to the currently marketed dimethyl fumarate, TECFIDERA.

We plan to file a 505(b)(2) NDA using pharmacokinetic bridging data from studies comparing ALKS 8700 and TECFIDERA and a two-year, multicenter, open-label study designed to assess the safety of ALKS 8700, which we initiated in December 2015. Additionally, we plan to initiate a randomized, head-to-head phase 3 study of the gastrointestinal tolerability of ALKS 8700 compared to TECFIDERA next year. We will need to conduct additional preclinical studies and pharmacokinetic studies to further support pharmacokinetic and pharmacodynamic comparability to TECFIDERA. We expect to complete ALKS 8700 registration studies and file the NDA in 2018.

ALKS 6428

ALKS 6428 is designed to help physicians transition patients from physical dependence on opioids to VIVITROL for the treatment of opioid dependence. This transition process includes the administration of doses of oral naltrexone in conjunction with buprenorphine during a seven-day treatment period. In September 2015, we initiated a phase 3 study evaluating the safety, tolerability and efficacy of ALKS 6428 in patients with opioid dependence. Enrollment for this study was completed in October 2016 and results from this study are expected in the first half of 2017.

ALKS 4230

ALKS 4230, formerly referred to as RDB 1450, is our selective effector cell activator ("SECA") that is designed to harness a patient's immune system to preferentially activate and increase the number of tumor killing immune cells. SECA proteins selectively target immune cells to avoid expansion of immune regulatory cells which interfere with the anti-tumor response. SECA molecules are engineered using our proprietary fusion protein technology platform to modulate the natural mechanism of action of a biologic product. We filed an Investigational New Drug application with the FDA in the first quarter of 2016 and initiated a phase 1 clinical trial in May 2016. This phase 1 study will be conducted in two stages: a dose-escalation stage followed by a dose-expansion stage. The first stage of the study is designed to determine a maximum tolerated dose, and to identify the optimal dose range of ALKS 4230 based on measures of immunological-pharmacodynamic effects. Following the identification of the optimal dose range of ALKS

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4230 in the first stage of the study, the dose-expansion stage of the study will evaluate ALKS 4230 in patients with selected solid tumor types. Initial results from the first stage of the phase 1 study are expected in 2017.

ALKS 7119

ALKS 7119 is a novel, proprietary, oral investigational medicine that has a multivalent mechanism of action that acts on key receptors in the brain involved in several CNS diseases, including agitation in Alzheimer's disease, MDD and others. In January 2016, we announced the initiation of a phase 1, double-blind, placebo-controlled study designed to evaluate the safety and tolerability of single ascending doses of ALKS 7119 in healthy subjects. In April 2016, we announced that early results of the single-ascending-dose study demonstrated a favorable tolerability profile and pharmacokinetic properties consistent with potential once-daily dosing.

Based on these early results, we initiated the multiple-ascending-dose study in healthy volunteers in July 2016. In October 2016, due to tolerability issues observed in a small number of subjects in the study, we ceased further development of ALKS 7119. The effects observed were not observed in the single-ascending dose study or anticipated based on pre-clinical models.

Results of Operations

Manufacturing and Royalty Revenues

Manufacturing fees are earned for the manufacture of products under arrangements with our collaborators when product is shipped to them at an agreed upon price. Royalties are earned on our collaborators' sales of products that incorporate our technologies. Royalties are generally recognized in the period the products are sold by our collaborators. The following table compares manufacturing and royalty revenues earned in the three and nine months ended September 30, 2016 and 2015:

(In millions)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Change Favorable/ (Unfavorable)	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Change Favorable/ (Unfavorable)
Manufacturing and royalty revenues:						
Continuing products:						
	$ 50.0	$ 41.4	$ 8.6	$ 131.6	$ 102.5	$ 29.1

INVEGA SUSTENNA/XEPLION & INVEGA TRINZA/TREVICTA						
AMPYRA/FAMPYRA	12.9	22.1	(9.2)	81.9	85.6	(3.7)
RISPERDAL CONSTA	23.2	26.3	(3.1)	65.9	72.8	(6.9)
BYDUREON	11.6	13.0	(1.4)	34.4	33.9	0.5
Other	12.5	11.3	1.2	39.6	42.4	(2.8)
	110.2	114.1	(3.9)	353.4	337.2	16.2
Divested products:						
RITALIN LA & FOCALIN XR	—	—	—	—	9.3	(9.3)
Other	—	—	—	—	9.5	(9.5)
	—	—	—	—	18.8	(18.8)
Manufacturing and royalty revenues	$ 110.2	$ 114.1	$ (3.9)	$ 353.4	$ 356.0	$ (2.6)

The increase in INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA royalty revenues in the three and nine months ended September 30, 2016, as compared to the three and nine months ended September 30, 2015, was due to an increase in Janssen's end-market sales of INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA. During the three and nine months ended September 30, 2016, Janssen's end-market sales of INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA were $556.0 million and $1,629.0 million, as compared to $459.0 million and $1,306.0 million in the three and nine months ended September 30, 2015, respectively. Under our agreement with Janssen, we earn royalty revenues on end-market net sales of INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA of: 5% on calendar-year net sales up to $250 million; 7% on calendar-year net sales of between $250 million and $500 million; and 9% on calendar-year net sales exceeding $500 million. The royalty rate resets to 5% at the beginning of each calendar year.

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The decrease in AMPYRA/FAMPYRA manufacturing and royalty revenues in the three months ended September 30, 2016, as compared to the three months ended September 30, 2015, was primarily due to a 36% decrease in the amount of AMPYRA we shipped to Acorda and a decrease in the amount of revenue we earned on product shipped to Acorda by a third-party manufacturer. The decrease in AMPYRA/FAMPYRA manufacturing and royalty revenues in the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, was primarily due to a decrease in the amount of revenue we earned on product shipped to Acorda by a third-party manufacturer. Under our supply and license agreements with Acorda, we earn manufacturing and royalty revenues when AMPYRA is shipped to Acorda, either by us or a third-party manufacturer. During the three and nine months ended September 30, 2016, we earned none and $8.8 million of revenue from product shipped to Acorda by a third-party manufacturer, respectively, as compared to $5.4 million and $17.8 million in the three and nine months ended September 30, 2015, respectively.

The decrease in RISPERDAL CONSTA manufacturing and royalty revenues in the three and nine months ended September 30, 2016, as compared to the three and nine months ended September 30, 2015, was primarily due to a decrease in Janssen's end market sales of RISPERDAL CONSTA and a decrease in the price we earned on shipments of RISPERDAL CONSTA to Janssen. During the three and nine months ended September 30, 2016, Janssen's end market sales of RISPERDAL CONSTA were $222.0 million and $683.0 million, respectively, as compared to $235.0 million and $736.0 million in the three and nine months ended September 30, 2015, respectively. Manufacturing revenues decreased by 13% and 10% in the three and nine months ended September 30, 2016, respectively, as compared to the corresponding prior periods, which was primarily due to an 11% and 14% decrease in price during these respective periods.

The difference in BYDUREON royalty revenues in the three and nine months ended September 30, 2016, as compared to the three and nine months ended September 30, 2015, was due to end-market sales of BYDUREON by AstraZeneca. During the three and nine months ended September 30, 2016, AstraZeneca's end-market sales of BYDUREON were $144.7 million and $434.1 million, respectively, as compared to $161.3 million and $424.0 million in the three and nine months ended September 30, 2015, respectively.

The divested products relate to products sold as part of the Gainesville Transaction.

Product Sales, net

Our product sales, net consist of sales of VIVITROL and, following its approval by the FDA in October 2015, ARISTADA in the U.S., primarily to wholesalers, specialty distributors and specialty pharmacies. The following table presents the adjustments deducted from product sales, gross to arrive at product sales, net for sales during the three and nine months ended September 30, 2016 and 2015:

(In millions)	Three Months Ended September 30, 2016	% of Sales		2015	% of Sales		Nine Months Ended September 30, 2016	% of Sales		2015	% of Sa
Product sales, gross	$ 122.8	100.0	%	$ 59.6	100.0	%	$ 308.5	100.0	%	$ 156.5	100.0
Adjustments to product sales, gross:											
Medicaid rebates	(25.1)	(20.4)	%	(9.2)	(15.4)	%	(64.9)	(21.0)	%	(17.3)	(11.1)
Product discounts	(9.9)	(8.1)	%	(4.5)	(7.6)	%	(24.3)	(7.9)	%	(11.7)	(7.5)
Chargebacks	(10.0)	(8.2)	%	(4.9)	(8.2)	%	(23.3)	(7.5)	%	(12.6)	(8.0)
Co-pay assistance	(2.2)	(1.8)	%	(1.9)	(3.2)	%	(6.4)	(2.1)	%	(5.1)	(3.2)
Other	(5.8)	(4.7)	%	(1.2)	(2.0)	%	(12.9)	(4.2)	%	(3.6)	(2.3)
Total adjustments	(53.0)	(43.2)	%	(21.7)	(36.4)	%	(131.8)	(42.7)	%	(50.3)	(32.1)
Product sales, net	$ 69.8	56.8	%	$ 37.9	63.6	%	$ 176.7	57.3	%	$ 106.2	67.9

The increase in product sales, gross for the three and nine months ended September 30, 2016, as compared to the three and nine months ended September 30, 2015, was primarily due to a 66% and 65% increase in the number of VIVITROL units sold, respectively, and the addition of gross sales from ARISTADA, which was first commercialized in October 2015. The increase in the amount of Medicaid rebates as a percentage of sales in the three and nine months ended September 30, 2016, as compared to the corresponding prior periods, was primarily due to an increase in the amount of VIVITROL sold under the Medicaid Drug Rebate Program.

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Costs and Expenses

Cost of Goods Manufactured and Sold

(In millions)	Three Months Ended September 30, 2016	2015	Change Favorable/ (Unfavorable)	Nine Months Ended September 30, 2016	2015	Change Favorable/ (Unfavorable)
Cost of goods manufactured and sold	$ 35.5	$ 33.8	$ (1.7)	$ 97.2	$ 104.2	$ 7.0

The increase in the cost of goods manufactured and sold during the three months ended September 30, 2016, as compared to the three months ended September 30, 2015, was primarily due to an increase in sales of VIVITROL and the addition of ARISTADA sales, partially offset by a decrease in costs of goods manufactured for AMPYRA/FAMPYRA. The decrease in cost of goods manufactured and sold during the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, was primarily due to the Gainesville Transaction. During the nine months ended September 30, 2015, the Gainesville facility had cost of goods manufactured of $10.2 million. This decrease was partially offset by an increase in cost of goods sold for VIVITROL and ARISTADA.

Research and Development Expense

For each of our R&D programs, we incur both external and internal expenses. External R&D expenses include costs related to clinical and non-clinical activities performed by contract research organizations, consulting fees, laboratory services, purchases of drug product materials and third-party manufacturing development costs. Internal R&D expenses include employee-related expenses, occupancy costs, depreciation and general overhead. We track external R&D expenses for each of our development programs; however, internal R&D expenses are not tracked by individual program as they benefit multiple programs or our technologies in general.

The following table sets forth our external R&D expenses relating to our individual Key Development Programs and all other development programs, and our internal R&D expenses by the nature of such expenses:

Change Change

(In millions)	Three Months Ended September 30, 2016	2015	Favorable/ (Unfavorable)	Nine Months Ended September 30, 2016	2015	Favorable/ (Unfavorable)
External R&D Expenses:						
Key development programs:						
ALKS 3831	$ 21.1	$ 5.0	$ (16.1)	$ 53.0	$ 15.0	$ (38.0)
ALKS 5461	10.0	35.3	25.3	37.2	85.6	48.4
ARISTADA and ARISTADA line extensions	9.6	7.2	(2.4)	33.2	26.4	(6.8)
ALKS 6428	4.9	2.4	(2.5)	15.4	4.6	(10.8)
ALKS 8700	8.6	3.3	(5.3)	18.0	10.0	(8.0)
Non-refundable upfront payment to Reset	—	—	—	10.0	—	(10.0)
Other development programs	7.9	4.3	(3.6)	22.8	15.3	(7.5)
Total external R&D expenses	62.1	57.5	(4.6)	189.6	156.9	(32.7)
Internal R&D expenses:						
Employee-related	27.9	27.0	(0.9)	82.0	72.1	(9.9)
Occupancy	2.2	2.1	(0.1)	6.9	6.2	(0.7)
Depreciation	2.1	1.5	(0.6)	5.6	4.5	(1.1)
Other	5.1	4.5	(0.6)	13.4	11.0	(2.4)
Total internal R&D expenses	37.3	35.1	(2.2)	107.9	93.8	(14.1)
Research and development expenses	$ 99.4	$ 92.6	$ (6.8)	$ 297.5	$ 250.7	$ (46.8)

These amounts are not necessarily predictive of future R&D expenses. In an effort to allocate our spending most effectively, we continually evaluate the products under development, based on the performance of such products in pre-clinical and/or clinical trials, our expectations regarding the likelihood of their regulatory approval and our view of their commercial viability, among other factors.

The increase in expenses related to ALKS 3831 was primarily due to the ENLIGHTEN-1 and ENLIGHTEN-2 pivotal trials, which were initiated in December 2015 and February 2016, respectively. The decrease in expenses related

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to ALKS 5461, in both the three and nine months ended September 30, 2016, as compared to the corresponding prior periods, was primarily due to the timing of the three core phase 3 studies related to the program. We announced the results of the FORWARD-3 and FORWARD-4 studies in January 2016 and topline results from FORWARD-5 were announced in October 2016. The increase in expenses related to ARISTADA and ARISTADA line extension programs during the three and nine months ended September 30, 2016, as compared to the corresponding prior periods, was primarily due to the timing of the phase 1 clinical study of extended dosing intervals of aripiprazole lauroxil in patients with schizophrenia. Based on the results of this study, we submitted a sNDA to the FDA in August 2016. The increase in expenses related to ALKS 6428, in both the three and nine months ended September 30, 2016, as compared to the corresponding prior periods, was primarily due to the initiation of the phase 3 study evaluating the safety, tolerability and efficacy of ALKS 6428 in patients with opioid dependence in September 2015. The increase in expenses related to ALKS 8700 during the three and nine months ended September 30, 2016, as compared to the three and nine months ended September 30, 2015, was primarily due to the timing of the two-year, multicenter, open-label study designed to assess the safety of ALKS 8700, which was initiated in December 2015. The $10.0 million non-refundable, upfront payment made to Reset was partial consideration of a grant to us of rights and licenses pursuant to a collaboration and license option agreement with Reset. Expenses incurred under the ALKS 7119 and ALKS 4230 development programs in the three and nine months ended September 30, 2016 and 2015 were not material.

The increase in employee-related expenses was primarily due to an increase in R&D headcount of 22% from September 30, 2015 to September 30, 2016.

Selling, General and Administrative Expense

(In millions)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Change Favorable/ (Unfavorable)	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Change Favorable/ (Unfavorable)
Selling, general and administrative expense	$ 91.1	$ 89.5	$ (1.6)	$ 277.0	$ 224.1	$ (52.9)

The increase in SG&A expense for the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, primarily relates to an increase in employee-related expenses of $29.1 million and marketing and professional service fees of $21.2 million. The increase in employee-related expenses was due to an increase in headcount, as we increased the size of our commercial operations team in anticipation of the launch of ARISTADA in October 2015. During the nine months ended September 30, 2015, our SG&A headcount increased by 88%, with the most significant increases occurring during the second quarter of 2015. In addition, our SG&A headcount has increased by an additional 10% from September 30, 2015 to September 30, 2016. The increase in marketing and professional service fees was primarily due to the commercialization of ARISTADA commencing in October 2015.

Amortization of Acquired Intangible Assets

(In millions)	Three Months Ended September 30, 2016	2015	Change Favorable/ (Unfavorable)	Nine Months Ended September 30, 2016	2015	Change Favorable/ (Unfavorable)
Amortization of acquired intangible assets	$ 15.3	$ 14.2	$ (1.1)	$ 45.6	$ 43.5	$ (2.1)

The intangible assets being amortized in the three and nine months ended September 30, 2016 and 2015 were acquired as part of the acquisition of Elan Drug Technologies ("EDT") in September 2011. In connection with the acquisition of EDT, we acquired certain amortizable intangible assets with a fair value of $643.2 million, which were expected to be amortized over 12 to 13 years. We amortize our amortizable intangible assets using the economic use method, which reflects the pattern that the economic benefits of the intangible assets are consumed as revenue is generated from the underlying patent or contract.

Based on our most recent analysis, amortization of intangible assets included within our consolidated balance sheet at September 30, 2016 is expected to be approximately $60.0 million, $60.0 million, $60.0 million, $55.0 million and $50.0 million in the years ending December 31, 2016 through 2020, respectively.

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Other (Expense) Income, Net

(In millions)	Three Months Ended September 30, 2016	2015	Change Favorable/ (Unfavorable)	Nine Months Ended September 30, 2016	2015	Change Favorable/ (Unfavorable)
Interest income	$ 0.9	$ 0.9	$ —	$ 2.9	$ 2.3	$ 0.6
Interest expense	(3.3)	(3.3)	—	(9.9)	(9.9)	—
Change in the fair value of contingent consideration	(1.0)	1.2	(2.2)	3.1	2.7	0.4
Gain on Gainesville Transaction	—	—	—	—	9.9	(9.9)
Other (expense) income, net	(0.8)	0.6	(1.4)	(1.0)	1.0	(2.0)
Total other (expense) income, net	$ (4.2)	$ (0.6)	$ (3.6)	$ (4.9)	$ 6.0	$ (10.9)

The proceeds from the Gainesville Transaction included contingent consideration tied to low double digit royalties on net sales of the Meloxicam Products and up to $120.0 million in milestone payments upon the achievement of certain regulatory and sales milestones related to the Meloxicam Products. We determined the fair value of the contingent consideration through three valuation approaches, which are described in greater detail in Note 3, Divestiture, in the "Notes to Condensed Consolidated Statements" in this Form 10-Q. We update our assessment of the fair value of this contingent consideration at each reporting date and reflect any changes to the fair value within "Change in the fair value of contingent consideration" in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss until the milestones and/or royalties included in the contingent consideration have been settled. The decrease in the fair value of the contingent consideration in the three months ended September 30, 2016 was primarily due to a delay in the timing of future clinical events, partially offset by a shorter time to payment on the milestones and royalties included in the contingent consideration. The increase in the fair value of the contingent consideration in the nine months ended September 30, 2016 was primarily due to a shorter time to payment on the milestones and royalties included in the contingent consideration, partially offset by a delay in the timing of future clinical events.

Income Tax (Benefit) Provision

(In millions)	Three Months Ended September 30, 2016	2015	Change Favorable/ (Unfavorable)	Nine Months Ended September 30, 2016	2015	Change Favorable/ (Unfavorable)
(Benefit) provision for income taxes	$ (2.7)	$ 3.0	$ 5.7	$ (2.8)	$ 6.6	$ 9.4

The income tax (benefit) provision in the three and nine months ended September 30, 2016 and 2015 primarily relates to U.S. federal and state taxes. The favorable change in income taxes in the three and nine months ended September

30, 2016, as compared to the corresponding prior periods, was due to a reduction in income earned in the U.S.

Liquidity and Financial Condition

Our financial condition is summarized as follows:

	September 30, 2016			December 31, 2015		
(In millions)	U.S.	Ireland	Total	U.S.	Ireland	Total
Cash and cash equivalents	$ 115.9	$ 86.3	$ 202.2	$ 70.8	$ 110.3	$ 181.1
Investments—short-term	211.0	136.2	347.2	202.4	151.2	353.6
Investments—long-term	23.0	52.1	75.1	129.1	135.0	264.1
Total cash and investments	$ 349.9	$ 274.6	$ 624.5	$ 402.3	$ 396.5	$ 798.8
Outstanding borrowings—current and long-term	$ 285.6	$ —	$ 285.6	$ 349.9	$ —	$ 349.9

At September 30, 2016, our investments consisted of the following:

		Gross Unrealized		
(In millions)	Amortized Cost	Gains	Losses	Estimated Fair Value
Investments—short-term	$ 346.9	$ 0.3	$ —	$ 347.2
Investments—long-term available-for-sale	71.9	—	(0.1)	71.8
Investments—long-term held-to-maturity	3.4	—	—	3.4
Total	$ 422.2	$ 0.3	$ (0.1)	$ 422.4

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Our investment objectives are, first, to preserve liquidity and conserve capital and, second, to generate investment income. We mitigate credit risk in our cash reserves by maintaining a well-diversified portfolio that limits the amount of investment exposure as to institution, maturity and investment type. However, the value of these securities may be adversely affected by the instability of the global financial markets, which could, in turn, adversely impact our financial position and our overall liquidity. Our available-for-sale investments consist primarily of short- and long-term U.S. government and agency debt securities, debt securities issued by foreign agencies and backed by foreign governments and corporate debt securities. Our held-to-maturity investments consist of investments that are restricted and held as collateral under certain letters of credit related to certain of our lease agreements.

We classify available-for-sale investments in an unrealized loss position, which do not mature within 12 months, as long-term investments. Available-for-sale investments in an unrealized gain position are classified as short-term investments, regardless of maturity date. We have the intent and ability to hold these investments until recovery, which may be at maturity, and it is more-likely-than-not that we would not be required to sell these securities before recovery of their amortized cost. At September 30, 2016, we performed an analysis of our investments with unrealized losses for impairment and determined that they were temporarily impaired.

Sources and Uses of Cash

We expect that our existing cash and investment balance will be sufficient to finance our anticipated working capital and other cash requirements, such as capital expenditures and principal and interest payments, for at least the next twelve months. Subject to market conditions, interest rates and other factors, we may pursue opportunities to obtain additional financing in the future, including debt and equity offerings, corporate collaborations, bank borrowings, arrangements relating to assets or other financing methods or structures.

Information about our cash flows, by category, is presented in the “Condensed Consolidated Statements of Cash Flows”. The following table summarizes our cash flows for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30,	
(In millions)	2016	2015
Cash and cash equivalents, beginning of period	$ 181.1	$ 224.1
Cash used in operating activities	(71.4)	(42.8)
Cash provided by (used in) investing activities	148.1	(1.3)
Cash (used in) provided by financing activities	(55.6)	42.3
Cash and cash equivalents, end of period	$ 202.2	$ 222.3

The increase in cash flows used in operating activities in the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, was primarily due to a 17% increase in cash paid to our suppliers and a 28% increase in cash paid to our employees, partially offset by a 10% increase in cash received from our customers. The increase in cash paid to our suppliers and employees was primarily due to the increase in our R&D activity, the commercialization of ARISTADA and an increase in our R&D and SG&A headcount, as previously discussed.

The increase in cash flows provided by investing activities in the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, was primarily due to a $211.8 million increase in the net sales of investments. This was partially offset by a $15.0 million investment we made in Reset in February 2016 and the proceeds from the Gainesville Transaction of $50.3 million in April 2015.

The decrease in cash flows provided by financing activities in the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, was primarily due to the $60.9 million principal payment we made for Term Loan B-2, which matured on September 25, 2016. In addition, there was a decrease of $10.3 million in cash received from our employees from the exercise of stock options, net of amounts withheld for taxes, and a $28.2 million decrease in excess tax benefit from share-based compensation.

Borrowings

At September 30, 2016, our borrowings consisted of $288.0 million outstanding under our Term Loan Facility.

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Refer to Note 10, Long-Term Debt, within the “Notes to Consolidated Financial Statements” accompanying our Annual Report, for a discussion of our outstanding term loans. Term Loan B-2 was due on September 25, 2016 and we paid the outstanding principal balance of $60.9 million in its entirety.

In October 2016, we entered into the Refinancing whereby the due date of Term Loan B-1 was extended from September 25, 2019 to September 25, 2021. Refer to Note 10, Long-Term Debt, within the “Notes to Condensed Consolidated Statements” in this Form 10-Q, for a discussion of the Refinancing.

Contractual Obligations

Refer to the “Contractual Obligations” section within “Part II, Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report for a discussion of our contractual obligations. Our contractual obligations have not materially changed from the date of that Annual Report.

Off-Balance Sheet Arrangements

At September 30, 2016, we were not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources material to investors.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions. Refer to "Critical Accounting Estimates" within “Part II, Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report for a discussion of our critical accounting estimates.

New Accounting Standards

Refer to “New Accounting Pronouncements” included in Note 2, Summary of Significant Accounting Policies in the “Notes to Condensed Consolidated Statements” in this Form 10-Q for a discussion of new accounting standards.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risks related to our investment portfolio, and the ways we manage such risks, are summarized in “Part II, Item 7A – Quantitative and Qualitative Disclosures About Market Risk” of our Annual Report. We regularly review our marketable securities holdings and shift our investment holdings to those that best meet our investment objectives, which are, first, to preserve liquidity and conserve capital and, second, to generate investment income. Apart from such adjustments to our investment portfolio, there have been no material changes to our market risks since December 31, 2015, and we do not anticipate any near-term changes in the nature of our market risk exposures or in our management's objectives and strategies with respect to managing such exposures.

We are exposed to foreign currency exchange risk related to manufacturing and royalty revenues we receive on certain of our products partially offset by certain operating costs arising from expenses and payables at our Irish operations that are settled predominantly in euro. These foreign currency exchange rate risks are summarized in “Part II, Item 7A – Quantitative and Qualitative Disclosures About Market Risk” of our Annual Report. There has been no material change in our assessment of our sensitivity to foreign currency exchange rate risk since December 31, 2015.

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Item 4. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), on September 30, 2016. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2016 to provide reasonable assurance that the information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

b) Change in Internal Control Over Financial Reporting

During the period covered by this report, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. The outcome of any such proceedings, regardless of the merits, is inherently uncertain. For a description of risks relating to these and other legal proceedings we face, see “Part I, Item 1A – Risk Factors” of our Annual Report.

ARISTADA

On July 13, 2015, Otsuka PD&C filed a Citizen Petition with the FDA which requested that the FDA refuse to approve the NDA for ARISTADA or delay approval of such NDA until the exclusivity rights covering long-acting aripiprazole expire in December 2017. The FDA approved ARISTADA on October 5, 2015 and, concurrent with such approval, denied Otsuka PD&C's Citizen Petition.

On October 15, 2015, Otsuka filed an action for declaratory and injunctive relief with the DC Court against Sylvia Mathews Burwell, Secretary, U.S. Department of Health and Human Services; Dr. Stephen Ostroff, Acting Commissioner, FDA; and the FDA, requesting that the DC Court (a) expedite the legal proceedings; (b) declare that the FDA's denial of Otsuka's claimed exclusivity rights and approval of the ARISTADA NDA were arbitrary, capricious, an abuse of discretion, and otherwise not in accordance with law; (c) vacate FDA's approval of the ARISTADA NDA and vacate any FDA decisions or actions underlying or supporting or predicated upon that approval; (d) declare that Otsuka's claimed exclusivity rights preclude FDA from granting approval of the Alkermes NDA until the expiration of such exclusivity rights in December 2017; and (e) grant any and all other, further, and additional relief, including all necessary and appropriate protective preliminary, interim, or permanent relief, as the nature of the cause may require, including all necessary and appropriate declarations of rights and injunctive relief. The Company successfully intervened in, and received the DC Court's approval to become a party to, this action.

On July 28, 2016, the DC Court issued an unambiguous opinion in favor of Alkermes and the FDA, affirming in all respects FDA's decision to approve ARISTADA for the treatment of schizophrenia, and denying the action filed by Otsuka for declaratory and injunctive relief. Otsuka has filed an appeal of the DC Court's decision with the DC Circuit asking the DC Circuit to reverse the DC Court's decision, vacate FDA's approval of the ARISTADA NDA and remand the case to the DC Court for consideration of any appropriate equitable remedy for Otsuka's lost exclusivity. The DC Circuit has scheduled this appellate hearing for December 12, 2016. The Company believes Otsuka's action is without

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merit and will continue to vigorously defend ARISTADA against such action. For information about risks relating to this action, see "Part I, Item 1A—Risk Factors" in the Company's Annual Report and specifically the section entitled "Citizen Petitions and other actions filed with, or litigation against, the FDA or other regulatory agencies or litigation against Alkermes may negatively impact the approval of our products and our business."

AMPYRA

AMPYRA ANDA Litigation

Ten separate Paragraph IV Certification Notices have been submitted to us and/or the Company's licensee Acorda from Accord; Actavis; Alkem; Apotex, Inc.; Aurobindo; Mylan; Par; Roxane Laboratories, Inc.; Sun; and Teva Pharmaceuticals USA, Inc., advising that each of these companies had submitted an ANDA to the FDA seeking marketing approval for generic versions of AMPYRA (dalfampridine) Extended Release Tablets, 10 mg. The ANDA filers have challenged the validity of the Orange Book-listed patents for AMPYRA, and they have also asserted that their generic versions do not infringe certain claims of these patents. In response, the Company and/or Acorda filed lawsuits against the ANDA filers in the Delaware Court asserting infringement of U.S. Patent Nos. 5,540,938 (which the Company owns), 8,663,685; 8,440,703; 8,354,437 and 8,007,826 (which are owned by Acorda). Requested judicial remedies include recovery of litigation costs and injunctive relief. Lawsuits with eight of the ANDA filers have been consolidated into a single case. The Delaware Court held a bench trial that concluded on September 23, 2016. Mylan is challenging the jurisdiction of the Delaware Court with respect to the Delaware action. Due to Mylan's motion to dismiss, the Company, together with Acorda, also filed another patent infringement suit against Mylan in the U.S. District Court for the Northern District of West Virginia asserting the same U.S. patents and requesting the same judicial relief as in the Delaware action. In March 2016, the Federal Circuit upheld the Delaware Court's ruling that the litigation against Mylan can continue in the Delaware Court. In June 2016, the Federal Circuit denied Mylan's request for a rehearing to reconsider its previous ruling. Mylan has appealed the Federal Circuit's decision to the Supreme Court of the United States. All lawsuits were filed within 45 days from the date of receipt of each of the Paragraph IV Certification Notices. As a result, a 30-month statutory stay of approval period applies to each of the ANDAs under the Hatch-Waxman Act. The 30-month stay starts from January 22, 2015, which is the end of the new chemical entity exclusivity period for AMPYRA. This stay restricts the FDA from approving the ANDAs until July 2017 at the earliest, unless a Federal district court issues a decision adverse to all of the asserted Orange Book-listed patents prior to that date. Such FDA approval would permit the ANDA filers to market generic versions of AMPYRA (dalfampridine) Extended Release Tablets, 10 mg.

The Company and/or Acorda has entered into a settlement agreement with each of the Settling ANDA Filers to resolve the patent litigation that the Company and/or Acorda brought against the Settling ANDA Filers in the Delaware Court as described above. As a result of the settlement agreements, the Settling ANDA Filers will be permitted to market a generic version of AMPYRA in the U.S. at a specified date in 2027, or potentially earlier under certain circumstances. The parties have submitted their respective settlement agreements to the Federal Trade Commission and the Department of Justice, as required by federal law. The settlements with the Settling ANDA Filers do not resolve pending patent litigation that the Company and Acorda brought against the other ANDA filers, as described above.

The Company intends to vigorously enforce its intellectual property rights. For information about risks relating to the AMPYRA Paragraph IV litigations and other proceedings see “Part I, Item 1A—Risk Factors” in the Company’s Annual Report and specifically the section entitled “We face claims against our intellectual property rights and competition from generic drug manufacturers.”

AMPYRA IPR Proceedings

A hedge fund (acting with affiliated entities and individuals and proceeding under the name of the Coalition for Affordable Drugs) has filed IPR petitions with the USPTO, challenging U.S. Patent Nos. 8,663,685; 8,440,703; 8,354,437 and 8,007,826 (which are owned by Acorda). In March 2016, the USPTO’s Patent Trials and Appeal Board instituted the IPR. A ruling on the IPR petitions is expected within one year of the IPR’s institution. The challenged patents are four of the five AMPYRA Orange-Book listed patents. The 30-month statutory stay period based on patent infringement suits filed by us and Acorda against ANDA filers is not impacted by these filings, and remains in effect.

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BYDUREON, RISPERDAL CONSTA AND VIVITROL IPR Proceedings

On June 3, 2016 the USPTO accepted two separate IPR petitions filed by Luye challenging the ‘061 Patent, which is an Orange Book-listed patent for each of BYDUREON, RISPERDAL CONSTA and VIVITROL. On September 1, 2016, the Company filed a response to Luye’s IPR petitions with the USPTO, following which the USPTO has a further three-month period to decide whether or not to institute a review of the challenged claims of the ‘061 Patent. If such review is instituted, a decision on the matter would be expected, pursuant to the statutory time frame, within one year of the USPTO’s decision to institute such review.

The Company opposed Luye’s requests to institute the IPRs against the ‘061 Patent. If the USPTO institutes such challenge, the Company will vigorously defend the ‘061 Patent. For information about risks relating to the ‘061 Patent IPR proceedings see “Part I, Item 1A—Risk Factors” in the Company’s Annual Report and specifically the sections entitled “Patent protection for our products is important and uncertain” and “Uncertainty over intellectual property in the pharmaceutical industry has been the source of litigation, which is inherently costly and unpredictable”.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in our Annual Report. For a further discussion of our Risk Factors, refer to “Part I, Item 1A – Risk Factors” of our Annual Report.

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

On September 16, 2011, our board of directors authorized the continuation of the Alkermes, Inc. program to repurchase up to $215.0 million of our ordinary shares at the discretion of management from time to time in the open market or through privately negotiated transactions. We did not purchase any shares under this program during the nine months ended September 30, 2016. As of September 30, 2016, we had purchased a total of 8,866,342 shares at a cost of $114.0 million.

During the three months ended September 30, 2016, we acquired 161,921 Alkermes ordinary shares, at an average price of $45.27 per share, in connection with the vesting of employee equity awards to satisfy withholding tax obligations.

Item 5. Other Information

The Company's policy governing transactions in its securities by its directors, officers and employees permits its officers, directors and employees to enter into trading plans in accordance with Rule 10b5-1 under the Exchange Act. During the quarter ended September 30, 2016, Mr. Paul J Mitchell, a director of the Company, Dr. Elliot W. Ehrich, Messrs. Iain M. Brown, James M. Frates, David J. Gaffin, Gordon G. Pugh, and Ms. Kathryn L. Biberstein, each an executive officer of the Company, entered into a trading plan in accordance with Rule 10b5-1 and the Company's policy governing transactions in its securities by its directors, officers and employees. The Company undertakes no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan.

Item 6. Exhibits

The exhibits listed on the Exhibit Index immediately preceding such exhibits, which is incorporated herein by reference, are filed or furnished as part of this Form 10-Q.

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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.

ALKERMES plc

(Registrant)

By: /s/ Richard F. Pops
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ James M. Frates
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: November 2, 2016

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EXHIBIT INDEX

Exhibit No.	Description of Exhibit
10.1#†	Form of Employment Agreement by and between Alkermes, Inc. and each of Iain M. Brown and David J. Gaffin
10.2#	Amendment No. 4, dated as of October 12, 2016, to Amended and Restated Credit Agreement, dated as of September 16, 2011, as amended and restated on September 25, 2012, as further amended by Amendment No. 2 on February 14, 2013 and as amended by Amendment No. 3 and Waiver to Amended and Restated Credit Agreement dated as of May 22, 2013, among Alkermes, Inc., Alkermes plc, the guarantors party thereto, the lenders party thereto and Morgan Stanley Senior Funding, Inc. as Administrative Agent and Collateral Agent.
31.1 #	Rule 13a-14(a)/15d-14(a) Certification.
31.2 #	Rule 13a-14(a)/15d-14(a) Certification.
32.1‡	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 #+	The following materials from Alkermes plc's Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2016, formatted in XBRL (“Extensible Business Reporting Language”): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to the Condensed Consolidated Statements.

+ XBRL (Extensible Business Reporting Language).

Filed herewith.

‡ Furnished herewith.

† Indicates a management contract or any compensatory plan, contract or arrangement.

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Principal

Difference

Commercial real estate

$

541,217

$

546,617

$

(5,400

)

$

442,237

$

447,926

$

(5,689

)

Construction, land development, land

120,253

122,119

(1,866

)

109,812

113,211

(3,399

)

1-4 family residential properties

101,833

103,366

(1,533

)

104,974

106,852

(1,878

)

Farmland

136,258

137,307

(1,049

)

141,615

142,673

(1,058

)

Commercial

842,715

846,091

(3,376

)

778,643

783,349

(4,706

)

Factored receivables

293,633

295,246

(1,613

)

238,198

239,432

(1,234

)

Consumer

29,497

29,512

(15

)

29,764

29,782

(18

)

Mortgage warehouse

229,694

229,694

—

182,381

182,381

—

Total

2,295,100

$

2,309,952

$

(14,852

)

2,027,624

$

2,045,606

$

(17,982

)

Allowance for loan and lease losses

(19,797

)

(15,405

)

$

2,275,303

$

2,012,219

The difference between the recorded investment and the unpaid principal balance is primarily associated with (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI) totaling $11,688,000 and $15,210,000 at June 30, 2017 and December 31, 2016, respectively, and (2) net deferred origination and factoring fees totaling $3,164,000 and $2,772,000 at June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017 and December 31, 2016, the Company had $27,751,000 and $23,597,000, respectively, of customer reserves associated with factored receivables. These amounts represent customer reserves held to settle any payment disputes or collection shortfalls, may be used to pay customers' obligations to various third parties as directed by the customer, are periodically released to or withdrawn by customers, and are reported as deposits in the consolidated balance sheets.

Loans with carrying amounts of $486,269,000 and $497,573,000 at June 30, 2017 and December 31, 2016, respectively, were pledged to secure Federal Home Loan Bank borrowing capacity.

During the six months ended June 30, 2017, loans with a carrying amount of $1,965,000 were transferred to loans held for sale as the Company made the decision to sell the loans. These loans were subsequently sold resulting in proceeds of $1,919,000 and losses on sale of loans of $46,000, which were recorded as other noninterest income in the consolidated statements of income for the six months ended June 30, 2017. No loans were transferred to loans held for sale during the three months ended June 30, 2017. During the three and six months ended June 30, 2016, loans with a carrying amount of $1,238,000 and $4,119,000, respectively, were transferred to loans held for sale. These loans were subsequently sold resulting in proceeds of $1,233,000 and $4,038,000, respectively, and losses on sale of loans of $5,000 and $81,000, respectively.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Allowance for Loan and Lease Losses

The activity in the allowance for loan and lease losses (“ALLL”) during the three and six months ended June 30, 2017 and 2016 is as follows:

(Dollars in thousands) Three months ended June 30, 2017	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 2,243	$ 263	$ —	$ —	$ 2,506
Construction, land development, land	566	512	(163)	—	915
1-4 family residential properties	160	(25)	—	14	149
Farmland	214	47	—	—	261
Commercial	11,177	(504)	(226)	156	10,603
Factored receivables	4,064	814	(386)	15	4,507
Consumer	547	233	(308)	155	627
Mortgage warehouse	122	107	—	—	229
	$ 19,093	$ 1,447	$ (1,083)	$ 340	$ 19,797

(Dollars in thousands) Three months ended June 30, 2016	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 1,619	$ 161	$ (1)	$ 13	$ 1,792
Construction, land development, land	198	(17)	—	—	181
1-4 family residential properties	285	(50)	(47)	71	259
Farmland	133	10	—	—	143
Commercial	5,331	1,134	(169)	401	6,697
Factored receivables	4,110	524	(450)	20	4,204
Consumer	222	169	(112)	14	293
Mortgage warehouse	195	8	—	—	203
	$ 12,093	$ 1,939	$ (779)	$ 519	$ 13,772

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands) Six months ended June 30, 2017	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 1,813	$ 830	$ (137)	$ —	$ 2,506
Construction, land development, land	465	1,025	(582)	7	915
1-4 family residential properties	253	(95)	(28)	19	149
Farmland	170	91	—	—	261
Commercial	8,014	5,289	(3,078)	378	10,603
Factored receivables	4,088	1,333	(966)	52	4,507
Consumer	420	605	(607)	209	627
Mortgage warehouse	182	47	—	—	229
	$ 15,405	$ 9,125	$ (5,398)	$ 665	$ 19,797

(Dollars in thousands) Six months ended June 30, 2016	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 1,489	$ 290	$ (1)	$ 14	$ 1,792
Construction, land development, land	367	(186)	—	—	181
1-4 family residential properties	274	(28)	(63)	76	259
Farmland	134	9	—	—	143
Commercial	5,276	1,159	(169)	431	6,697
Factored receivables	4,509	84	(458)	69	4,204
Consumer	216	199	(155)	33	293
Mortgage warehouse	302	(99)	—	—	203
	$ 12,567	$ 1,428	$ (846)	$ 623	$ 13,772

The following table presents loans individually and collectively evaluated for impairment, as well as purchased credit impaired (“PCI”) loans, and their respective ALLL allocations:

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
June 30, 2017	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$ 862	$ 529,803	$ 10,552	$ 541,217	$ 126	$ 2,380	$ —	$ 2,506
Construction, land development, land	134	117,220	2,899	120,253	—	915	—	915
1-4 family residential properties	1,710	98,734	1,389	101,833	—	149	—	149
Farmland	3,480	132,537	241	136,258	—	261	—	261
Commercial	22,886	818,667	1,162	842,715	2,387	7,931	285	10,603
Factored receivables	3,295	290,338	—	293,633	1,550	2,957	—	4,507
Consumer	110	29,387	—	29,497	—	627	—	627
Mortgage warehouse	—	229,694	—	229,694	—	229	—	229
	$ 32,477	$ 2,246,380	$ 16,243	$ 2,295,100	$ 4,063	$ 15,449	$ 285	$ 19,797

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
December 31, 2016	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$1,456	$427,918	$12,863	$442,237	$100	$ 1,358	$355	$ 1,813
Construction, land development, land	362	105,493	3,957	109,812	25	440	—	465
1-4 family residential properties	1,095	101,551	2,328	104,974	1	252	—	253
Farmland	1,333	140,045	237	141,615	—	170	—	170
Commercial	33,033	738,088	7,522	778,643	2,101	5,913	—	8,014
Factored receivables	3,176	235,022	—	238,198	1,546	2,542	—	4,088
Consumer	73	29,691	—	29,764	—	420	—	420
Mortgage warehouse	—	182,381	—	182,381	—	182	—	182
	$40,528	$1,960,189	$26,907	$2,027,624	$3,773	$ 11,277	$355	$ 15,405

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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The following is a summary of information pertaining to impaired loans. PCI loans that have not deteriorated subsequent to acquisition are not considered impaired and therefore do not require an allowance and are excluded from these tables.

	Impaired Loans and Purchased Credit				
	Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
(Dollars in thousands) June 30, 2017	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$169	$170	$ 126	$693	$726
Construction, land development, land	—	—	—	134	134
1-4 family residential properties	—	—	—	1,710	1,834
Farmland	—	—	—	3,480	3,563
Commercial	13,990	14,083	2,387	8,896	8,991
Factored receivables	3,295	3,295	1,550	—	—
Consumer	—	—	—	110	109
Mortgage warehouse	—	—	—	—	—
PCI	285	1,114	285	—	—
	$17,739	$18,662	$ 4,348	$15,023	$15,357

	Impaired Loans and Purchased Credit				
	Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
(Dollars in thousands) December 31, 2016	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$517	$517	$ 100	$939	$1,011
Construction, land development, land	277	275	25	85	86
1-4 family residential properties	8	14	1	1,087	1,215
Farmland	—	—	—	1,333	1,364
Commercial	15,022	15,018	2,101	18,011	18,096
Factored receivables	3,176	3,176	1,546	—	—
Consumer	—	—	—	73	73
Mortgage warehouse	—	—	—	—	—
PCI	525	525	355	—	—
	$19,525	$19,525	$ 4,128	$21,528	$21,845

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The following table presents average impaired loans and interest recognized on impaired loans for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
(Dollars in thousands)	Average Impaired Loans	Interest Recognized	Average Impaired Loans	Interest Recognized
Commercial real estate	$793	$ 1	$702	$ —
Construction, land development, land	275	—	138	—
1-4 family residential properties	1,488	6	779	—
Farmland	3,200	9	—	—
Commercial	24,023	109	12,769	73
Factored receivables	3,512	—	4,074	—
Consumer	122	—	35	—
Mortgage warehouse	—	—	—	—
PCI	1,494	—	1,432	—
	$34,907	$ 125	$19,929	$ 73

	Six Months Ended June 30, 2017		Six Months Ended June 30, 2016	
(Dollars in thousands)	Average Impaired Loans	Interest Recognized	Average Impaired Loans	Interest Recognized
Commercial real estate	$1,159	$ 1	$706	$ —
Construction, land development, land	248	—	138	2
1-4 family residential properties	1,402	7	775	4
Farmland	2,406	18	—	—
Commercial	27,960	232	10,593	247
Factored receivables	3,235	—	3,309	—
Consumer	89	—	16	—
Mortgage warehouse	—	—	—	—
PCI	405	—	983	—
	$36,904	$ 258	$16,520	$ 253

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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Past Due and Nonaccrual Loans

The following is a summary of contractually past due and nonaccrual loans at June 30, 2017 and December 31, 2016:

(Dollars in thousands) June 30, 2017	Past Due 30-89 Days Still Accruing	Past Due 90 Days or More Still Accruing	Nonaccrual	Total
Commercial real estate	$ 1,828	$ —	$ 862	$ 2,690
Construction, land development, land	543	—	134	677
1-4 family residential properties	1,383	—	1,695	3,078
Farmland	3,553	—	2,688	6,241
Commercial	7,044	65	17,892	25,001
Factored receivables	14,477	1,844	—	16,321
Consumer	747	2	110	859
Mortgage warehouse	—	—	—	—
PCI	192	122	2,392	2,706
	$ 29,767	$ 2,033	$ 25,773	$ 57,573

(Dollars in thousands) December 31, 2016	Past Due 30-89 Days Still Accruing	Past Due 90 Days or More Still Accruing	Nonaccrual	Total
Commercial real estate	$ 699	$ 144	$ 1,163	$ 2,006
Construction, land development, land	619	—	362	981
1-4 family residential properties	956	—	1,039	1,995
Farmland	3,583	141	541	4,265
Commercial	11,060	1,077	26,619	38,756
Factored receivables	11,921	2,153	—	14,074
Consumer	667	2	73	742
Mortgage warehouse	—	—	—	—
PCI	2,020	104	8,233	10,357
	$ 31,525	$ 3,621	$ 38,030	$ 73,176

The following table presents information regarding nonperforming loans at the dates indicated:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Nonaccrual loans[1]	$25,773	$ 38,030
Factored receivables greater than 90 days past due	1,844	2,153
Troubled debt restructurings accruing interest	3,529	5,123
	$31,146	$ 45,306

[1] Includes troubled debt restructurings of $8,557,000 and $13,263,000 at June 30, 2017 and December 31, 2016, respectively.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current collateral and financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes every loan and is performed on a regular basis. Large groups of smaller balance homogeneous loans, such as consumer loans, are analyzed primarily based on payment status. The Company uses the following definitions for risk ratings:

Pass:

Loans classified as pass are loans with low to average risk and not otherwise classified as substandard or doubtful.

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Substandard:

Loans 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 so classified have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful:

Loans 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.

PCI:

At acquisition, PCI loans had the characteristics of substandard loans and it was probable, at acquisition, that all contractually required principal and interest payments would not be collected. The Company evaluates these loans on a projected cash flow basis with this evaluation performed quarterly.

As of June 30, 2017 and December 31, 2016, based on the most recent analysis performed, the risk category of loans is as follows:

(Dollars in thousands) June 30, 2017	Pass	Substandard	Doubtful	PCI	Total
Commercial real estate	$528,842	$ 1,823	$ —	$10,552	$541,217
Construction, land development, land	117,220	134	—	2,899	120,253
1-4 family residential	98,642	1,802	—	1,389	101,833
Farmland	128,067	7,950	—	241	136,258
Commercial	802,068	39,485	—	1,162	842,715
Factored receivables	291,367	795	1,471	—	293,633
Consumer	29,386	111	—	—	29,497
Mortgage warehouse	229,694	—	—	—	229,694
	$2,225,286	$ 52,100	$ 1,471	$16,243	$2,295,100

(Dollars in thousands) December 31, 2016	Pass	Substandard	Doubtful	PCI	Total
Commercial real estate	$422,423	$ 6,951	$ —	$12,863	$442,237
Construction, land development, land	105,493	362	—	3,957	109,812
1-4 family residential	101,339	1,307	—	2,328	104,974
Farmland	136,474	4,904	—	237	141,615
Commercial	729,634	41,487	—	7,522	778,643

Factored receivables	236,084	1,029	1,085	—	238,198
Consumer	29,688	76	—	—	29,764
Mortgage warehouse	182,381	—	—	—	182,381
	$1,943,516	$ 56,116	$ 1,085	$26,907	$2,027,624

Troubled Debt Restructurings

The Company had a recorded investment in troubled debt restructurings of $12,086,000 and $18,386,000 as of June 30, 2017 and December 31, 2016, respectively. The Company had allocated specific allowances for these loans of $435,000 and $1,911,000 at June 30, 2017 and December 31, 2016, respectively, and had not committed to lend additional amounts. Troubled debt restructurings are the result of extending amortization periods, reducing contractual interest rates, or a combination thereof. The Company did not grant principal reductions on any restructured loans.

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The following table presents loans modified as troubled debt restructurings that occurred during the six months ended June 30, 2017 and 2016:

(Dollars in thousands) June 30, 2017	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	4	$ 186	$ 186

(Dollars in thousands) June 30, 2016	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	16	$ 5,730	$ 5,730

During the six months ended June 30, 2017, the Company had three loans modified as troubled debt restructurings with a recorded investment of $2,983,000 for which there were payment defaults within twelve months following the modification. The full recorded investment in one of these loans of $2,702,000 was charged off during the period. During the six months ended June 30, 2016, there were no defaults on any loans that were modified as troubled debt restructurings during the preceding twelve months. Default is determined at 90 or more days past due.

Purchased Credit Impaired Loans

The Company has loans that were acquired, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The outstanding contractually required principal and interest and the carrying amount of these loans included in the balance sheet amounts of loans at June 30, 2017 and December 31, 2016, are as follows:

	June 30, 2017	December 31, 2016
Contractually required principal and interest:		
Real estate loans	$ 18,836	$ 25,013
Commercial loans	2,249	9,703
Outstanding contractually required principal and interest	$ 21,085	$ 34,716
Gross carrying amount included in loans receivable	$ 16,243	$ 26,907

The changes in accretable yield during the three and six months ended June 30, 2017 and 2016 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Accretable yield, beginning balance	$3,432	$2,064	$4,261	$2,593
Additions	—	—	—	—
Accretion	(2,234)	(1,518)	(2,706)	(2,034)
Reclassification from nonaccretable to accretable yield	1,928	646	2,011	646
Disposals	—	—	(440)	(13)
Accretable yield, ending balance	$3,126	$1,192	$3,126	$1,192

NOTE 5 - GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Goodwill	$28,810	$ 28,810

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	June 30, 2017			December 31, 2016		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	$21,825	$ (10,027)	$ 11,798	$21,825	$ (8,423)	$ 13,402
Other intangible assets	3,793	(1,080)	2,713	6,006	(1,687)	4,319
	$25,618	$ (11,107)	$ 14,511	$27,831	$ (10,110)	$ 17,721

The changes in goodwill and intangible assets during the three and six months ended June 30, 2017 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Beginning balance	$44,232	$26,877	$46,531	$27,854
Acquired intangibles	—	—	151	—
Divestiture	—	—	(1,339)	—
Amortization of intangibles	(911)	(717)	(2,022)	(1,694)
Ending balance	$43,321	$26,160	$43,321	$26,160

NOTE 6 – Variable Interest Entities

Collateralized Loan Obligation Funds – Closed

The Company, through its subsidiary TCA, acted as the asset manager or provided certain middle and back office staffing and services to the asset manager of various CLO funds. TCA earned asset management fees in accordance with the terms of its asset management or staffing and services agreements associated with the CLO funds. TCA earned asset management fees totaling $0 and $1,717,000 for the three and six months ended June 30, 2017, respectively, and $1,605,000 and $3,234,000 for the three and six months ended June 30, 2016, respectively. On March 31, 2017, the Company sold its membership interests in TCA as discussed in Note 2 – Business Combinations and Divestitures. As a result of the TCA sale, as of March 31, 2017 the Company no longer acts as asset manager or staffing and services provider for any CLO funds.

The Company holds investments in the subordinated notes of the following closed CLO funds:

(Dollars in thousands)	Offering Date	Offering Amount
Trinitas CLO IV, LTD (Trinitas IV)	June 2, 2016	$406,650
Trinitas CLO V, LTD (Trinitas V)	September 22, 2016	$409,000
Trinitas CLO VI, LTD (Trinitas VI)	June 20, 2017	$717,100

The carrying amounts of the Company's investments in the subordinated notes of the CLO funds totaled $8,464,000 and $3,380,000 at June 30, 2017 and December 31, 2016, respectively, and are classified as held to maturity securities within the Company's consolidated balance sheets.

The Company performed a consolidation analysis to confirm whether the Company was required to consolidate the assets, liabilities, equity or operations of the above CLO funds in its financial statements. The Company concluded that the closed CLO funds are variable interest entities and that the Company holds variable interests in the entities in the form of its investments in the subordinated notes of entities. However, the Company also concluded that the Company does not have the power to direct the activities that most significantly impact the entities' economic performance. As a result, the Company is not the primary beneficiary and therefore is not required to consolidate the assets, liabilities, equity, or operations of the CLO funds in the Company's financial statements.

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Collateralized Loan Obligation Fund – Warehouse Phase

On June 17, 2016, Trinitas CLO VI, Ltd. ("Trinitas VI") was formed to be the issuer of a CLO offering. At December 31, 2016, the Company held an investment of $21,217,000 in the subordinated debt of the CLO fund during its warehouse phase, which was classified as other assets within the Company's consolidated balance sheet. The CLO fund's warehouse phase was closed and the final CLO issued on June 20, 2017, at which time the Company's investment was repaid. The Company did not hold an investment in any CLO warehouse entities at June 30, 2017.

Income from the Company's investment in CLO warehouse entities totaled $990,000 and $1,954,000 during the three and six months ended June 30, 2017, respectively, and $774,000 and $1,758,000 during the three and six months ended June 30, 2016, respectively, and is included in other noninterest income within the Company's consolidated statements of income.

The Company performed a consolidation analysis of Trinitas VI during the warehouse phase and concluded that Trinitas VI was a variable interest entity and that the Company held a variable interest in the entity that could potentially be significant to the entity in the form of its investment in the subordinated notes of the entity. However, the Company also concluded that the Company did not have the power to direct the activities that most significantly impacted the entity's economic performance. As a result, the Company was not the primary beneficiary and therefore was not required to consolidate the assets, liabilities, equity, or operations of the entity in the Company's financial statements.

NOTE 7 - Deposits

Deposits at June 30, 2017 and December 31, 2016 are summarized as follows:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Noninterest bearing demand	$381,042	$363,351
Interest bearing demand	350,966	340,362
Individual retirement accounts	99,694	103,022
Money market	205,243	213,253
Savings	173,137	171,354
Certificates of deposit	777,459	756,351
Brokered deposits	84,640	68,092
Total Deposits	$2,072,181	$2,015,785

At June 30, 2017, scheduled maturities of certificates of deposits, individual retirement accounts and brokered deposits are as follows:

(Dollars in thousands)	June 30, 2017
Within one year	$683,047
After one but within two years	190,804
After two but within three years	43,694
After three but within four years	20,661
After four but within five years	23,581
After five years	6
Total	$961,793

Time deposits, including individual retirement accounts, certificates of deposit, and brokered deposits, with individual balances of $250,000 and greater totaled $163,685,000 and $149,258,000 at June 30, 2017 and December 31, 2016, respectively.

NOTE 8 - Legal Contingencies

Various legal claims have arisen from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company’s consolidated financial statements.

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NOTE 9 - OFF-BALANCE SHEET LOAN COMMITMENTS

From time to time, the Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments.

The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments.

The contractual amounts of financial instruments with off-balance sheet risk were as follows:

	June 30, 2017		December 31, 2016	
(Dollars in thousands)	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$40,988	$25,500	$7,345	$7,580
Unused lines of credit	105,837	190,451	109,611	145,475
Standby letters of credit	1,556	11,261	2,547	4,706

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Company, upon extension of credit, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, the Company has rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities. The credit risk to the Company in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers.

NOTE 10 - Fair Value Disclosures

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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 other 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 company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The methods of determining the fair value of assets and liabilities presented in this note are consistent with our methodologies disclosed in Note 15 of the Company's 2016 Form 10-K.

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Assets measured at fair value on a recurring basis are summarized in the table below. There were no liabilities measured at fair value on a recurring basis at June 30, 2017 and December 31, 2016.

(Dollars in thousands)	Fair Value Measurements Using			
June 30, 2017	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale				
U.S. Government agency obligations	$—	$133,805	$ —	$133,805
U.S. Treasury notes	—	4,873	—	4,873
Mortgage-backed securities, residential	—	22,507	—	22,507
Asset backed securities	—	12,799	—	12,799
State and municipal	—	25,151	—	25,151
Corporate bonds	—	25,904	—	25,904
SBA pooled securities	—	144	—	144
Mutual fund	2,023	—	—	2,023
	$2,023	$225,183	$ —	$227,206

(Dollars in thousands)	Fair Value Measurements Using			
December 31, 2016	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale				
U.S. Government agency obligations	$—	$180,942	$ —	$180,942
Mortgage-backed securities, residential	—	24,990	—	24,990
Asset backed securities	—	12,902	—	12,902
State and municipal	—	26,637	—	26,637
Corporate bonds	—	27,390	—	27,390
SBA pooled securities	—	157	—	157
Mutual fund	2,011	—	—	2,011
	$2,011	$273,018	$ —	$275,029

There were no transfers between levels during 2017 or 2016.

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Assets measured at fair value on a non-recurring basis are summarized in the table below. There were no liabilities measured at fair value on a non-recurring basis at June 30, 2017 and December 31, 2016.

(Dollars in thousands) June 30, 2017	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Impaired loans				
Commercial real estate	$—	$ —	$43	$43
Commercial	—	—	11,603	11,603
Factored receivables	—	—	1,745	1,745
Other real estate owned [1]				
Commercial	—	—	92	92
Construction, land development, land	—	—	2,000	2,000
1-4 family residential properties	—	—	83	83
	$—	$ —	$15,566	$15,566

(Dollars in thousands) December 31, 2016	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Impaired loans				
Commercial real estate	$—	$ —	$417	$417
Construction, land development, land	—	—	252	252
1-4 family residential properties	—	—	7	7
Commercial	—	—	12,921	12,921
Factored receivables	—	—	1,630	1,630
PCI	—	—	170	170
Other real estate owned [1]				
Commercial	—	—	698	698
1-4 family residential properties	—	—	485	485
Construction, land development, land	—	—	467	467
	$—	$ —	$17,047	$17,047

[1] Represents the fair value of OREO that was adjusted during the period and subsequent to its initial classification as OREO.

Impaired Loans with Specific Allocation of ALLL: A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due pursuant to the contractual terms of the loan agreement. Impairment is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the underlying fair value of the loan's collateral. For real estate loans, fair value of the impaired loan's collateral is determined by third party appraisals, which are then adjusted for the estimated selling and closing costs related to liquidation of the collateral. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value. For non-real estate loans, fair value of the impaired loan's collateral may be determined using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business.

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OREO: OREO is primarily comprised of real estate acquired in partial or full satisfaction of loans. OREO is recorded at its estimated fair value less estimated selling and closing costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the ALLL. Subsequent changes in fair value are reported as adjustments to the carrying amount and are recorded against earnings. The Company outsources the valuation of OREO with material balances to third party appraisers. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value.

The estimated fair values of the Company's financial instruments not measured at fair value on a recurring or non-recurring basis at June 30, 2017 and December 31, 2016 were as follows:

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
June 30, 2017	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$117,502	$117,502	$—	$—	$117,502
Securities - held to maturity	26,036	—	17,902	8,464	26,366
Loans not previously presented, net	2,261,912	—	—	2,270,737	2,270,737
FHLB stock	14,566	N/A	N/A	N/A	N/A
Accrued interest receivable	11,699	—	11,699	—	11,699
Financial liabilities:					
Deposits	2,072,181	—	2,071,279	—	2,071,279
Customer repurchase agreements	14,959	—	14,959	—	14,959
Federal Home Loan Bank advances	340,000	—	339,957	—	339,957
Subordinated notes	48,780	—	50,768	—	50,768
Junior subordinated debentures	32,943	—	33,100	—	33,100
Accrued interest payable	2,933	—	2,933	—	2,933

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
December 31, 2016	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$114,514	$114,514	$—	$—	$114,514
Securities - held to maturity	29,352	—	27,498	3,323	30,821
Loans not previously presented, net	1,996,822	—	—	2,002,487	2,002,487
FHLB stock	8,430	N/A	N/A	N/A	N/A
Accrued interest receivable	12,663	—	12,663	—	12,663

Financial liabilities:					
Deposits	2,015,785	—	2,014,922	—	2,014,922
Customer repurchase agreements	10,490	—	10,490	—	10,490
Federal Home Loan Bank advances	230,000	—	230,000	—	230,000
Subordinated notes	48,734	—	50,920	—	50,920
Junior subordinated debentures	32,740	—	32,905	—	32,905
Accrued interest payable	2,682	—	2,682	—	2,682

NOTE 11 - Regulatory Matters

The Company (on a consolidated basis) and TBK Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's or TBK Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and TBK Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Company is subject to the Basel III regulatory capital framework. Beginning in January 2016, the implementation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer was 1.25% and 0.625% at June 30, 2017 and December 31, 2016, respectively. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers.

Quantitative measures established by regulation to ensure capital adequacy require the Company and TBK Bank to maintain minimum amounts and ratios (set forth in the table below) of total, common equity Tier 1, and Tier 1 capital to risk weighted assets, and of Tier 1 capital to average assets. Management believes, as of June 30, 2017 and December 31, 2016, the Company and TBK Bank meet all capital adequacy requirements to which they are subject, including the capital conservation buffer requirement.

As of June 30, 2017 and December 31, 2016, TBK Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," TBK Bank must maintain minimum total risk based, common equity Tier 1 risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since June 30, 2017 that management believes have changed TBK Bank's category.

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(Unaudited)

The actual capital amounts and ratios for the Company and TBK Bank are presented in the following table as of June 30, 2017 and December 31, 2016. The capital adequacy amounts and ratios below do not include the capital conservation buffer in effect at each respective date.

(Dollars in thousands)	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of June 30, 2017	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$371,471	13.9%	$213,796	8.0%	N/A	N/A
TBK Bank, SSB	$308,862	12.1%	$204,206	8.0%	$255,258	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$302,540	11.3%	$160,641	6.0%	N/A	N/A
TBK Bank, SSB	$288,804	11.3%	$153,347	6.0%	$204,463	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$260,699	9.7%	$120,943	4.5%	N/A	N/A
TBK Bank, SSB	$288,804	11.3%	$115,010	4.5%	$166,126	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$302,540	11.3%	$107,094	4.0%	N/A	N/A
TBK Bank, SSB	$288,804	11.0%	$105,020	4.0%	$131,275	5.0%
As of December 31, 2016						
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$342,059	14.6%	$187,449	8.0%	N/A	N/A
TBK Bank, SSB	$293,313	12.9%	$181,640	8.0%	$227,050	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$277,605	11.8%	$140,587	6.0%	N/A	N/A
TBK Bank, SSB	$277,593	12.2%	$136,230	6.0%	$181,640	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$238,439	10.2%	$105,440	4.5%	N/A	N/A
TBK Bank, SSB	$277,593	12.2%	$102,173	4.5%	$147,583	6.5%
Tier 1 capital (to average assets)						

Triumph Bancorp, Inc.	$277,605	10.9%	$102,303	4.0%	N/A	N/A
TBK Bank, SSB	$277,593	11.0%	$100,802	4.0%	$126,002	5.0%

Dividends paid by bank are limited to, without prior regulatory approval, current year earnings and earnings less dividends paid during the preceding two years.

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NOTE 12 – STOCKHOLDERS' EQUITY

The following summarizes the capital structure of Triumph Bancorp, Inc.

Common Stock

	June 30, 2017	December 31, 2016
Shares authorized	50,000,000	50,000,000
Shares issued	18,223,743	18,154,365
Treasury shares	(91,158)	(76,118)
Shares outstanding	18,132,585	18,078,247
Par value per share	$0.01	$0.01

Preferred Stock

(Dollars in thousands, except per share amounts)	Series A June 30, 2017	December 31, 2016	Series B June 30, 2017	December 31, 2016
Shares authorized	50,000	50,000	115,000	115,000
Shares issued	45,500	45,500	51,076	51,956
Shares outstanding	45,500	45,500	51,076	51,956
Par value per share	$0.01	$0.01	$0.01	$0.01
Liquidation preference per share	$100	$100	$100	$100
Liquidation preference amount	$4,550	$4,550	$5,108	$5,196
Dividend rate	Prime + 2%	Prime + 2%	8.00 %	8.00 %
Dividend rate - floor	8.00 %	8.00 %	N/A	N/A
Subsequent dividend payment dates	Quarterly	Quarterly	Quarterly	Quarterly
Convertible to common stock	Yes	Yes	Yes	Yes
Conversion period	Anytime	Anytime	Anytime	Anytime
Conversion ratio - preferred to common	6.94008	6.94008	6.94008	6.94008

NOTE 13 – STOCK BASED COMPENSATION

Stock based compensation expense that has been charged against income was $323,000 and $1,025,000 for the three and six months ended June 30, 2017, respectively, and $926,000 and $1,279,000 for the three and six months ended June 30, 2016, respectively.

2014 Omnibus Incentive Plan

The Company’s 2014 Omnibus Incentive Plan (“Omnibus Incentive Plan”) provides for the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock units, and other awards that may be settled in, or based upon the value of, the Company’s common stock. The aggregate number of shares of common stock available for issuance under the Omnibus Incentive Plan is 1,200,000 shares.

Restricted Stock Awards

A summary of changes in the Company’s nonvested Restricted Stock Awards (“RSAs”) under the Omnibus Incentive Plan for the six months ended June 30, 2017 and 2016 were as follows:

Nonvested RSAs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2017	126,644	$ 14.92
Granted	40,541	25.96
Vested	(62,773)	15.84
Forfeited	(843)	14.92
Nonvested at June 30, 2017	103,569	$ 18.68

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RSAs granted to employees under the Omnibus Incentive Plan typically vest over three to four years. Compensation expense for RSAs granted under the Omnibus Incentive Program will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. As of June 30, 2017, there was $1,231,000 of unrecognized compensation cost related to nonvested RSAs granted under the Omnibus Incentive Plan. The cost is expected to be recognized over a remaining period of 3.19 years.

Stock Options

A summary of the changes in the Company’s stock options under the Omnibus Incentive Plan for the six months ended June 30, 2017 were as follows:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding at January 1, 2017	163,661	$ 15.87		
Granted	58,729	25.80		
Exercised	(34,433)	15.87		
Forfeited or expired	(287)	25.80		
Outstanding at June 30, 2017	187,670	$ 18.96	9.07	$ 1,122
Fully vested shares and shares expected to vest at June 30, 2017	187,670	$ 18.96	9.07	$ 1,122
Shares exercisable at June 30, 2017	32,286	$ 15.87	8.76	$ 280

Information related to the stock options for the six months ended June 30, 2017 and 2016 follows:

(Dollars in thousands, except per share amounts)	Six Months Ended June 30, 2017	2016
Aggregate intrinsic value of options exercised	$243	$—
Cash received from option exercises	281	—
Tax benefit realized from options exercises	85	—
Weighted average fair value of options granted	$8.71	$5.85

Stock options awarded to employees under the Omnibus Incentive Plan are generally granted with an exercise price equal to the market price of the Company’s common stock at the date of grant, vest over four years, and have ten year

contractual terms. The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. Expected volatilities were determined based on a blend of the Company's historical volatility and historical volatilities of a peer group of companies with a similar size, industry, stage of life cycle, and capital structure. The expected term of the options granted was determined based on the SEC simplified method, which calculates the expected term as the mid-point between the weighted average time to vesting and the contractual term. The risk-free interest rate for the expected term of the options was derived from the Treasury constant maturity yield curve on the valuation date.

The fair value of the stock options granted was determined using the following weighted-average assumptions:

	Six Months Ended June 30,	
	2017	2016
Risk-free interest rate	2.11 %	1.49 %
Expected term	6.25 Years	6.25 Years
Expected stock price volatility	29.70%	34.96%
Dividend yield	—	—

As of June 30, 2017, there was $753,000 of unrecognized compensation cost related to nonvested stock options granted under the Omnibus Incentive Plan. The cost is expected to be recognized over a remaining period of 3.34 years.

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NOTE 14 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

(Dollars in thousands)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Basic				
Net income to common stockholders	$9,467	$4,431	$19,748	$9,243
Weighted average common shares outstanding	18,012,905	17,859,604	17,984,184	17,838,267
Basic earnings per common share	$0.53	$0.25	$1.10	$0.52
Diluted				
Net income to common stockholders	$9,467	$4,431	$19,748	$9,243
Dilutive effect of preferred stock	193	—	385	—
Net income to common stockholders - diluted	$9,660	$4,431	$20,133	$9,243
Weighted average common shares outstanding	18,012,905	17,859,604	17,984,184	17,838,267
Add: Dilutive effects of restricted stock	47,521	112,880	67,308	113,334
Add: Dilutive effects of assumed exercises of stock options	32,592	—	40,233	—
Add: Dilutive effects of assumed exercises of stock warrants	129,896	70,101	137,896	60,330
Add: Dilutive effects of assumed conversion of Preferred A	315,773	—	315,773	—
Add: Dilutive effects of assumed conversion of Preferred B	354,471	—	354,471	—
Average shares and dilutive potential common shares	18,893,158	18,042,585	18,899,865	18,011,931
Diluted earnings per common share	$0.51	$0.25	$1.07	$0.51

Shares that were not considered in computing diluted earnings per common share because they were antidilutive are as follows:

	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Shares assumed to be converted from Preferred Stock Series A	—	315,773	—	315,773
Shares assumed to be converted from Preferred Stock Series B	—	360,578	—	360,578
Restricted stock awards	35,270	76,362	35,270	76,362
Stock options	58,442	164,175	58,442	164,175

NOTE 15 – BUSINESS SEGMENT INFORMATION

The following table presents the Company's operating segments. The accounting policies of the segments are substantially similar to those described in the "Summary of Significant Accounting Policies" in Note 1 of the Company's 2016 Form 10-K. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring segment based on the Company's prime rate. The provision for loan loss is allocated based on the segment's allowance for loan loss determination. Noninterest income and expense directly attributable to a segment are assigned to it. Taxes are paid on a consolidated basis but not allocated for segment purposes. The Factoring segment includes only factoring originated by TBC. General factoring services not originated through TBC are included in the Banking segment. On March 31, 2017, we sold our 100% membership interest in TCA. As a result, the Asset Management segment had no operations subsequent to March 31, 2017.

(Dollars in thousands) Three Months Ended June 30, 2017	Banking	Factoring	Asset Management	Corporate	Consolidated
Total interest income	$32,733	$10,387	$ —	$418	$43,538
Intersegment interest allocations	1,729	(1,729)	—	—	—
Total interest expense	3,670	—	—	1,311	4,981
Net interest income (expense)	30,792	8,658	—	(893)	38,557
Provision for loan losses	619	812	—	16	1,447
Net interest income after provision	30,173	7,846	—	(909)	37,110
Noninterest income	3,577	758	—	867	5,202
Noninterest expense	21,216	5,482	—	623	27,321
Operating income (loss)	$12,534	$3,122	$ —	$(665)	$14,991

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(Dollars in thousands) Three Months Ended June 30, 2016	Banking	Factoring	Asset Management	Corporate	Consolidated
Total interest income	$20,109	$7,939	$ 33	$ 273	$ 28,354
Intersegment interest allocations	1,099	(1,099)	—	—	—
Total interest expense	2,135	—	—	312	2,447
Net interest income (expense)	19,073	6,840	33	(39)	25,907
Provision for loan losses	1,392	555	—	(8)	1,939
Net interest income after provision	17,681	6,285	33	(31)	23,968
Noninterest income	822	496	1,614	736	3,668
Noninterest expense	13,405	4,962	1,213	751	20,331
Operating income (loss)	$5,098	$1,819	$ 434	$ (46)	$ 7,305

(Dollars in thousands) Six Months Ended June 30, 2017	Banking	Factoring	Asset Management	Corporate	Consolidated
Total interest income	$60,232	$19,092	$ 3	$543	$ 79,870
Intersegment interest allocations	3,018	(3,018)	—	—	—
Total interest expense	6,882	—	—	2,612	9,494
Net interest income (expense)	56,368	16,074	3	(2,069)	70,376
Provision for loan losses	7,640	1,393	—	92	9,125
Net interest income after provision	48,728	14,681	3	(2,161)	61,251
Gain on sale of subsidiary	—	—	—	20,860	20,860
Other noninterest income	7,107	1,428	1,717	1,375	11,627
Noninterest expense	43,187	11,077	1,456	6,438	62,158
Operating income (loss)	$12,648	$5,032	$ 264	$13,636	$ 31,580

(Dollars in thousands) Six Months Ended June 30, 2016	Banking	Factoring	Asset Management	Corporate	Consolidated
Total interest income	$37,535	$15,124	$ 64	$ 524	$ 53,247
Intersegment interest allocations	2,100	(2,100)	—	—	—
Total interest expense	4,237	—	—	614	4,851
Net interest income (expense)	35,398	13,024	64	(90)	48,396
Provision for loan losses	1,267	85	—	76	1,428
Net interest income after provision	34,131	12,939	64	(166)	46,968
Noninterest income	2,836	942	3,285	1,586	8,649
Noninterest expense	26,987	9,535	2,559	1,328	40,409
Operating income (loss)	$9,980	$4,346	$ 790	$ 92	$ 15,208

(Dollars in thousands) Asset

June 30, 2017	Banking	Factoring	Management	Corporate	Eliminations	Consolidated
Total assets	$2,787,117	$278,533	$ —	$417,017	$ (645,983)	$ 2,836,684
Gross loans	$2,206,914	$268,707	$ —	$12,986	$ (193,507)	$ 2,295,100

(Dollars in thousands)			Asset			
December 31, 2016	Banking	Factoring	Management	Corporate	Eliminations	Consolidated
Total assets	$2,588,509	$223,994	$ 4,879	$391,745	$ (568,060)	$ 2,641,067
Gross loans	$1,961,552	$212,784	$ —	$1,866	$ (148,578)	$ 2,027,624

item 2

Management's Discussion and Analysis of

Financial Condition and Results of Operations

This section presents management's perspective on our financial condition and results of operations. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Company's interim consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q and with the consolidated financial statements and accompanying notes and other detailed information appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of our future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. See the "Forward-Looking Statements" section of this discussion for further information on forward-looking statements.

Overview

We are a financial holding company headquartered in Dallas, Texas and registered under the Bank Holding Company Act. Through our wholly owned bank subsidiary, TBK Bank, we offer traditional banking services as well as commercial finance product lines focused on businesses that require specialized financial solutions. Our banking operations include a full suite of lending and deposit products and services focused on our local market areas. These activities generate a stable source of core deposits and a diverse asset base to support our overall operations. Our commercial finance product lines include factoring, asset based lending, equipment lending, healthcare lending, and premium finance products offered on a nationwide basis. These product offerings supplement the asset generation capacity in our community banking markets and enhance the overall yield of our loan portfolio, enabling us to earn attractive risk-adjusted net interest margins. We believe our integrated business model distinguishes us from other banks and non-bank financial services companies in the markets in which we operate. As of June 30, 2017, we had consolidated total assets of $2.837 billion, total loans held for investment of $2.295 billion, total deposits of $2.072 billion and total stockholders' equity of $310.5 million.

Most of our products and services share basic processes and have similar economic characteristics. However, our factoring subsidiary operates in a highly specialized niche and earns substantially higher yields on its factored accounts receivable portfolio than our other lending products. This business also has a legacy and structure as a standalone company. In addition, through our Triumph Capital Advisors asset management subsidiary, we previously provided fee-based asset management services distinct from our traditional banking offerings and operations. As a result, we have determined our reportable segments are Banking, Factoring, Asset Management, and Corporate. For the six months ended June 30, 2017, our Banking segment generated 60% of our total revenue (comprised of interest and noninterest income), our Factoring segment generated 18% of our total revenue, our Asset Management segment generated 2% of our total revenue, and our Corporate segment generated 20% of our total revenue. The $20.9 million pre-tax gain on the sale of Triumph Capital Advisors, LLC is included in the Corporate segment's revenue for the six months ended June 30, 2017. As discussed below, on March 31, 2017 we sold our 100% membership interest in Triumph Capital Advisors, LLC and no longer provide fee based asset management services. Asset Management segment results reflect activity through the date of the Triumph Capital Advisors, LLC sale.

Second Quarter 2017 Overview

Net income available to common stockholders for the three months ended June 30, 2017 was $9.5 million, or $0.51 per diluted share, compared to net income available to common stockholders for the three months ended June 30, 2016 of $4.4 million, or $0.25 per diluted share. For the three months ended June 30, 2017, our return on average common equity was 12.75% and our return on average assets was 1.42%.

Net income available to common stockholders for the six months ended June 30, 2017 was $19.7 million, or $1.07 per diluted share, compared to net income available to common stockholders for the six months ended June 30, 2016 of $9.2 million, or $0.51 per diluted share. Excluding material gains and expenses related to merger and acquisition related activities, including divestitures, adjusted net income to common stockholders was $9.8 million, or $0.54 per diluted share, for the six months ended June 30, 2017. For the six months ended June 30, 2017, our return on average common equity was 13.67% and our return on average assets was 1.52%.

At June 30, 2017, we had total assets of $2.837 billion, including gross loans of $2.295 billion, compared to $2.641 billion of total assets and $2.028 billion of gross loans at December 31, 2016. Organic loan growth totaled $267 million during the six months ended June 30, 2017. Our commercial finance product lines increased from $693.7 million in aggregate as of December 31, 2016 to $801.7 million as of June 30, 2017, an increase of 16%, and constitute 35% of our total loan portfolio at June 30, 2017.

At June 30, 2017, we had total liabilities of $2.526 billion, including total deposits of $2.072 billion, compared to $2.352 billion of total liabilities and $2.016 billion of total deposits at December 31, 2016. Deposit growth totaled $56 million during the six months ended June 30, 2017.

At June 30, 2017, we had total stockholders' equity of $310.5 million. During the six months ended June 30, 2017, total stockholders' equity increased $21.2 million, primarily due to our net income for the period. Capital ratios remained strong with Tier 1 capital and total capital to risk weighted assets ratios of 11.30% and 13.87%, respectively, at June 30, 2017.

Independent Bank Colorado Branches

On June 23, 2017, the Company entered into an agreement to acquire 9 branch locations in Colorado from Independent Bank Group, Inc.'s banking subsidiary Independent Bank. TBK Bank will purchase approximately $100 million in loans and assume approximately $168 million in deposits associated with the branches for an estimated aggregate deposit premium of $7 million, or 4.17%. The actual premium will be based on a 30 day average of deposit balances at the time the transaction closes. The transaction is expected to close during the fourth quarter of 2017 and is subject to certain closing conditions, including receipt of regulatory approval and other customary closing conditions.

Triumph Capital Advisors

On March 31, 2017, the Company sold its 100% membership interest in Triumph Capital Advisors, LLC ("TCA"). As part of the TCA sale on March 31, 2017, the Company recorded a pre-tax gain on sale of $20.9 million, net of $0.4 million of direct transaction costs. In addition, the Company incurred other indirect transaction related costs of $0.3 million and recorded $4.8 million in incremental bonus expense for the amount paid to team members to recognize their contribution to the transaction and building the value realized in the sale of the business. The TCA sale resulted in a net pre-tax contribution to earnings for the six months ended June 30, 2017 of $15.7 million, or approximately $10.0 million net of tax. Consideration received by the Company included a seller financed loan receivable in the amount of $10.5 million.

ColoEast Bankshares, Inc.

On August 1, 2016, the Company acquired ColoEast Bankshares, Inc. ("ColoEast") and its community banking subsidiary, Colorado East Bank & Trust, which was merged into TBK Bank upon closing. As part of the ColoEast acquisition, the Company acquired loans with a fair value of $461 million, acquired investment securities with a fair value of $162 million, and assumed $653 million of customer deposits. When compared to the three and six months ended June 30, 2016, the operating results for the three and six months ended June 30, 2017 are reflective of the significantly larger assets, liabilities, personnel, and infrastructure resulting from the ColoEast acquisition, which affects comparability period over period.

Commercial Finance Product Lines

A key element of our strategy is to supplement the asset generation capacity in our community banking markets with commercial finance product lines which are offered on a nationwide basis and which serve to enhance the overall yield of our portfolio. These products include our factoring services, provided principally in the transportation sector (though increasingly in other industries as well), our asset based lending and equipment finance products marketed under our Triumph Commercial Finance brand, the healthcare asset based lending products offered under our Triumph Healthcare Finance brand, and premium finance products marketed under our Triumph Premium Finance brand. Our

aggregate outstanding balances for these products increased from $693.7 million as of December 31, 2016 to $801.7 million as of June 30, 2017. These increases were driven by organic growth.

The following table sets forth our commercial finance product lines as of June 30, 2017 and December 31, 2016:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Commercial finance		
Equipment	$219,904	$190,393
Asset based lending (general)	188,257	161,454
Asset based lending (healthcare)	68,606	79,668
Premium finance	31,274	23,971
Factored receivables	293,633	238,198
Total commercial finance loans	$801,674	$693,684

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Financial Highlights

The Company's key financial highlights as of and for the three and six months ended June 30, 2017, as compared to the prior period, are shown below:

(Dollars in thousands, except per share amounts)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Income Statement Data:				
Interest income	$43,538	$28,354	$79,870	$53,247
Interest expense	4,981	2,447	9,494	4,851
Net interest income	38,557	25,907	70,376	48,396
Provision for loan losses	1,447	1,939	9,125	1,428
Net interest income after provision	37,110	23,968	61,251	46,968
Gain on sale of subsidiary	—	—	20,860	—
Other noninterest income	5,202	3,668	11,627	8,649
Noninterest income	5,202	3,668	32,487	8,649
Noninterest expense	27,321	20,331	62,158	40,409
Net income before income taxes	14,991	7,305	31,580	15,208
Income tax expense	5,331	2,679	11,447	5,576
Net income	9,660	4,626	20,133	9,632
Dividends on preferred stock	(193)	(195)	(385)	(389)
Net income available to common stockholders	$9,467	$4,431	$19,748	$9,243
Per Share Data:				
Basic earnings per common share	$0.53	$0.25	$1.10	$0.52
Diluted earnings per common share	$0.51	$0.25	$1.07	$0.51
Weighted average shares outstanding - basic	18,012,905	17,859,604	17,984,184	17,838,267
Weighted average shares outstanding - diluted	18,893,158	18,042,585	18,899,865	18,011,931
Adjusted Per Share Data[1]:				
Adjusted diluted earnings per common share	$0.51	$0.25	$0.54	$0.51
Adjusted weighted average shares outstanding - diluted	18,893,158	18,042,585	18,229,621	18,011,931
Performance ratios - Annualized[2]:				
Return on average assets	1.42%	1.07%	1.52%	1.13%
Return on average total equity	12.60%	6.69%	13.49%	7.04%
Return on average common equity	12.75%	6.64%	13.67%	7.00%
Return on average tangible common equity [1]	14.94%	7.37%	16.17%	7.80%
Yield on loans	7.79%	8.50%	7.49%	8.18%
Adjusted yield on loans [1]	7.25%	7.81%	7.10%	7.65%
Cost of interest bearing deposits	0.74%	0.72%	0.73%	0.73%
Cost of total deposits	0.60%	0.63%	0.59%	0.64%
Cost of total funds	0.83%	0.68%	0.81%	0.68%
Net interest margin	6.16%	6.53%	5.78%	6.22%
Adjusted net interest margin [1]	5.70%	5.98%	5.45%	5.79%

Efficiency ratio	62.44	%	68.74	%	60.43	%	70.84	%
Adjusted efficiency ratio [1]	62.44	%	68.74	%	69.53	%	70.84	%
Net noninterest expense to average assets	3.26	%	3.85	%	2.24	%	3.73	%
Adjusted net noninterest expense to average assets [1]	3.26	%	3.85	%	3.43	%	3.73	%

(Dollars in thousands, except per share amounts)	June 30, 2017		December 31, 2016	
Balance Sheet Data:				
Total assets	$2,836,684		$2,641,067	
Cash and cash equivalents	117,502		114,514	
Investment securities	253,242		304,381	
Loans held for investment, net	2,275,303		2,012,219	
Total liabilities	2,526,217		2,351,722	
Noninterest bearing deposits	381,042		363,351	
Interest bearing deposits	1,691,139		1,652,434	
FHLB advances	340,000		230,000	
Subordinated notes	48,780		48,734	
Junior subordinated debentures	32,943		32,740	
Total stockholders’ equity	310,467		289,345	
Preferred stockholders' equity	9,658		9,746	
Common stockholders' equity	300,809		279,599	
Per Share Data:				
Book value per share	$16.59		$15.47	
Tangible book value per share [1]	$14.20		$12.89	
Shares outstanding end of period	18,132,585		18,078,247	
Asset Quality ratios[3]:				
Past due to total loans	2.51	%	3.61	%
Nonperforming loans to total loans	1.36	%	2.23	%
Nonperforming assets to total assets	1.50	%	1.98	%
ALLL to nonperforming loans	63.56	%	34.00	%
ALLL to total loans	0.86	%	0.76	%
Net charge-offs to average loans[4]	0.23	%	0.25	%
Capital ratios:				
Tier 1 capital to average assets	11.28	%	10.85	%
Tier 1 capital to risk-weighted assets	11.30	%	11.85	%
Common equity Tier 1 capital to risk-weighted assets	9.73	%	10.18	%
Total capital to risk-weighted assets	13.87	%	14.60	%
Total stockholders' equity to total assets	10.94	%	10.96	%
Tangible common stockholders' equity ratio [1]	9.22	%	8.98	%

[1] The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company’s operational performance and to enhance investors’ overall understanding of such financial performance. The non-GAAP measures used by the Company include the following:

- “Adjusted diluted earnings per common share” is defined as adjusted net income available to common stockholders divided by adjusted weighted average diluted common shares outstanding. Excluded from net income available to common stockholders are material gains and expenses related to merger and acquisition-related activities, including divestitures, net of tax. In our judgment, the adjustments made to net income available to common stockholders allow management and investors to better assess our performance in relation to our core net income by removing the volatility associated with certain acquisition-related items and other discrete items that are unrelated to our core

business. Weighted average diluted common shares outstanding are adjusted as a result of changes in their dilutive properties given the gain and expense adjustments described herein.

- "Tangible common stockholders' equity" is common stockholders' equity less goodwill and other intangible assets.
- "Total tangible assets" is defined as total assets less goodwill and other intangible assets.

- “Tangible book value per share” is defined as tangible common stockholders’ equity divided by total common shares outstanding. This measure is important to investors interested in changes from period-to-period in book value per share exclusive of changes in intangible assets.
- “Tangible common stockholders’ equity ratio” is defined as the ratio of tangible common stockholders’ equity divided by total tangible assets. We believe that this measure is important to many investors in the marketplace who are interested in relative changes from period-to period in common equity and total assets, each exclusive of changes in intangible assets.
- “Return on average tangible common equity” is defined as net income available to common stockholders divided by average tangible common stockholders’ equity.
- “Adjusted efficiency ratio” is defined as noninterest expenses divided by our operating revenue, which is equal to net interest income plus noninterest income. Also excluded are material gains and expenses related to merger and acquisition-related activities, including divestitures. In our judgment, the adjustments made to operating revenue allow management and investors to better assess our performance in relation to our core operating revenue by removing the volatility associated with certain acquisition-related items and other discrete items that are unrelated to our core business.
- “Adjusted net noninterest expense to average total assets” is defined as noninterest expenses net of noninterest income divided by total average assets. Excluded are material gains and expenses related to merger and acquisition-related activities, including divestitures. This metric is used by our management to better assess our operating efficiency.
- “Adjusted yield on loans” is our yield on loans after excluding loan accretion from our acquired loan portfolio. Our management uses this metric to better assess the impact of purchase accounting on our yield on loans, as the effect of loan discount accretion is expected to decrease as the acquired loans roll off of our balance sheet, absent the impact, if any, of future acquisitions.
- “Adjusted net interest margin” is net interest margin after excluding loan accretion from the acquired loan portfolio. Our management uses this metric to better assess the impact of purchase accounting on net interest margin, as the effect of loan discount accretion is expected to decrease as the acquired loans mature or roll off of our balance sheet, absent the impact, if any, of future acquisitions.

(2) Amounts have been annualized.

(3) Asset quality ratios exclude loans held for sale.

(4) Net charge-offs to average loans ratios are for the six months ended June 30, 2017 and the year ended December 31, 2016.

GAAP Reconciliation of Non-GAAP Financial Measures

We believe the non-GAAP financial measures included above provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that our non-GAAP financial measures have a number of limitations. The following reconciliation table provides a more detailed analysis of the non-GAAP financial measures:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share amounts)	2017	2016	2017	2016
Net income available to common stockholders	$9,467	$4,431	$19,748	$9,243
Gain on sale of subsidiary	—	—	(20,860)	—
Incremental bonus related to transaction	—	—	4,814	—
Indirect transaction costs	—	—	325	—
Tax effect of adjustments	—	—	5,754	—
Adjusted net income available to common stockholders	$9,467	$4,431	$9,781	$9,243
Dilutive effect of convertible preferred stock	193	—	—	—
Adjusted net income available to common stockholders - diluted	$9,660	$4,431	$9,781	$9,243
Weighted average shares outstanding - diluted	18,893,158	18,042,585	18,899,865	18,011,931
Adjusted effects of assumed preferred stock conversion	—	—	(670,244)	—
Adjusted weighted average shares outstanding - diluted	18,893,158	18,042,585	18,229,621	18,011,931
Adjusted diluted earnings per common share	$0.51	$0.25	$0.54	$0.51
Net income available to common stockholders	$9,467	$4,431	$19,748	$9,243
Average tangible common equity	254,088	241,666	246,290	238,420
Return on average tangible common equity	14.94%	7.37%	16.17%	7.80%
Adjusted efficiency ratio:				
Net interest income	$38,557	$25,907	$70,376	$48,396
Noninterest income	5,202	3,668	32,487	8,649
Operating revenue	43,759	29,575	102,863	57,045
Gain on sale of subsidiary	—	—	(20,860)	—
Adjusted operating revenue	$43,759	$29,575	$82,003	$57,045
Total noninterest expense	$27,321	$20,331	$62,158	$40,409
Incremental bonus related to transaction	—	—	(4,814)	—
Indirect transaction costs	—	—	(325)	—
Adjusted noninterest expense	$27,321	$20,331	$57,019	$40,409
Adjusted efficiency ratio	62.44%	68.74%	69.53%	70.84%
Adjusted net noninterest expense to average assets ratio:				
Total noninterest expense	$27,321	$20,331	$62,158	$40,409

Incremental bonus related to transaction	—	—	(4,814)	—
Indirect transaction costs	—	—	(325)	—
Adjusted noninterest expense	$27,321	$20,331	$57,019	$40,409
Total noninterest income	$5,202	$3,668	$32,487	$8,649
Gain on sale of subsidiary	—	—	(20,860)	—
Adjusted noninterest income	5,202	3,668	11,627	8,649
Adjusted net noninterest expenses	$22,119	$16,663	$45,392	$31,760
Average Total Assets	2,723,303	1,742,942	2,671,580	1,712,784
Adjusted net noninterest expense to average assets ratio	3.26%	3.85%	3.43%	3.73%
Reported yield on loans	7.79%	8.50%	7.49%	8.18%
Effect of accretion income on acquired loans	(0.54%)	(0.69%)	(0.39%)	(0.53%)
Adjusted yield on loans	7.25%	7.81%	7.10%	7.65%
Reported net interest margin	6.16%	6.53%	5.78%	6.22%
Effect of accretion income on acquired loans	(0.46%)	(0.55%)	(0.33%)	(0.43%)
Adjusted net interest margin	5.70%	5.98%	5.45%	5.79%

(Dollars in thousands, except per share amounts)	June 30, 2017	December 31, 2016
Total stockholders' equity	$310,467	$289,345
Preferred stock liquidation preference	(9,658)	(9,746)
Total common stockholders' equity	300,809	279,599
Goodwill and other intangibles	(43,321)	(46,531)
Tangible common stockholders' equity	$257,488	$233,068
Common shares outstanding	18,132,585	18,078,247
Tangible book value per share	$14.20	$12.89
Total assets at end of period	$2,836,684	$2,641,067
Goodwill and other intangibles	(43,321)	(46,531)
Tangible assets at period end	$2,793,363	$2,594,536
Tangible common stockholders' equity ratio	9.22 %	8.98 %

Results of Operations

Net Income

Three months ended June 30, 2017 compared with three months ended June 30, 2016. We earned net income of $9.7 million for the three months ended June 30, 2017 compared to $4.6 million for the three months ended June 30, 2016, an increase of $5.1 million.

The increase was primarily the result of a $12.7 million increase in net interest income, a $1.5 million increase in noninterest income, and a $0.5 million reduction in the provision for loan losses, offset in part by a $7.0 million increase in noninterest expense and a $2.7 million increase in income tax expense.

Six months ended June 30, 2017 compared with six months ended June 30, 2016. We earned net income of $20.1 million for the six months ended June 30, 2017 compared to $9.6 million for the six months ended June 30, 2016, an increase of $10.5 million.

As discussed in the Second Quarter 2017 Overview above, the results for the six months ended June 30, 2017 were impacted by our sale of TCA. The TCA sale resulted in a gain on sale in the amount of $20.9 million included in noninterest income for the six months ended June 30, 2017, offset by an additional $4.8 million bonus accrual and approximately $0.3 million of other indirect transaction related costs recorded in connection with the TCA sale and reported as noninterest expense.

Excluding the tax-effected impact of the TCA sale transaction, we earned net income of $10.2 million for the six months ended June 30, 2017 compared to $9.6 million for the six months ended June 30, 2016, an increase of $0.6 million. The adjusted increase was primarily the result of a $22.0 million increase in net interest income and a $3.0 million increase in noninterest income, offset in part by a $7.7 million increase in the provision for loan losses, a $16.6 million increase in noninterest expense and a $0.1 million increase in income tax expense.

Details of the changes in the various components of net income are further discussed below.

Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest earning assets, including loans and securities, and interest expense incurred on interest bearing liabilities,

including deposits and other borrowed funds. Interest rate fluctuations, as well as changes in the amount and type of interest earning assets and interest bearing liabilities, combine to affect net interest income. Our net interest income is affected by changes in the amount and mix of interest earning assets and interest bearing liabilities, referred to as a “volume change.” It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing liabilities, referred to as a “rate change.”

Three months ended June 30, 2017 compared with three months ended June 30, 2016. The following table presents the distribution of average assets, liabilities and equity, as well as interest income and fees earned on average interest earning assets and interest expense paid on average interest bearing liabilities for the three months ended June 30, 2017 and 2016:

	Three Months Ended June 30,					
	2017			2016		
(Dollars in thousands)	Average Balance	Interest	Average Rate(4)	Average Balance	Interest	Average Rate(4)
Interest earning assets:						
Cash and cash equivalents	$99,918	$289	1.16 %	$120,088	$197	0.66 %
Taxable securities	240,725	1,653	2.75 %	184,010	952	2.08 %
Tax-exempt securities	25,389	85	1.34 %	1,063	6	2.27 %
FHLB and FRB stock	10,395	36	1.39 %	4,748	13	1.10 %
Loans (1)	2,135,346	41,475	7.79 %	1,286,159	27,186	8.50 %
Total interest earning assets	2,511,773	43,538	6.95 %	1,596,068	28,354	7.15 %
Noninterest earning assets:						
Cash and cash equivalents	35,153			23,619		
Other noninterest earning assets	176,377			123,255		
Total assets	$2,723,303			$1,742,942		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	$342,947	$136	0.16 %	$242,862	$59	0.10 %
Individual retirement accounts	100,505	303	1.21 %	64,075	197	1.24 %
Money market	206,163	120	0.23 %	122,670	69	0.23 %
Savings	171,602	27	0.06 %	78,795	10	0.05 %
Certificates of deposit	773,178	2,224	1.15 %	565,600	1,560	1.11 %
Brokered deposits	67,852	247	1.46 %	49,950	125	1.01 %
Total deposits	1,662,247	3,057	0.74 %	1,123,952	2,020	0.72 %
Subordinated notes	48,767	836	6.88 %	—	—	0.00 %
Junior subordinated debentures	32,878	475	5.79 %	24,788	312	5.06 %
Other borrowings	271,136	613	0.91 %	139,601	115	0.33 %
Total interest bearing liabilities	2,015,028	4,981	0.99 %	1,288,341	2,447	0.76 %
Noninterest bearing liabilities and equity:						
Noninterest bearing demand deposits	387,877			166,863		
Other liabilities	12,808			9,770		
Total equity	307,590			277,968		
Total liabilities and equity	$2,723,303			$1,742,942		
Net interest income		$38,557			$25,907	
Interest spread (2)			5.96 %			6.39 %
Net interest margin (3)			6.16 %			6.53 %

(1) Balance totals include respective nonaccrual assets.

(2) Net interest spread is the yield on average interest earning assets less the rate on interest bearing liabilities.

(3) Net interest margin is the ratio of net interest income to average interest earning assets.

(4) Ratios have been annualized.

We earned net interest income of $38.6 million for the three months ended June 30, 2017 compared to $25.9 million for the three months ended June 30, 2016, an increase of $12.7 million, or 49.0%.

This increase in net interest income was driven by increases in average interest earning assets, which increased to $2.512 billion for the three months ended June 30, 2017 from $1.596 billion for the three months ended June 30, 2016, an increase of $916 million, or 57.4%. This increase was partly attributable to $461 million of loans and $162 million of investment securities acquired in the ColoEast acquisition. Additional interest income also resulted from organic growth in our loan portfolio. Our commercial finance product lines, including our factored receivables, asset based loans, equipment finance loans, and premium finance loans all increased on a period over period basis as a result of the continued execution of our growth strategy for such products. Our commercial finance balances increased $194.8 million, or 32.1%, from $606.9 million at June 30, 2016 to $801.7 million at June 30, 2017. We also experienced organic growth in our mortgage warehouse facilities and community banking lending products period over period, including commercial real estate and general commercial and industrial loans.

The change in net interest income for the three months ended June 30, 2017 compared to the three months ended June 30, 2016 was also impacted by interest and fee income associated with certain loan payoff activity. Interest income for the three months ended June 30, 2017 included approximately $1.8 million of loan discount accretion resulting from the payoff of two individual purchased credit impaired loans in excess of their carrying amounts and approximately $0.5 million of early termination fees associated with the prepayment of two asset based lending relationships. Interest income for the three months ended June 30, 2016 included approximately $1.2 million of loan discount accretion resulting from the payoff of an individual purchased credit impaired loan in excess of its carrying amount. The combination of this loan payoff activity contributed a net period over period increase in net interest income of $1.1 million.

The increases in our net interest income resulting from changes in the interest income generated by our loan portfolio discussed above were offset in part by an increase in our interest expense associated with the growth in customer deposits and other borrowings. Average total interest bearing deposits increased to $1.662 billion for the three months ended June 30, 2017 from $1.124 billion for the three months ended June 30, 2016, an increase of $538 million, or 47.9%. This increase was primarily due to $653 million of customer deposits assumed in the ColoEast acquisition, of which $492 million were interest bearing. Excluding the ColoEast customer deposits, we also experienced growth in our certificates of deposit as these were used to fund our loan growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was increased to fund our loan growth. Our mortgage warehouse facilities are included in our borrowing base with the FHLB. Finally, we issued $50.0 million of subordinated notes in the third quarter of 2016 that contributed to the increase in interest expense period over period.

Net interest margin decreased to 6.16% for the three months ended June 30, 2017 from 6.53% for the three months ended June 30, 2016, a decrease of 37 basis points.

The decline in our net interest margin resulted in part from a decrease in yields on our interest earning assets. Our average yield on interest earning assets decreased to 6.95% for the three months ended June 30, 2017 from 7.15% for the three months ended June 30, 2016, a decrease of 20 basis points. The decrease is primarily attributable to a change in the mix within our loan portfolio period over period. The lower yielding community banking loans acquired in the ColoEast acquisition resulted in our higher yielding commercial finance products as a percentage of the total portfolio decreasing from 43% at June 30, 2016 to 35% at June 30, 2017. This decrease was offset in part by our Prime- and LIBOR-indexed floating rate loans adjusting higher as short term rates have risen during 2017.

A component of the yield on our loan portfolio consists of discount accretion on the portfolios acquired in connection with our acquisitions. The aggregate increased yield on our loan portfolio attributable to the accretion of purchase discounts associated with our acquisitions was 54 basis points for the three months ended June 30, 2017, including the $1.8 million of discount accretion recorded on the payoff of the purchased credit impaired loans discussed above, and 69 basis points for the three months ended June 30, 2016, including the $1.2 million of discount accretion recorded on the payoff of the purchased credit impaired loan discussed above. Excluding the impact of this discount accretion, the

adjusted yield on our loan portfolio was 7.25% and 7.81% for the three months ended June 30, 2017 and 2016, respectively. Subject to future acquisitions, we anticipate that the contribution of this discount accretion to our interest income will continue to decline over time, but we expect that any resulting decreases in aggregate yield on our loan portfolio will be offset in part by continued growth in our higher yielding specialized commercial finance product lines which include our factored receivables, asset based loans, equipment finance loans, and premium finance loans. As of June 30, 2017, there was approximately $11.7 million of purchase discount remaining, of which $10.2 million is expected to be accreted over the remaining lives of the acquired loan portfolios.

Our adjusted net interest margin, which excludes the impact of the acquired loan discount accretion described above, was 5.70% and 5.98% for the three months ended June 30, 2017 and 2016, respectively.

An increase in our average cost of funds also contributed to the decrease in our net interest margin. Our average cost of interest bearing liabilities increased to 0.99% for the three months ended June 30, 2017 from 0.76% for the three months ended June 30, 2016, an increase of 23 basis points. This increase was caused by an increased use of higher rate certificates of deposit to fund our growth period over period, higher rates on short term and floating rate FHLB advances as a result of higher interest rates in the economy, and our issuance of $50.0 million of subordinated notes at an initial fixed rate of 6.50%.

The following table shows the effects changes in average balances (volume) and average interest rates (rate) had on the interest earned in our interest earning assets and the interest incurred on our interest bearing liabilities for the three months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017 vs. 2016 Increase (Decrease) Due to:		
(Dollars in thousands)	Rate	Volume	Net Increase
Interest earning assets:			
Cash and cash equivalents	$150	$(58)	$92
Taxable securities	312	389	701
Tax-exempt securities	(2)	81	79
FHLB and FRB stock	3	20	23
Loans	(2,205)	16,494	14,289
Total interest income	(1,742)	16,926	15,184
Interest bearing liabilities:			
Interest bearing demand	37	40	77
Individual retirement accounts	(4)	110	106
Money market	2	49	51
Savings	2	15	17
Certificates of deposit	67	597	664
Brokered deposits	57	65	122
Total deposits	161	876	1,037
Subordinated notes	—	836	836
Junior subordinated debentures	46	117	163
Other borrowings	201	297	498
Total interest expense	408	2,126	2,534
Change in net interest income	$(2,150)	$14,800	$12,650

Six months ended June 30, 2017 compared with six months ended June 30, 2016. The following table presents the distribution of average assets, liabilities and equity, as well as interest income and fees earned on average interest earning assets and interest expense paid on average interest bearing liabilities for the six months ended June 30, 2017 and 2016:

	Six Months Ended June 30,							
	2017				2016			
(Dollars in thousands)	Average Balance	Interest	Average Rate(4)		Average Balance	Interest	Average Rate(4)	
Interest earning assets:								
Cash and cash equivalents	$126,621	$616	0.98	%	$124,660	$405	0.65	%
Taxable securities	253,587	3,180	2.53	%	177,353	1,710	1.94	%
Tax-exempt securities	25,787	169	1.32	%	1,099	13	2.38	%
FHLB and FRB stock	9,471	78	1.66	%	4,508	23	1.03	%
Loans (1)	2,041,934	75,827	7.49	%	1,256,362	51,096	8.18	%
Total interest earning assets	2,457,400	79,870	6.55	%	1,563,982	53,247	6.85	%
Noninterest earning assets:								
Cash and cash equivalents	37,289				24,503			
Other noninterest earning assets	176,891				124,299			
Total assets	$2,671,580				$1,712,784			
Interest bearing liabilities:								
Deposits:								
Interest bearing demand	$334,316	$248	0.15	%	$231,851	$116	0.10	%
Individual retirement accounts	100,992	594	1.19	%	62,993	388	1.24	%
Money market	207,681	239	0.23	%	117,448	134	0.23	%
Savings	171,714	61	0.07	%	77,673	19	0.05	%
Certificates of deposit	764,938	4,301	1.13	%	563,637	3,106	1.11	%
Brokered deposits	67,968	483	1.43	%	49,973	250	1.01	%
Total deposits	1,647,609	5,926	0.73	%	1,103,575	4,013	0.73	%
Subordinated notes	48,755	1,671	6.91	%	—	—	0.00	%
Junior subordinated debentures	32,829	940	5.77	%	24,751	614	4.99	%
Other borrowings	246,983	957	0.78	%	135,514	224	0.33	%
Total interest bearing liabilities	1,976,176	9,494	0.97	%	1,263,840	4,851	0.77	%
Noninterest bearing liabilities and equity:								
Noninterest bearing demand deposits	382,851				163,621			
Other liabilities	11,604				10,178			
Total equity	300,949				275,145			
Total liabilities and equity	$2,671,580				$1,712,784			
Net interest income		$70,376				$48,396		
Interest spread (2)			5.58	%			6.08	%
Net interest margin (3)			5.78	%			6.22	%

(1) Balance totals include respective nonaccrual assets.

(2) Net interest spread is the yield on average interest earning assets less the rate on interest bearing liabilities.

(3) Net interest margin is the ratio of net interest income to average interest earning assets.

(4) Ratios have been annualized.

We earned net interest income of $70.4 million for the six months ended June 30, 2017 compared to $48.4 million for the six months ended June 30, 2016, an increase of $22.0 million, or 45.5%.

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This increase in net interest income was driven by increases in average interest earning assets, which increased to $2.457 billion for the six months ended June 30, 2017 from $1.564 billion for the six months ended June 30, 2016, an increase of $893 million, or 57.1%. This increase was partly attributable to $461 million of loans and $162 million of investment securities acquired in the ColoEast acquisition. Additional interest income also resulted from organic growth in our loan portfolio. Our commercial finance product lines, including our factored receivables, asset based loans, equipment finance loans, and premium finance loans all increased on a period over period basis as a result of the continued execution of our growth strategy for such products. Our outstanding commercial finance balances increased $194.8 million, or 32.1%, from $606.9 million at June 30, 2016 to $801.7 million at June 30, 2017. We also experienced organic growth in our mortgage warehouse facilities and community banking lending products period over period, including commercial real estate and general commercial and industrial loans.

The change in net interest income for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 was also impacted by interest and fee income associated with certain loan payoff activity. Interest income for the six months ended June 30, 2017 included approximately $1.8 million of loan discount accretion resulting from the payoff of two individual purchased credit impaired loans in excess of their carrying amounts and approximately $0.5 million of early termination fees associated with the prepayment of two asset based lending relationships. Interest income for the six months ended June 30, 2016 included approximately $1.2 million of loan discount accretion resulting from the payoff of an individual purchased credit impaired loan in excess of its carrying amount. The combination of this loan payoff activity contributed a net period over period increase in net interest income of $1.1 million.

The increases in our net interest income resulting from changes in the interest income generated by our loan portfolio discussed above were offset in part by an increase in our interest expense associated with the growth in customer deposits and other borrowings. Average total interest bearing deposits increased to $1.648 billion for the six months ended June 30, 2017 from $1.104 billion for the six months ended June 30, 2016, an increase of $544 million, or 49.3%. This increase was primarily due to $653 million of customer deposits assumed in the ColoEast acquisition, of which $492 million were interest bearing. Excluding the ColoEast customer deposits, we also experienced growth in our certificates of deposit as these higher cost deposit products were used to fund our loan growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was increased to fund our loan growth. Our mortgage warehouse facilities are included in our borrowing base with the FHLB. Finally, we issued $50.0 million of subordinated notes in the third quarter of 2016 that contributed to the increase in interest expense period over period.

Net interest margin decreased to 5.78% for the six months ended June 30, 2017 from 6.22% for the six months ended June 30, 2016, a decrease of 44 basis points.

The decline in our net interest margin resulted in part from a decrease in yields on our interest earning assets. Our average yield on interest earning assets decreased to 6.55% for the six months ended June 30, 2017 from 6.85% for the six months ended June 30, 2016, a decrease of 30 basis points. The decrease is primarily attributable to a change in the mix within our loan portfolio period over period. The lower yielding community banking loans acquired in the ColoEast acquisition resulted in our higher yielding commercial finance products as a percentage of the total portfolio decreasing from 43% at June 30, 2016 to 35% at June 30, 2017. This decrease was offset in part by our Prime- and LIBOR-indexed floating rate loans adjusting higher as short term rates have risen during 2017.

A component of the yield on our loan portfolio consists of discount accretion on the portfolios acquired in connection with our acquisitions. The aggregate increased yield on our loan portfolio attributable to accretion of purchase discounts associated with our acquisitions was 39 basis points for the six months ended June 30, 2017, including the $1.8 million of discount accretion recorded on the payoff of the purchased credit impaired loans discussed above, and 53 basis points for the six months ended June 30, 2016, including the $1.2 million of discount accretion recorded on

the payoff of the purchased credit impaired loan discussed above. Excluding the impact of this discount accretion, the adjusted yield on our loan portfolio was 7.10% and 7.65% for the six months ended June 30, 2017 and 2016, respectively. Subject to future acquisitions, we anticipate that the contribution of this discount accretion to our interest income will continue to decline over time, but we expect that any resulting decreases in aggregate yield on our loan portfolio will be offset in part by continued growth in our higher yielding specialized commercial finance product lines which include our factored receivables, asset based loans, equipment finance loans, and premium finance loans. As of June 30, 2017, there was approximately $11.7 million of purchase discount remaining, of which $10.2 million is expected to be accreted over the remaining lives of the acquired loan portfolios.

Our adjusted net interest margin, which excludes the impact of the acquired loan discount accretion described above, was 5.45% and 5.79% for the six months ended June 30, 2017 and 2016, respectively.

An increase in our average cost of funds also contributed to the decrease in our net interest margin. Our average cost of interest bearing liabilities increased to 0.97% for the six months ended June 30, 2017 from 0.77% for the six months ended June 30, 2016, an increase of 20 basis points. This increase was caused by an increased use of higher rate certificates of deposit to fund our growth period over period, higher rates on short term and floating rate FHLB advances as a result of higher interest rates in the economy, and our issuance of $50.0 million of subordinated notes at an initial fixed rate of 6.50%.

The following table shows the effects changes in average balances (volume) and average interest rates (rate) had on the interest earned in our interest earning assets and the interest incurred on our interest bearing liabilities for the six months ended June 30, 2017 and 2016:

	Six Months Ended June 30, 2017 vs. 2016 Increase (Decrease) Due to:		
(Dollars in thousands)	Rate	Volume	Net Increase
Interest earning assets:			
Cash and cash equivalents	$201	$10	$211
Taxable securities	514	956	1,470
Tax-exempt securities	(6)	162	156
FHLB and FRB stock	14	41	55
Loans	(4,441)	29,172	24,731
Total interest income	(3,718)	30,341	26,623
Interest bearing liabilities:			
Interest bearing demand	56	76	132
Individual retirement accounts	(17)	223	206
Money market	1	104	105
Savings	9	33	42
Certificates of deposit	63	1,132	1,195
Brokered deposits	105	128	233
Total deposits	217	1,696	1,913
Subordinated notes	—	1,671	1,671
Junior subordinated debentures	95	231	326
Other borrowings	301	432	733
Total interest expense	613	4,030	4,643
Change in net interest income	$(4,331)	$26,311	$21,980

Provision for Loan Losses

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the allowance for loan and lease losses (“ALLL”) at an adequate level to absorb probable losses incurred in the loan portfolio at the balance sheet date and that, in management’s judgment, is appropriate under GAAP. The determination of the amount of the allowance is complex and involves a high degree of judgment and subjectivity.

The provision for loan losses is primarily driven by the allowance allocation for incurred losses recorded on collectively evaluated loans outstanding for a period. As outstanding loan balances fluctuate period over period, the associated provision for loan losses typically increases or decreases accordingly. In addition, the product types associated with fluctuations within the loan portfolio also contribute to the allowance allocation, as different loan products require different levels of ALLL based upon their credit risk characteristics. Finally, loan loss valuation allowances are recorded on specific at-risk balances, typically consisting of impaired loans and factored invoices greater than 90 days past due with negative cash reserves.

Under accounting standards for business combinations, acquired loans are recorded at fair value on the date of acquisition. This fair value adjustment eliminates any of the seller's ALLL associated with such loans as of such date as any credit exposure associated with such loans is incorporated into the fair value adjustment. A provision for loan losses is recorded for the emergence of new probable and estimable losses on acquired loans after the acquisition date.

Our ALLL was $19.8 million as of June 30, 2017 versus $15.4 million as of December 31, 2016, representing an ALLL to total loans ratio of 0.86% and 0.76% respectively.

Three months ended June 30, 2017 compared with three months ended June 30, 2016. Our provision for loan losses was $1.4 million for the three months ended June 30, 2017 compared to $1.9 million for the three months ended June 30, 2016.

The change in the provision for loan losses was the result of several factors. As part of our reduced provision for loan losses in the three months ended June 30, 2017, we were able to recapture approximately $1.1 million of specific reserves related to two purchased credit impaired loans due to improved cash flow performance expectations and cash paydowns of the outstanding balances. As a result, we recorded a net reduction in specific reserves of $0.8 million during the three months ended June 30, 2017 compared to an increase in specific reserves of $0.6 million recorded during the three months ended June 30, 2016.

Offsetting in part the decreased provision due to the change in specific reserves, we experienced higher net charge-offs of $0.7 million in the three months ended June 30, 2017 compared to net charge-offs of $0.3 million for the same period in 2016. In addition, 2017 charge-off activity contributed to an increase in the estimate of the ALLL levels recorded against the remaining loan portfolio as a result of higher loss factors incorporated into our ALLL methodology for the three months ended June 30, 2017.

In addition, during the three months ended June 30, 2017 outstanding loans increased $259.9 million from March 31, 2017. During the three months ended June 30, 2016, outstanding loans increased $164.7 million from March 31, 2016. The larger increase in outstanding loan balances within the three months ended June 30, 2017 resulted in a higher provision for loan losses compared to the three months ended June 30, 2016.

Six months ended June 30, 2017 compared with six months ended June 30, 2016. Our provision for loan losses was $9.1 million for the six months ended June 30, 2017 compared to $1.4 million for the six months ended June 30, 2016.

The increased provision for loan losses was primarily the result of an increase in loan charge-offs recorded during the six months ended June 30, 2017. We experienced higher total net charge-offs of $4.7 million in the six months ended June 30, 2017 compared to net charge-offs of $0.2 million for the same period in 2016. Approximately $1.4 million of the charge-offs for the six months ended June 30, 2017 had specific reserves previously recorded. In addition, this charge-off activity contributed to an increase in the estimate of the ALLL levels recorded against the remaining loan portfolio as a result of higher loss factors incorporated into our ALLL methodology for the six months ended June 30, 2017. Approximately $3.1 million of the charge-offs recorded during the six months ended June 30, 2017 were associated with two individual loan relationships. One of the loan relationships was part of our healthcare finance unit and one was acquired in the ColoEast acquisition.

In addition, during the six months ended June 30, 2017, outstanding loans increased $267.5 million from December 31, 2016. During the six months ended June 30, 2016, outstanding loans increased $118.6 million from December 31, 2015. The larger increase in outstanding loan balances within the six months ended June 30, 2017 resulted in a higher provision for loan losses compared to the six months ended June 30, 2016.

Noninterest Income

The following table presents the major categories of noninterest income for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in thousands)	2017	2016	% Change	2017	2016	% Change

			$ Change				$ Change	
Service charges on deposits	$977	$695	$282	40.6 %	$1,957	$1,354	$603	44.5 %
Card income	917	577	340	58.9 %	1,744	1,123	621	55.3 %
Net OREO gains (losses) and valuation adjustments	(112)	(1,204)	1,092	90.7 %	(101)	(1,215)	1,114	91.7 %
Net gains on sale of securities	—	—	—	—	—	5	(5)	(100.0 %)
Net gains on sale of loans	—	4	(4)	(100.0 %)	—	16	(16)	(100.0 %)
Fee income	637	504	133	26.4 %	1,220	1,038	182	17.5 %
Gain on sale of subsidiary	—	—	—	—	20,860	—	20,860	100.0 %
Asset management fees	—	1,605	(1,605)	(100.0 %)	1,717	3,234	(1,517)	(46.9 %)
CLO warehouse investment income	990	774	216	27.9 %	1,954	1,758	196	11.1 %
Insurance commissions	709	112	597	533.0 %	1,299	185	1,114	602.2 %
Other	1,084	601	483	80.4 %	1,837	1,151	686	59.6 %
Total noninterest income	$5,202	$3,668	$1,534	41.8 %	$32,487	$8,649	$23,838	275.6 %

Three months ended June 30, 2017 compared with three months ended June 30, 2016. We earned noninterest income of $5.2 million for the three months ended June 30, 2017, compared to $3.7 million for the three months ended June 30, 2016.

The increase was primarily due to an increase in service charges on deposits, card income, insurance commissions, and other noninterest income. In addition, a decrease in OREO losses contributed to the increase in noninterest income during the three months ended June 30, 2017. These increases in noninterest income were offset in part by a decrease in asset management fees earned due to the sale of TCA. Changes in selected components of noninterest income in the above table are discussed below.

- Service Charges on Deposits. Service charges on deposit accounts, including overdraft and non-sufficient funds fees, increased from $0.7 million for the three months ended June 30, 2016 to $1.0 million for the three months ended June 30, 2017. The increase was primarily due to additional service charges associated with the increase in customer deposits due to the ColoEast acquisition.
  - Card Income. Debit and credit card income increased from $0.6 million for the three months ended June 30, 2016 to $0.9 million for the three months ended June 30, 2017. The increase was primarily due to additional customer debit and credit card activity associated with the increase in issued cards due to the ColoEast acquisition.
- Net OREO Gains (Losses) and Valuation Adjustments. Net OREO gains (losses) and valuation adjustments represents gains on loans transferred to OREO with a fair value in excess of the foreclosed loans' carrying value, gains and losses on the sale of OREO, and valuation allowances recorded due to subsequent write-downs of OREO. The net loss of $1.2 million for the three months ended June 30, 2016 was primarily due to a $1.2 million OREO write-down related to a branch facility previously transferred to OREO that was no longer being actively operated. The write-down was the result of obtaining an updated appraisal on the property.
- Asset Management Fees. As a result of the sale of TCA, we no longer earn asset management fees. As a result, there was no asset management fee income recorded for the three months ended June 30, 2017, compared to $1.6 million for the three months ended June 30, 2016.
- Insurance Commissions. Commissions earned by our Triumph Insurance Group subsidiary increased $0.6 million from $0.1 million for the three months ended June 30, 2016 to $0.7 million for the three months ended June 30, 2017 due to increased volumes resulting from organic growth of the business and the acquisition of Southern Transportation Insurance Agency, Ltd. in the third quarter of 2016.
- CLO Warehouse Investment Income. Income from our CLO warehouse equity investments increased $0.2 million, from $0.8 million for the three months ended June 30, 2016 to $1.0 million for the three months ended June 30, 2017 due to our increased investments in the CLO warehouse entities period over period. The CLO associated with our remaining CLO warehouse investment was issued and closed in June 2017, and as a result our invested funds were returned. At June 30, 2017 we no longer held investments in CLO warehouse entities and, absent future investments in new CLO warehouse entities, we do not expect to realize CLO warehouse investment income ongoing.
- Other. Other noninterest income increased from $0.6 million for the three months ended June 30, 2016 to $1.1 million for the three months ended June 30, 2017. Other noninterest income includes income for check cashing and wire transfer fees, income associated with trust activities, and bank-owned life insurance. There were no significant increases or decreases in the components of other noninterest income period over period, other than increases due to incremental transaction volumes associated with the ColoEast acquisition.

Six months ended June 30, 2017 compared with six months ended June 30, 2016. We earned noninterest income of $32.5 million for the six months ended June 30, 2017, compared to $8.6 million for the six months ended June 30, 2016. The increase in the six months ended June 30, 2017 was impacted by the realization of the $20.9 million gain associated with the sale of TCA. Excluding the gain on sale of TCA, we earned noninterest income of $11.6 million for the six months ended June 30, 2017, resulting in an adjusted increase in noninterest income of $3.0 million, or 34.9% period over period.

The adjusted increase was primarily due to an increase in service charges on deposits, card income, insurance commissions, and other noninterest income. In addition, a decrease in OREO losses contributed to the increase in

noninterest income during the six months ended June 30, 2017. These increases in noninterest income were offset in part by a decrease in asset management fees earned due to the sale of TCA. Changes in selected components of noninterest income in the above table are discussed below.

- Service Charges on Deposits. Service charges on deposit accounts, including overdraft and non-sufficient funds fees, increased from $1.4 million for the six months ended June 30, 2016 to $2.0 million for the six months ended June 30, 2017. The increase was primarily due to additional service charges associated with the increase in customer deposits due to the ColoEast acquisition.

- Card Income. Debit and credit card income increased from $1.1 million for the six months ended June 30, 2016 to $1.7 million for the six months ended June 30, 2017. The increase was primarily due to additional customer debit and credit card activity associated with the increase in issued cards due to the ColoEast acquisition.
- Net OREO Gains (Losses) and Valuation Adjustments. Net OREO gains (losses) and valuation adjustments represents gains on loans transferred to OREO with a fair value in excess of the foreclosed loans' carrying value, gains and losses on the sale of OREO, and valuation allowances recorded due to subsequent write-downs of OREO. The net loss of $1.2 million for the six months ended June 30, 2016 was primarily due to a $1.2 million OREO write-down related to a branch facility previously transferred to OREO that is no longer being actively operated. The write-down was the result of obtaining an updated appraisal on the property.
- Asset Management Fees. Asset management fees earned by TCA decreased from $3.2 million for the six months ended June 30, 2016 to $1.7 million for the six months ended June 30, 2017. The decrease is due to the sale of TCA in the first quarter of 2017. As a result of the sale of TCA, we no longer earn asset management fees.
- CLO Warehouse Investment Income. Income from our CLO warehouse equity investments increased $0.2 million, from $1.8 million for the six months ended June 30, 2016 to $2.0 million for the six months ended June 30, 2017 due to our increased investments in the CLO warehouse entities period over period. The CLO associated with our remaining CLO warehouse investment was issued and closed in June 2017, and as a result our invested funds were returned. At June 30, 2017 we no longer held investments in CLO warehouse entities and, absent future investments in new CLO warehouse entities, we do not expect to realize CLO warehouse investment income ongoing.
- Insurance Commissions. Commissions earned by our Triumph Insurance Group subsidiary increased $1.1 million from $0.2 million for the six months ended June 30, 2016 to $1.3 million for the six months ended June 30, 2017 due to increased volumes resulting from organic growth of the business and the acquisition of Southern Transportation Insurance Agency, Ltd. in the third quarter of 2016.
- Other. Other noninterest income increased from $1.2 million for the six months ended June 30, 2016 to $1.8 million for the six months ended June 30, 2017. Other noninterest income includes income for check cashing and wire transfer fees, income associated with trust activities, and bank-owned life insurance. There were no significant increases or decreases in the components of other noninterest income period over period, other than increases due to incremental transaction volumes associated with the ColoEast acquisition.

Noninterest Expense

The following table presents the major categories of noninterest expense for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in thousands)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Salaries and employee benefits	$16,012	$12,229	$3,783	30.9 %	$37,970	$24,481	$13,489	55.1 %
Occupancy, furniture and equipment	2,348	1,534	814	53.1 %	4,707	3,016	1,691	56.1 %
FDIC insurance and other regulatory assessments	270	281	(11)	(3.9 %)	496	505	(9)	(1.8 %)
Professional fees	1,238	1,101	137	12.4 %	3,206	2,174	1,032	47.5 %
Amortization of intangible assets	911	717	194	27.1 %	2,022	1,694	328	19.4 %
Advertising and promotion	911	628	283	45.1 %	1,849	1,147	702	61.2 %
Communications and technology	2,233	1,263	970	76.8 %	4,407	2,695	1,712	63.5 %
Travel and entertainment	647	522	125	23.9 %	1,292	887	405	45.7 %

Other	2,751	2,056	695	33.8	%	6,209	3,810	2,399	63.0	%
Total noninterest expense	$27,321	$20,331	$6,990	34.4	%	$62,158	$40,409	$21,749	53.8	%

Three months ended June 30, 2017 compared with three months ended June 30, 2016. Noninterest expense totaled $27.3 million for the three months ended June 30, 2017 compared to $20.3 million for the three months ended June 30, 2016.

Details of the more significant changes in the various components of noninterest expense are further discussed below.

- Salaries and Employee Benefits. Salaries and employee benefits expenses have historically been our largest category of noninterest expense. Salaries and employee benefits expenses were $16.0 million for the three months ended June 30, 2017 compared to $12.2 million for the three months ended June 30, 2016. This increase is attributable to several factors. Most notably, we experienced a significant increase in the total size of our workforce between these periods as our full-time equivalent employees totaled 706.5 and 505.5 at June 30, 2017 and 2016, respectively. Sources of this increased headcount were primarily employees added through the ColoEast acquisition. In addition, employees were hired to support growth in our commercial finance product lines and other strategic initiatives. Other factors contributing to the increase in salaries and employee benefits include merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expenses.
- Occupancy, Furniture and Equipment. Occupancy, furniture and equipment expenses were $2.3 million for the three months ended June 30, 2017 compared to $1.5 million for the three months ended June 30, 2016. This increase is primarily due to expenses associated with the infrastructure and facilities added through the ColoEast acquisition.
- Communications and Technology. Communications and technology expenses were $2.2 million for the three months ended June 30, 2017, compared to $1.3 million for the three months ended June 30, 2016. The increase is attributed to increased usage and transaction volumes resulting from the ColoEast acquisition, as well as communications and technology expense associated with the recent investments we have made in our communications and technology infrastructure to further our movement toward a single operating platform, which positions us for future acquisitions and greater operating efficiencies.
- Other. Increases experienced in other noninterest expense items in the three months ended June 30, 2017 versus the three months ended June 30, 2016 are generally attributable to the ColoEast acquisition as well as the impact of continued growth of our business and workforce and include increases in training and recruiting, postage, insurance, and subscription expenses.

Six months ended June 30, 2017 compared with six months ended June 30, 2016. Noninterest expense totaled $62.2 million for the six months ended June 30, 2017 compared to $40.4 million of noninterest expense for the six months ended June 30, 2016. Noninterest expense was impacted by the recognition of an incremental $5.1 million of transaction related costs associated with the TCA sale in the six months ended June 30, 2017, including $4.8 million of bonus expense for the amount paid to team members to recognize their contribution to the value realized from the TCA sale and approximately $0.3 million of other transaction related costs. Excluding the TCA sale bonus and transaction related costs, we incurred adjusted noninterest expense of $57.0 million for the six months ended June 30, 2017, resulting in an adjusted net increase in noninterest expense of $16.6 million, or 41.1% period over period.

Details of the more significant changes in the various components of noninterest expense are further discussed below.

- Salaries and Employee Benefits. Salaries and employee benefits expenses have historically been our largest category of noninterest expense. Salaries and employee benefits expenses were $38.0 million for the six months ended June 30, 2017 compared to $24.5 million for the six months ended June 30, 2016. This increase is partly attributable to the $4.8 million bonus expense incurred in the six months ended June 30, 2017 associated with the TCA sale. In

addition, we experienced a significant increase in the total size of our workforce between these periods as our full-time equivalent employees totaled 706.5 and 505.5 at June 30, 2017 and 2016, respectively. Sources of this increased headcount were primarily employees added through the ColoEast acquisition. In addition, employees were hired to support growth in our commercial finance product lines and other strategic initiatives. Other factors contributing to the increase in salaries and employee benefits include merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expenses.

- Occupancy, Furniture and Equipment. Occupancy, furniture and equipment expenses were $4.7 million for the three months ended June 30, 2017 compared to $3.0 million for the three months ended June 30, 2016. This increase is primarily due to expenses associated with the infrastructure and facilities added through the ColoEast acquisition.
- Professional Fees. Professional fees are primarily comprised of external audit, tax, consulting, and legal fees and were $3.2 million for the six months ended June 30, 2017 compared to $2.2 million for the six months ended June 30, 2016. Our external audit, legal, and consulting activities increased period over period consistent with the growth in our business activities.

- Communications and Technology. Communications and technology expenses were $4.4 million for the six months ended June 30, 2017, compared to $2.7 million for the six months ended June 30, 2016. The increase is attributed to increased usage and transaction volumes resulting from the ColoEast acquisition, as well as communications and technology expense associated with the recent investments we have made in our communications and technology infrastructure to further our movement toward a single operating platform, which positions us for future acquisitions and greater operating efficiencies.
- Other. Other noninterest expenses were $6.2 million for the six months ended June 30, 2017, compared to $3.8 million for the six months ended June 30, 2016. Approximately $0.3 million of transaction related costs were incurred in the six months ended June 30, 2017 associated with the TCA sale. The remaining increase in other noninterest expenses are generally attributable to the ColoEast acquisition as well as the impact of continued growth of our business and workforce and include increases in training and recruiting, postage, insurance, and subscription expenses.

Income Taxes

The amount of income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income and the effect of changes in valuation allowances maintained against deferred tax benefits.

Three months ended June 30, 2017 compared with three months ended June 30, 2016. Income tax expense for the three months ended June 30, 2017 was $5.3 million compared to $2.7 million for the three months ended June 30, 2016. The increase in income tax expense period over period is consistent with the increase in pre-tax income in the three months ended June 30, 2017. The effective tax rate for the three months ended June 30, 2017 was 36% compared to 37% for the three months ended June 30, 2016. The decrease in effective tax rate for the three months ended June 30, 2017 was impacted by $0.2 million of excess tax benefits recognized in the three months ended June 30, 2017 associated with the vesting of share-based payment awards. The tax benefits of exercised or vested awards are treated as discreet items in the period in which they occur.

Six months ended June 30, 2017 compared with six months ended June 30, 2016. Income tax expense was $11.4 million for the six months ended June 30, 2017 compared to $5.6 million for the six months ended June 30, 2016. The increase in income tax expense period over period is consistent with the increase in pre-tax income in the six months ended June 30, 2017. The effective tax rate for the six months ended June 30, 2017 was 36% compared to 37% for the six months ended June 30, 2016. The decrease in effective tax rate for the six months ended June 30, 2017 was impacted by $0.2 million of excess tax benefits recognized in the six months ended June 30, 2017 associated with the vesting of share-based payment awards. The tax benefits of exercised or vested awards are treated as discreet items in the period in which they occur.

Operating Segment Results

Our reportable segments are Banking, Factoring, Asset Management, and Corporate which have been determined based upon their business processes and economic characteristics. This determination also gave consideration to the structure and management of various product lines. The Banking segment includes the operations of TBK Bank, including loans originated under our Triumph Commercial Finance, Triumph Healthcare Finance, and Triumph Premium Finance brands. Our Banking segment derives its revenue principally from investments in interest earning assets as well as noninterest income typical for the banking industry. The Banking segment also includes certain factored receivables which are purchased by TBK Bank under its Triumph Commercial Finance brand as opposed to at Triumph Business Capital. The Factoring segment includes the operations of Triumph Business Capital with revenue derived from factoring services. The Asset Management segment included the operations of TCA with revenue derived from fees for managing or providing other services related to collateralized loan obligation funds. On March 31, 2017, we sold our 100% membership interest in TCA. As a result, the Asset Management segment had no operations subsequent to March 31, 2017 and year-to-date results are included herein for reference and reconciliation

purposes only. Corporate includes holding company financing and investment activities and management and administrative expenses to support the overall operations of the Company.

Reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Furthermore, changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. The accounting policies of the segments are substantially similar to those described in the "Summary of Significant Accounting Policies" in Note 1 of the Company's 2016 Form 10-K. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring segment based on the Company's prime rate. The provision for loan loss is allocated based on the segment's ALLL determination. Noninterest income and expense directly attributable to a segment are assigned to it. Taxes are paid on a consolidated basis and are not allocated for segment purposes.

Three months ended June 30, 2017 compared with three months ended June 30, 2016. The following tables present our primary operating results for our operating segments as of and for the three month periods ended June 30, 2017 and 2016, respectively.

(Dollars in thousands) Three Months Ended June 30, 2017	Banking	Factoring	Asset Management	Corporate	Consolidated
Total interest income	$32,733	$10,387	$ —	$418	$43,538
Intersegment interest allocations	1,729	(1,729)	—	—	—
Total interest expense	3,670	—	—	1,311	4,981
Net interest income (expense)	30,792	8,658	—	(893)	38,557
Provision for loan losses	619	812	—	16	1,447
Net interest income after provision	30,173	7,846	—	(909)	37,110
Noninterest income	3,577	758	—	867	5,202
Noninterest expense	21,216	5,482	—	623	27,321
Operating income (loss)	$12,534	$3,122	$ —	$(665)	$14,991

(Dollars in thousands) Three Months Ended June 30, 2016	Banking	Factoring	Asset Management	Corporate	Consolidated
Total interest income	$20,109	$7,939	$33	$273	$28,354
Intersegment interest allocations	1,099	(1,099)	—	—	—
Total interest expense	2,135	—	—	312	2,447
Net interest income (expense)	19,073	6,840	33	(39)	25,907
Provision for loan losses	1,392	555	—	(8)	1,939
Net interest income after provision	17,681	6,285	33	(31)	23,968
Noninterest income	822	496	1,614	736	3,668
Noninterest expense	13,405	4,962	1,213	751	20,331
Operating income (loss)	$5,098	$1,819	$434	$(46)	$7,305

(Dollars in thousands) June 30, 2017	Banking	Factoring	Asset Management	Corporate	Eliminations	Consolidated
Total assets	$2,787,117	$278,533	$ —	$417,017	$(645,983)	$2,836,684
Gross loans	$2,206,914	$268,707	$ —	$12,986	$(193,507)	$2,295,100

(Dollars in thousands) December 31, 2016	Banking	Factoring	Asset Management	Corporate	Eliminations	Consolidated
Total assets	$2,588,509	$223,994	$4,879	$391,745	$(568,060)	$2,641,067
Gross loans	$1,961,552	$212,784	$ —	$1,866	$(148,578)	$2,027,624

Banking

(Dollars in thousands)	Three Months Ended June 30,			
Banking	2017	2016	$ Change	% Change
Total interest income	$32,733	$20,109	$12,624	62.8 %
Intersegment interest allocations	1,729	1,099	630	57.3 %

Total interest expense	3,670	2,135	1,535	71.9	%
Net interest income (expense)	30,792	19,073	11,719	61.4	%
Provision for loan losses	619	1,392	(773)	(55.5	%)
Net interest income (expense) after provision	30,173	17,681	12,492	70.7	%
Noninterest income	3,577	822	2,755	335.2	%
Noninterest expense	21,216	13,405	7,811	58.3	%
Operating income (loss)	$12,534	$5,098	$7,436	145.9	%

Our Banking segment's operating income totaled $12.5 million for the three months ended June 30, 2017 compared to operating income of $5.1 million for the three months ended June 30, 2016. We experienced increases in net interest income and noninterest income, as well as a reduction in the provision for loan losses period over period. These increases were offset in part by an increase in noninterest expenses for the three months ended June 30, 2017.

The increase in net interest income was primarily the result of increases in the balances of our interest earning assets, primarily loans, due to the continued growth of our commercial finance products, including equipment loans, general asset based loans, healthcare asset based loans, and premium finance loans. We also experienced organic growth in our mortgage warehouse facilities and community banking lending products period over period, including commercial real estate and general commercial and industrial loans. In addition, we acquired $461 million of loans and $162 million of investment securities in our Banking segment as part of the ColoEast acquisition. Outstanding loans grew 65% from $1.338 billion as of June 30, 2016 to $2.207 billion as of June 30, 2017.

Our provision for loan losses was $0.6 million for the three months ended June 30, 2017 compared with $1.4 million for the three months ended June 30, 2016. As outstanding loan balances fluctuate period over period, the associated provision for loan losses typically increases or decreases accordingly. In addition, the product types associated with fluctuations within the loan portfolio also contribute to the allowance allocation, as different loan products require different levels of ALLL based upon their credit risk characteristics. Finally, loan loss valuation allowances and charge-offs are recorded on specific at-risk balances, typically consisting of impaired loans. The change in the provision for loan losses was the result of several factors. As part of our reduced provision for loan losses in the three months ended June 30, 2017, we were able to recapture approximately $1.1 million of specific reserves related to two purchased credit impaired loans due to improved cash flow performance expectations and cash paydowns of the outstanding balances. As a result, we recorded a net reduction in specific reserves of $0.6 million during the three months ended June 30, 2017 compared to an increase in specific reserves of $0.8 million recorded during the three months ended June 30, 2016.

Offsetting in part the decreased provision due to the change in specific reserves, we experienced higher net charge-offs of $0.4 million in the Banking segment in the three months ended June 30, 2017 compared to a net recovery of $0.2 million for the same period in 2016. In addition, 2017 charge-off activity contributed to an increase in the estimate of the ALLL levels recorded against the remaining loan portfolio as a result of higher loss factors incorporated into our ALLL methodology for the three months ended June 30, 2017.

In addition, during the three months ended June 30, 2017 outstanding Banking segment loans increased $252.2 million from March 31, 2017. During the three months ended June 30, 2016, outstanding loans increased $161.2 million from March 31, 2016. The larger increase in outstanding loan balances within the three months ended June 30, 2017 resulted in a higher provision for loan losses compared to the three months ended June 30, 2016.

Noninterest income was $3.6 million for the three months ended June 30, 2017 compared to $0.8 million for the three months ended June 30, 2016. Commissions earned by our Triumph Insurance Group subsidiary, which is reported within our Banking segment, increased $0.6 million from $0.1 million for the three months ended June 30, 2016 to $0.7 million for the three months ended June 30, 2017 due to increased volumes due to organic growth of the business and the acquisition of Southern Transportation Insurance Agency, Ltd. in the third quarter of 2016. In addition, we recorded a $1.2 million OREO write-down in the three months ended June 30, 2016 related to a branch facility transferred to OREO that was no longer being actively operated, which reduced noninterest income during that period. The remaining increase was primarily due to additional service charges and card income associated with the increase in customer deposit and credit/debit card accounts acquired in the ColoEast acquisition. In addition, other sources of noninterest income, such as check cashing fees, wire transfer fees, and trust activities increased due to incremental transaction volumes associated with the ColoEast acquisition.

Noninterest expense was $21.2 million for the three months ended June 30, 2017, compared with $13.4 million for the three months ended June 30, 2016. This increase includes incremental costs associated with the growth in our Banking segment personnel and infrastructure in conjunction with our acquisition of ColoEast, as well as personnel, facilities and infrastructure to support the continued growth in our commercial finance asset based lending and equipment lending. In addition, increases due to merit increases for existing employees, higher health insurance

benefit costs, incentive compensation, and 401(k) expenses contributed to the increase.

Factoring

(Dollars in thousands)	Three Months Ended June 30,			
Factoring	2017	2016	$ Change	% Change
Total interest income	$10,387	$7,939	$2,448	30.8 %
Intersegment interest allocations	(1,729)	(1,099)	(630)	57.3 %
Total interest expense	—	—	—	—
Net interest income (expense)	8,658	6,840	1,818	26.6 %
Provision for loan losses	812	555	257	46.3 %
Net interest income (expense) after provision	7,846	6,285	1,561	24.8 %
Noninterest income	758	496	262	52.8 %
Noninterest expense	5,482	4,962	520	10.5 %
Operating income (loss)	$3,122	$1,819	$1,303	71.6 %

Our Factoring segment's operating income for the three months ended June 30, 2017 was $3.1 million, compared with $1.8 million for the three months ended June 30, 2016. We experienced increases in net interest income and noninterest income period over period. These increases were offset in part by an increase in the provision for loan losses and noninterest expenses for the three months ended June 30, 2017.

Factored receivables in our Factoring segment grew 30% from $206.3 million as of June 30, 2016 to $268.7 million as of June 30, 2017. Our average number of clients increased from 2,191 for the three months ended June 30, 2016 to 2,637 for the three months ended June 30, 2017 and the corresponding factored accounts receivable purchases increased from $434.2 million during the three months ended June 30, 2016 to $639.1 million during the three months ended June 30, 2017. Our average invoice size increased 14% from $1,259 for the three months ended June 30, 2016 to $1,433 for the three months ended June 30, 2017, and the number of invoices purchased increased 29% period over period.

Net interest income was $8.7 million for the three months ended June 30, 2017 compared to $6.8 million for the three months ended June 30, 2016. Net interest income increased due to a 34% increase in overall average net funds employed from $163.6 million for the three months ended June 30, 2016 to $219.7 million for the three months ended June 30, 2017. This increase in net interest income is offset in part by pricing pressure on factored receivable balances in the current period due to increased competition and market conditions, resulting in slightly lower yields on net funds employed at our Factoring segment. In addition, a change in the mix within our factored receivables portfolio period over period contributed to the partially offsetting decrease, as our transportation factoring balances, which generate a higher yield than our non-transportation factoring balances, decreased as a percentage of the overall Factoring segment portfolio to 83% at June 30, 2017 compared to 89% at June 30, 2016 as we continued to expand our non-transportation factoring product lines throughout 2016 and into 2017.

Our provision for loan losses was $0.8 million for the three months ended June 30, 2017 compared with $0.6 million for the three months ended June 30, 2016. The provision for loan losses on factored receivables is primarily driven by the allowance allocation for incurred losses recorded on collectively evaluated factored receivables purchased and outstanding for a period. As factored receivables purchased fluctuate period over period, the associated provision for loan losses typically increases or decreases accordingly. In addition, loan loss valuation allowances are recorded on specific at-risk balances, typically consisting of invoices greater than 90 days past due with negative cash reserves. During the three months ended June 30, 2017 factored receivables increased approximately $50 million from March 31, 2017. During the three months ended June 30, 2016, factored receivables increased approximately $41 million from March 31, 2016. The larger increase in factored receivable balances within the three month period ended June 30, 2017 resulted in a higher provision for loan losses compared to the three months ended June 30, 2016.

Noninterest income was $0.8 million for the three months ended June 30, 2017 compared to $0.5 million for the three months ended June 30, 2016. The increase in noninterest income is consistent with the increase in factored receivable purchase volume period over period.

Noninterest expense was $5.5 million for the three months ended June 30, 2017 compared with $5.0 million for the three months ended June 30, 2016, driven primarily by increased personnel, operating, and technology costs incurred in connection with growth in our factoring portfolio, particularly the increase in the number of clients and number of invoices processed period over period.

Corporate

(Dollars in thousands)	Three Months Ended June 30,	
Corporate	2017	2016

			$ Change	% Change
Total interest income	$418	$273	$ 145	53.1 %
Intersegment interest allocations	—	—	—	—
Total interest expense	1,311	312	999	320.2 %
Net interest income (expense)	(893)	(39)	(854)	2189.7 %
Provision for loan losses	16	(8)	24	300.0 %
Net interest income (expense) after provision	(909)	(31)	(878)	2832.3 %
Noninterest income	867	736	131	17.8 %
Noninterest expense	623	751	(128)	(17.0 %)
Operating income (loss)	$(665)	$(46)	$ (619)	1345.7 %

The Corporate segment’s operating loss totaled $0.7 million for the three months ended June 30, 2017, compared with an operating loss of $0.05 million for the three months ended June 30, 2016. The increase in the operating loss for the three months ended June 30, 2017 is primarily due to an increase in interest expense resulting from our subordinated notes offering in the third quarter of 2016.

Six months ended June 30, 2017 compared with six months ended June 30, 2016. The following tables present our primary operating results for our operating segments as of and for the six months ended June 30, 2017 and 2016, respectively.

(Dollars in thousands) Six Months Ended June 30, 2017	Banking	Factoring	Asset Management	Corporate	Consolidated
Total interest income	$60,232	$19,092	$ 3	$ 543	$ 79,870
Intersegment interest allocations	3,018	(3,018)	—	—	—
Total interest expense	6,882	—	—	2,612	9,494
Net interest income (expense)	56,368	16,074	3	(2,069)	70,376
Provision for loan losses	7,640	1,393	—	92	9,125
Net interest income after provision	48,728	14,681	3	(2,161)	61,251
Gain on sale of subsidiary	—	—	—	20,860	20,860
Other noninterest income	7,107	1,428	1,717	1,375	11,627
Noninterest expense	43,187	11,077	1,456	6,438	62,158
Operating income (loss)	$12,648	$5,032	$ 264	$ 13,636	$ 31,580

(Dollars in thousands) Six Months Ended June 30, 2016	Banking	Factoring	Asset Management	Corporate	Consolidated
Total interest income	$37,535	$15,124	$ 64	$ 524	$ 53,247
Intersegment interest allocations	2,100	(2,100)	—	—	—
Total interest expense	4,237	—	—	614	4,851
Net interest income (expense)	35,398	13,024	64	(90)	48,396
Provision for loan losses	1,267	85	—	76	1,428
Net interest income after provision	34,131	12,939	64	(166)	46,968
Noninterest income	2,836	942	3,285	1,586	8,649
Noninterest expense	26,987	9,535	2,559	1,328	40,409
Operating income (loss)	$9,980	$4,346	$ 790	$ 92	$ 15,208

(Dollars in thousands) June 30, 2017	Banking	Factoring	Asset Management	Corporate	Eliminations	Consolidated
Total assets	$2,787,117	$278,533	$ —	$417,017	$ (645,983)	$2,836,684
Gross loans	$2,206,914	$268,707	$ —	$12,986	$ (193,507)	$2,295,100

(Dollars in thousands) December 31, 2016	Banking	Factoring	Asset Management	Corporate	Eliminations	Consolidated
Total assets	$2,588,509	$223,994	$ 4,879	$391,745	$ (568,060)	$2,641,067
Gross loans	$1,961,552	$212,784	$ —	$1,866	$ (148,578)	$2,027,624

Banking

(Dollars in thousands)	Six Months Ended June 30,			
Banking	2017	2016	$ Change	% Change
Total interest income	$60,232	$37,535	$22,697	60.5 %
Intersegment interest allocations	3,018	2,100	918	43.7 %
Total interest expense	6,882	4,237	2,645	62.4 %
Net interest income (expense)	56,368	35,398	20,970	59.2 %

Provision for loan losses	7,640	1,267	6,373	503.0	%
Net interest income (expense) after provision	48,728	34,131	14,597	42.8	%
Gain on sale of subsidiary	—	—	—	—	
Other noninterest income	7,107	2,836	4,271	150.6	%
Noninterest expense	43,187	26,987	16,200	60.0	%
Operating income (loss)	$12,648	$9,980	$2,668	26.7	%

Our Banking segment's operating income totaled $12.6 million for the six months ended June 30, 2017 compared to operating income of $10.0 million for the six months ended June 30, 2016. We experienced an increase in net interest income and noninterest income for the six months ended June 30, 2017. This increase in operating income was partially offset by an increase in the provision for loan losses and an increase in noninterest expense period over period.

The increase in net interest income was primarily the result of increases in the balances of our interest earning assets, primarily loans, due to the continued growth of our commercial finance products, including equipment loans, general asset based loans, healthcare asset based loans, and premium finance loans. We also experienced organic growth in our mortgage warehouse facilities and community banking lending products period over period, including commercial real estate and general commercial and industrial loans. In addition, we acquired $461 million of loans and $162 million of investment securities in our Banking segment as part of the ColoEast acquisition. Outstanding loans in our Banking segment grew 65% from $1.338 billion as of June 30, 2016 to $2.207 billion as of June 30, 2017.

Our provision for loan losses was $7.6 million for the six months ended June 30, 2017 compared with $1.3 million for the six months ended June 30, 2016. As outstanding loan balances fluctuate period over period, the associated provision for loan losses typically increases or decreases accordingly. In addition, the product types associated with fluctuations within the loan portfolio also contribute to the allowance allocation, as different loan products require different levels of ALLL based upon their credit risk characteristics. Finally, loan loss valuation allowances and charge-offs are recorded on specific at-risk balances, typically consisting of impaired loans. The increased provision for loan losses was primarily the result of an increase in loan charge-offs recorded during the six months ended June 30, 2017. We experienced higher total net charge-offs of $3.8 million in our Banking segment in the six months ended June 30, 2017 compared to a net recovery of $0.2 million for the same period in 2016. Approximately $1.4 million of the charge-offs for the six months ended June 30, 2017 had specific reserves previously recorded. In addition, this charge-off activity contributed to an increase in the estimate of the ALLL levels recorded against the remaining loan portfolio as a result of higher loss factors incorporated into our ALLL methodology for the six months ended June 30, 2017. Approximately $3.1 million of the charge-offs recorded during the six months ended June 30, 2017 were associated with two individual loan relationships. One of the loan relationships was part of our healthcare finance unit and one was acquired in the ColoEast acquisition.

In addition, during the six months ended June 30, 2017 outstanding loans in our Banking segment increased $245.4 million from December 31, 2016. During the six months ended June 30, 2016, outstanding loans in our Banking segment increased $115.3 million from December 31, 2015. The larger increase in outstanding balances within the six months ended June 30, 2017 contributed to a higher provision for loan losses compared to the six months ended June 30, 2016.

Noninterest income was $7.1 million for the six months ended June 30, 2017 compared to $2.8 million for the six months ended June 30, 2016. Commissions earned by our Triumph Insurance Group subsidiary, which is reported within our Banking segment, increased $1.1 million from $0.2 million for the six months ended June 30, 2016 to $1.3 million for the six months ended June 30, 2017 due to increased volumes due to organic growth of the business and the acquisition of Southern Transportation Insurance Agency, Ltd. in the third quarter of 2016. In addition, we recorded a $1.2 million OREO write-down in the six months ended June 30, 2016 related to a branch facility transferred to OREO that was no longer being actively operated, which reduced noninterest income during that period. The remaining increase was primarily due to additional service charges and card income associated with the increase in customer deposit and credit/debit card accounts acquired in the ColoEast acquisition. In addition, other sources of noninterest income, such as check cashing fees, wire transfer fees, and trust activities increased due to incremental transaction volumes associated with the ColoEast acquisition.

Noninterest expense was $43.2 million for the six months ended June 30, 2017, compared with $27.0 million for the six months ended June 30, 2016. This increase includes incremental costs associated with the growth in our Banking segment personnel and infrastructure in conjunction with our acquisition of ColoEast, as well as personnel, facilities and infrastructure to support the continued growth in our commercial finance asset based lending and equipment lending. In addition, increases due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expenses contributed to the increase.

Factoring

(Dollars in thousands)	Six Months Ended June 30,			
Factoring	2017	2016	$ Change	% Change
Total interest income	$19,092	$15,124	$3,968	26.2 %
Intersegment interest allocations	(3,018)	(2,100)	(918)	43.7 %
Total interest expense	—	—	—	—
Net interest income (expense)	16,074	13,024	3,050	23.4 %
Provision for loan losses	1,393	85	1,308	1538.8 %
Net interest income (expense) after provision	14,681	12,939	1,742	13.5 %
Gain on sale of subsidiary	—	—	—	—
Other noninterest income	1,428	942	486	51.6 %
Noninterest expense	11,077	9,535	1,542	16.2 %
Operating income (loss)	$5,032	$4,346	$686	15.8 %

Our Factoring segment's operating income for the six months ended June 30, 2017 was $5.0 million, compared with $4.3 million for the six months ended June 30, 2016. We experienced increases in net interest income and noninterest income period over period. These increases were offset in part by an increase in the provision for loan losses and noninterest expenses for the six months ended June 30, 2017.

Factored receivables in our Factoring segment grew 30% from $206.3 million as of June 30, 2016 to $268.7 million as of June 30, 2017. Our average number of clients increased from 2,161 for the six months ended June 30, 2016 to 2,558 for the six months ended June 30, 2017 and the corresponding factored accounts receivable purchases increased from $815.8 million during the six months ended June 30, 2016 to $1.161 billion during the six months ended June 30, 2017. Our average invoice size increased 11% from $1,277 for the six months ended June 30, 2016 to $1,411 for the six months ended June 30, 2017, and the number of invoices purchased increased 29% period over period.

Net interest income was $16.1 million for the six months ended June 30, 2017 compared to $13.0 million for the six months ended June 30, 2016. Net interest income increased due to a 31% increase in overall average net funds employed from $155.0 million for the six months ended June 30, 2016 to $202.2 million for the six months ended June 30, 2017. This increase in net interest income is offset in part by pricing pressure on factored receivable balances in the current period due to increased competition and market conditions, resulting in slightly lower yields on net funds employed at our Factoring segment. In addition, a change in the mix within our factored receivables portfolio period over period contributed to the partially offsetting decrease, as our transportation factoring balances, which generate a higher yield than our non-transportation factoring balances, decreased as a percentage of the overall Factoring segment portfolio to 83% at June 30, 2017 compared to 89% at June 30, 2016 as we continued to expand our non-transportation factoring product lines throughout 2016 and into 2017.

Our provision for loan losses was $1.4 million for the six months ended June 30, 2017 compared with $0.1 million for the six months ended June 30, 2016. The provision for loan losses on factored receivables is primarily driven by the allowance allocation for incurred losses recorded on collectively evaluated factored receivables purchased and outstanding for a period. As factored receivables purchased fluctuate period over period, the associated provision for loan losses typically increases or decreases accordingly. In addition, loan loss valuation allowances are recorded on specific at-risk balances, typically consisting of invoices greater than 90 days past due with negative cash reserves. During the six months ended June 30, 2017 factored receivables at our Factoring segment increased approximately $56 million from December 31, 2016. During the six months ended June 30, 2016, factored receivables at our Factoring segment increased approximately $20 million from December 31, 2015. The higher increase in factored receivable balances within the six months ended June 30, 2017 contributed to a higher provision

for loan losses compared to the six months ended June 30, 2016. In addition, the higher provision in the six months ended June 30, 2017 compared to the six months ended June 30, 2016 was due to additional specific reserves required on at-risk balances recorded during the six months ended June 30, 2017 compared to decreases in such specific reserves recorded during the six months ended June 30, 2016.

Noninterest income was $1.4 million for the six months ended June 30, 2017 compared to $0.9 million for the six months ended June 30, 2016. The increase in noninterest income is consistent with the increase in factored receivable purchase volume period over period.

Noninterest expense was $11.1 million for the six months ended June 30, 2017 compared with $9.5 million for the six months ended June 30, 2016, driven primarily by increased personnel, operating, and technology costs incurred in connection with growth in our factoring portfolio, particularly the increase in the number of clients and number of invoices processed period over period.

Corporate

(Dollars in thousands)	Six Months Ended June 30,			
			$	%
Corporate	2017	2016	Change	Change
Total interest income	$543	$524	$19	3.6 %
Intersegment interest allocations	—	—	—	—
Total interest expense	2,612	614	1,998	325.4 %
Net interest income (expense)	(2,069)	(90)	(1,979)	2198.9 %
Provision for loan losses	92	76	16	21.1 %
Net interest income (expense) after provision	(2,161)	(166)	(1,995)	1201.8 %
Gain on sale of subsidiary	20,860	—	20,860	100.0 %
Other noninterest income	1,375	1,586	(211)	(13.3 %)
Noninterest expense	6,438	1,328	5,110	384.8 %
Operating income (loss)	$13,636	$92	$13,544	14721.7 %

The Corporate segment's operating income totaled $13.6 million for the six months ended June 30, 2017, compared with operating income of $0.1 million for the six months ended June 30, 2016. The increase in the operating income is primarily due to the net impact of the TCA sale transaction recorded during the six months ended June 30, 2017. As TCA was a wholly owned subsidiary of our parent company, the $20.9 million gain on sale of TCA was reported as noninterest income and the $5.1 million of bonus expense and transaction related costs associated with the TCA sale were reported as noninterest expense in the Corporate segment. Excluding the impact of the TCA sale, the Corporate segment reported an operating loss of $2.2 million for the six months ended June 30, 2017, primarily due to an increase in interest expense resulting from our subordinated notes offering in the third quarter of 2016.

Financial Condition

Assets

Total assets were $2.837 billion at June 30, 2017, compared to $2.641 billion at December 31, 2016, an increase of $196 million, the components of which are discussed below.

Loan Portfolio

Loans held for investment were $2.295 billion at June 30, 2017, compared with $2.028 billion at December 31, 2016.

We offer a broad range of lending and credit products. Within our TBK Bank subsidiary, we offer a full range of lending products, including commercial real estate, construction and development, residential real estate, production agriculture, general commercial, mortgage warehouse facilities, farmland and consumer loans, focused on our community banking markets in Iowa, Illinois, Colorado, and Kansas. We also originate a variety of commercial finance products offered on a nationwide basis. These products include our factored receivables, the asset based loans and equipment loans originated under our Triumph Commercial Finance brand, the healthcare asset based loans originated under our Triumph Healthcare Finance brand, and the premium finance loans originated under our Triumph Premium Finance brand.

The following table shows our total loan portfolio by portfolio segments as of June 30, 2017 and December 31, 2016:

June 30, 2017

(Dollars in thousands)		% of Total		December 31, 2016	% of Total	
Commercial real estate	$541,217	24	%	$442,237	22	%
Construction, land development, land	120,253	5	%	109,812	5	%
1-4 family residential properties	101,833	4	%	104,974	5	%
Farmland	136,258	6	%	141,615	7	%
Commercial	842,715	37	%	778,643	39	%
Factored receivables	293,633	13	%	238,198	12	%
Consumer	29,497	1	%	29,764	1	%
Mortgage warehouse	229,694	10	%	182,381	9	%
Total Loans	$2,295,100	100	%	$2,027,624	100	%

Commercial Real Estate Loans. Our commercial real estate loans were $541.2 million at June 30, 2017, an increase of $99.0 million from $442.2 million at December 31, 2016, due primarily to new loan origination activity during the six months ended June 30, 2017. We have recently allocated internal resources to focus on and source additional commercial real estate opportunities on a nationwide basis.

Construction and Development Loans. Our construction and development loans were $120.3 million at June 30, 2017, an increase of $10.5 million from $109.8 million at December 31, 2016, due to new loan activity for the period.

Residential Real Estate Loans. Our one-to-four family residential loans were $101.8 million at June 30, 2017, a decrease of $3.2 million from $105.0 million at December 31, 2016, due primarily to paydowns in excess of new loan activity for the period. As previously discussed, we made the decision to exit the residential mortgage production business in the fourth quarter of 2015. As a result, we expect our residential real estate loan balances to continue to decline as existing loans payoff. The decrease was offset in part by an increase in home equity lines of credit originated during the period and reported in this loan classification.

Farmland Loans. Our farmland loans were $136.3 million at June 30, 2017, a decrease of $5.3 compared to $141.6 million at December 31, 2016, due to paydowns in excess of new loan origination activity during the six months ended June 30, 2017.

Commercial Loans. Our commercial loans held for investment were $842.7 million at June 30, 2017 an increase of $64.1 million from $778.6 million at December 31, 2016. The increase in commercial loans was driven by growth in the asset based and equipment finance loans originated under our Triumph Commercial Finance brand as we continue to execute on our growth strategy for such products. In addition, premium finance loans originated under our Triumph Premium Finance brand continued to grow during the period. Our other commercial lending products, comprised primarily of general commercial loans originated in our community banking markets, increased from $215.0 million at December 31, 2016 to $237.9 million at June 30, 2017 as a result of new originations in our community banking markets in excess of paydowns as we continue to focus on lending activities to support businesses within our local communities. This increase also included the $10.5 million seller financed loan receivable associated with the TCA sale on March 31, 2017.

The following table shows our commercial loans as of June 30, 2017 and December 31, 2016:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Commercial		
Equipment	$219,904	$190,393
Asset based lending (general)	188,257	161,454
Asset based lending (healthcare)	68,606	79,668
Premium finance	31,274	23,971
Agriculture	96,802	108,197
Other commercial lending	237,872	214,960
Total commercial loans	$842,715	$778,643

Factored Receivables. Our factored receivables were $293.6 million at June 30, 2017, an increase of $55.4 million from $238.2 million at December 31, 2016 as we continue to execute on our growth strategy for this product at Triumph Business Capital, our factoring subsidiary, as well as through growth in factored receivables purchased under our Triumph Commercial Finance brand. Purchase volume at Triumph Business Capital was $1.161 billion during the six months ended June 30, 2017 and Triumph Commercial Finance recorded purchase volume of $94 million for the six months ended June 30, 2017.

Consumer Loans. Our consumer loans were $29.5 million at June 30, 2017, a decrease of $0.3 compared to $29.8 million at December 31, 2016, due to paydowns in excess of new loan origination activity during the six months ended June 30, 2017.

Mortgage Warehouse. Our mortgage warehouse facilities maintained outstanding balances of $229.7 million at June 30, 2017, an increase of $47.3 million from $182.4 million at December 31, 2016. The increase was due to in part to new clients added during the period. In addition, higher utilization of our existing clients' mortgage warehouse facilities contributed to the increase. Client utilization of mortgage warehouse facilities may experience significant fluctuation on a day-to-day basis given mortgage origination market conditions.

The following tables set forth the contractual maturities, including scheduled principal repayments, of our loan portfolio and the distribution between fixed and floating interest rate loans as of June 30, 2017.

	June 30, 2017			
(Dollars in thousands)	One Year or Less	After One but within Five Years	After Five Years	Total
Commercial real estate	$70,138	$323,470	$147,609	$541,217
Construction, land development, land	39,855	59,453	20,945	120,253
1-4 family residential properties	8,028	34,542	59,263	101,833
Farmland	16,844	27,955	91,459	136,258
Commercial	331,761	462,024	48,930	842,715
Factored receivables	293,633	—	—	293,633
Consumer	2,549	10,421	16,527	29,497
Mortgage warehouse	229,694	—	—	229,694
	$992,502	$917,865	$384,733	$2,295,100
Sensitivity of loans to changes in interest rates:				
Predetermined (fixed) interest rates		$722,314	$138,420	
Floating interest rates		195,551	246,313	
Total		$917,865	$384,733	

As of June 30, 2017, most of the Company's non-factoring business activity is with customers located within certain states. The states of Texas (26%), Illinois (20%), Colorado (19%), and Iowa (7%) make up 72% of the Company's gross loans, excluding factored receivables. Therefore, the Company's exposure to credit risk is affected by changes in the economies in these states. At December 31, 2016, the states of Texas (23%), Colorado (22%), Illinois (21%) and Iowa (7%) made up 73% of the Company's gross loans, excluding factored receivables.

Further, a majority (77%) of our factored receivables, representing approximately 10% of our total loan portfolio as of June 30, 2017, are receivables purchased from trucking fleets, owner-operators, and freight brokers in the transportation industry. Although such concentration may cause our future interest income with respect to our factoring operations to be correlated with demand for the transportation industry in the United States generally, and small-to-mid-sized operators in such industry specifically, we feel that the credit risk with respect to our outstanding portfolio is appropriately mitigated as we limit the amount of receivables acquired from individual debtors and creditors thereby achieving diversification across a number of companies and industries. At December 31, 2016, 77% of our factored receivables, representing approximately 9% of our total loan portfolio, were receivables purchased from trucking fleets, owner-operators, and freight brokers in the transportation industry.

Nonperforming Assets

We have established procedures to assist us in maintaining the overall quality of our loan portfolio. In addition, we have adopted underwriting guidelines to be followed by our lending officers and require significant senior management review of proposed extensions of credit exceeding certain thresholds. When delinquencies exist, we rigorously monitor them for any negative or adverse trends. Our loan review procedures include approval of lending policies and underwriting guidelines by the Board of Directors of our bank subsidiary, independent loan review, approval of large credit relationships by our bank subsidiary's Management Loan Committee and loan quality documentation procedures. We, like other financial institutions, are subject to the risk that our loan portfolio will be subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

The following table sets forth the allocation of our nonperforming assets among our different asset categories as of the dates indicated. We classify nonperforming assets as nonaccrual loans, loans modified under restructurings as a result of the borrower experiencing financial difficulties ("TDR"), factored receivables greater than 90 days past due, OREO, and other repossessed assets. The balances of nonperforming loans reflect the recorded investment in these assets, including deductions for purchase discounts.

(Dollars in thousands)	June 30, 2017		December 31, 2016	
Nonperforming loans:				
Commercial real estate	$862		$ 1,456	
Construction, land development, land	134		362	
1-4 family residential properties	1,708		1,039	
Farmland	3,480		1,334	
Commercial	20,616		30,640	
Factored receivables	1,844		2,153	
Consumer	110		89	
Mortgage warehouse	—		—	
Purchased credit impaired	2,392		8,233	
Total nonperforming loans	31,146		45,306	
Other real estate owned, net	10,740		6,077	
Other repossessed assets	654		817	
Total nonperforming assets	$42,540		$ 52,200	
Nonperforming assets to total assets	1.50	%	1.98	%
Nonperforming loans to total loans held for investment	1.36	%	2.23	%
Total past due loans to total loans held for investment	2.51	%	3.61	%

We had $31.1 million and $45.3 million in nonperforming loans, including nonaccrual PCI loans, as of June 30, 2017 and December 31, 2016, respectively. This represents a decrease of $14.2 million, or 31%. Nonperforming loans decreased from December 31, 2016 to June 30, 2017, primarily due to the paydown and/or payoff of certain nonperforming loans, the charge-off of a $2.7 million nonperforming commercial finance loan that was part of our healthcare finance unit, and the foreclosure and transfer of a $7.1 million nonperforming asset based lending relationship. Of the $7.1 million foreclosed asset based loan balance, $5.6 million was collateralized by real estate that was transferred to OREO and the remaining $1.5 million was collateralized by equipment that was transferred to other repossessed assets and subsequently sold.

As a result of the above activity, combined with the organic growth of our loan portfolio during the period, the ratio of nonperforming loans to total loans decreased to 1.36% at June 30, 2017 compared to 2.23% at December 31, 2016, and, offset in part with the increase in our OREO balances, our ratio of nonperforming assets to total assets decreased to 1.50% at June 30, 2017 compared to 1.98% at December 31, 2016.

We experienced a decrease in our total past due loans to total loans during the six months ended June 30, 2017 to 2.51% from 3.61% at December 31, 2016. This decrease was partially due to the decline in the nonperforming loans described above as well as other payment performance improvements. In addition, our organic loan growth during the period contributed to the decrease in the past due ratio.

Our OREO as of June 30, 2017 totaled $10.7 million, an increase of $4.6 million from $6.1 million as of December 31, 2016. Other repossessed assets as of June 30, 2017 totaled $0.7 million, a decrease of $0.1 million from $0.8 million as of December 31, 2016. These changes were primarily due to OREO with a fair value of $5.6 million and equipment with a fair value of $1.5 million acquired via the $7.1 million asset based loan foreclosure described above. The majority of the $1.5 million of equipment initially acquired was subsequently sold at auction.

Potential problem loans consist of loans that are performing in accordance with contractual terms but for which management has concerns about the ability of an obligor to continue to comply with repayment terms because of the obligor's potential operating or financial difficulties. Management monitors these loans and reviews their performance on a regular basis. Potential problem loans contain potential weaknesses that could improve, persist or further deteriorate. At June 30, 2017 and December 31, 2016, we had $24.8 million and $20.1 million in loans of this type which are not included in any of the nonperforming loan categories. All of the loans identified as potential problem loans at June 30, 2017 and December 31, 2016 were graded as "substandard".

Allowance for Loan and Lease Losses

ALLL is a valuation allowance for probable incurred credit losses. Loan losses are charged against the ALLL when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL. Management estimates the ALLL balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the ALLL may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The following table sets forth the ALLL by category of loan:

	June 30, 2017			December 31, 2016		
(Dollars in thousands)	Allocated Allowance	% of Loan Portfolio	ALLL to Loans	Allocated Allowance	% of Loan Portfolio	ALLL to Loans
Commercial real estate	$2,506	24 %	0.46 %	$1,813	22 %	0.41 %
Construction, land development, land	915	5 %	0.76 %	465	5 %	0.42 %
1-4 family residential properties	149	4 %	0.15 %	253	5 %	0.24 %
Farmland	261	6 %	0.19 %	170	7 %	0.12 %
Commercial	10,603	37 %	1.26 %	8,014	39 %	1.03 %
Factored receivables	4,507	13 %	1.53 %	4,088	12 %	1.72 %
Consumer	627	1 %	2.13 %	420	1 %	1.41 %
Mortgage warehouse	229	10 %	0.10 %	182	9 %	0.10 %
Total Loans	$19,797	100 %	0.86 %	$15,405	100 %	0.76 %

From December 31, 2016 to June 30, 2017, the ALLL increased from $15.4 million or 0.76% of total loans to $19.8 million or 0.86% of total loans. The increase in ALLL was primarily driven by the $4.7 million of net charge-offs recorded during the six months ended June 30, 2017 which increased the reserve levels recorded against the remaining loan portfolio as a result of higher loss and credit risk factors incorporated into our ALLL methodology during the six months ended June 30, 2017. This contributed approximately $2.2 million to the increase in ALLL during the period. In addition, approximately $1.9 million of general ALLL was added during the six months ended June 30, 2017 to as a result of organic loan growth. Our outstanding loans increased $267.5 million from December 31, 2016. The increase in outstanding loan balances within the six months ended June 30, 2017 resulted in a higher ALLL requirement.

The following table presents the unpaid principal and recorded investment for loans at June 30, 2017. The difference between the unpaid principal balance and recorded investment is principally associated with (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI) of which approximately $10.2 million is expected to be accretable into income over the remaining lives of the acquired loans and (2) net deferred origination costs and fees. The net difference can provide protection from credit loss in addition to the ALLL as future potential charge-offs for an individual loan is limited to the recorded investment plus unpaid accrued interest.

(Dollars in thousands) June 30, 2017	Recorded Investment	Unpaid Principal	Difference
Commercial real estate	$541,217	$546,617	$(5,400)
Construction, land development, land	120,253	122,119	(1,866)
1-4 family residential properties	101,833	103,366	(1,533)
Farmland	136,258	137,307	(1,049)
Commercial	842,715	846,091	(3,376)
Factored receivables	293,633	295,246	(1,613)
Consumer	29,497	29,512	(15)
Mortgage warehouse	229,694	229,694	—
	$2,295,100	$2,309,952	$(14,852)

At June 30, 2017 and December 31, 2016, we had on deposit $27.8 million and $23.6 million, respectively, of customer reserves associated with factored receivables. These deposits represent customer reserves held to settle any payment disputes or collection shortfalls, may be used to pay customers' obligations to various third parties as directed by the customer, are periodically released to or withdrawn by customers, and are reported as deposits on our consolidated balance sheets.

The following table provides an analysis of the provisions for loan losses, net charge-offs and recoveries for the three and six months ended June 30, 2017 and 2016, and the effects of those items on our ALLL:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Balance at beginning of period	$19,093	$12,093	$15,405	$12,567
Loans charged-off:				
Commercial real estate	—	(1)	(137)	(1)
Construction, land development, land	(163)	—	(582)	—
1-4 family residential properties	—	(47)	(28)	(63)
Farmland	—	—	—	—
Commercial	(226)	(169)	(3,078)	(169)
Factored receivables	(386)	(450)	(966)	(458)
Consumer	(308)	(112)	(607)	(155)
Mortgage warehouse	—	—	—	—
Total loans charged-off	$(1,083)	$(779)	$(5,398)	$(846)
Recoveries of loans charged-off:				
Commercial real estate	—	13	—	14
Construction, land development, land	—	—	7	—
1-4 family residential properties	14	71	19	76
Farmland	—	—	—	—
Commercial	156	401	378	431
Factored receivables	15	20	52	69
Consumer	155	14	209	33
Mortgage warehouse	—	—	—	—
Total loans recoveries	$340	$519	$665	$623
Net loans charged-off	$(743)	$(260)	$(4,733)	$(223)
Provision for (reversal of) loan losses:				
Commercial real estate	263	161	830	290
Construction, land development, land	512	(17)	1,025	(186)
1-4 family residential properties	(25)	(50)	(95)	(28)
Farmland	47	10	91	9
Commercial	(504)	1,134	5,289	1,159
Factored receivables	814	524	1,333	84
Consumer	233	169	605	199
Mortgage warehouse	107	8	47	(99)
Total provision for loan losses	$1,447	$1,939	$9,125	$1,428
Balance at end of period	$19,797	$13,772	$19,797	$13,772
Average total loans held for investment	$2,135,346	$1,286,065	$2,041,934	$1,255,977
Net charge-offs to average total loans held for investment	0.03%	0.02%	0.23%	0.02%
Allowance to total loans held for investment	0.86%	0.98%	0.86%	0.98%

Net loans charged off for the three and six months ended June 30, 2017 were $0.7 million and $4.7 million, respectively, compared to net loans charged off of $0.3 million and $0.2 million, respectively, for the three and six

months ended June 30, 2016. The commercial loan charge-off activity during the three and six months ended June 30, 2017 was primarily due to the $2.7 million charge-off of the individual healthcare finance client relationship previously discussed. Net charge-offs as a percentage of average total loans held for investment were 0.03% and 0.23% for the three and six months ended June 30, 2017, respectively.

Securities

We held securities classified as available for sale with a fair value of $227.2 million as of June 30, 2017, a decrease of $47.8 million from $275.0 million at December 31, 2016. The decrease is attributable to normal portfolio management activities. There were no sales of securities during the six months ended June 30, 2017. Our available for sale securities can be used for pledging to secure FHLB borrowings and public deposits, or can be sold to meet liquidity needs.

Equity securities classified as available for sale at June 30, 2017 represent investments in a publicly traded Community Reinvestment Act mutual fund and are subject to market pricing volatility.

As of June 30, 2017, we have investments classified as held to maturity with an amortized cost of $26.0 million, a decrease of $3.4 million from $29.4 million at December 31, 2016 due to the call of certain securities during the period. Approximately $17.5 million of these securities represent investments in "A" rated floating rate CLO securities. The remaining $8.5 million of held to maturity securities represent a minority investment in the unrated subordinated notes of recently issued CLOs managed by Trinitas Capital Management. Our former subsidiary, TCA, provides certain middle and back office services to Trinitas Capital Management with respect to the CLOs, but does not serve as asset manager.

The following tables set forth the amortized cost and average yield of our securities, by type and contractual maturity as of June 30, 2017:

	Maturity as of June 30, 2017									
	One Year or Less		After One but within Five Years		After Five but within Ten Years		After Ten Years		Total	
(Dollars in thousands)	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield
U.S. Government agency obligations	$36,204	0.98 %	$97,500	1.62 %	$—	—	$—	—	$133,704	1.45 %
U.S. Treasury notes	—	—	4,830	1.98 %	—	—	—	—	4,830	1.98 %
Mortgage-backed securities	1	6.09 %	561	3.17 %	2,273	1.77 %	19,398	2.07 %	22,233	2.07 %
Asset backed securities	—	—	4,959	2.06 %	—	—	7,930	2.40 %	12,889	2.27 %
State and municipal	310	2.72 %	3,146	1.35 %	6,859	1.24 %	15,046	1.50 %	25,361	1.43 %
Corporate bonds	19,968	1.89 %	5,550	2.44 %	—	—	275	5.15 %	25,793	2.04 %
SBA pooled securities	—	—	4	3.13 %	140	3.40 %	—	—	144	3.39 %
Mutual fund[(1)]	2,000	—	—	—	—	—	—	—	2,000	—
Total available for sale securities	$58,483	1.31 %	$116,550	1.70 %	$9,272	1.41 %	$42,649	1.96 %	$226,954	1.64 %

Held to maturity securities:	$—	—	$—	—	$12,875	5.19 %	$13,161	9.61 %	$26,036	7.47 %

[(1)] These equity securities do not have a stated maturity.

Liabilities

Our total liabilities were $2.526 billion as of June 30, 2017, an increase of $174 million, from $2.352 billion at December 31, 2016. The net change was primarily due to a $56 million increase in customer deposits, a $5 million increase in customer repurchase agreements, a $110 million increase in Federal Home Loan Bank advances, and a $4 million increase in other liabilities.

Deposits

Deposits represent our primary source of funds. We intend to continue to focus on growth in transactional deposit accounts as part of our growth strategy, both in our existing branch networks and through targeted acquisitions.

Our total deposits were $2.072 billion as of June 30, 2017, compared to $2.016 billion as of December 31, 2016, an increase of $56 million. As of June 30, 2017, interest bearing demand deposits, noninterest bearing deposits, money market deposits and savings deposits accounted for 54% of our total deposits, while individual retirement accounts, certificates of deposit, and brokered deposits made up 46% of total deposits. See Note 7 – Deposits in the accompanying condensed notes to consolidated financial statements included elsewhere in this report for details of our deposit balances as of June 30, 2017 and December 31, 2016.

The following table provides information on the maturity distribution of time deposits with individual balances of $100,000 to $250,000 and of time deposits with individual balances of $250,000 or more as of June 30, 2017:

(Dollars in thousands)	$100,000 to $250,000	$250,000 and Over	Total
Maturity			
3 months or less	$102,189	$37,479	$139,668
Over 3 through 6 months	72,557	29,576	102,133
Over 6 through 12 months	132,920	56,131	189,051
Over 12 months	93,929	40,499	134,428
	$401,595	$163,685	$565,280

The following table summarizes our average deposit balances and weighted average rates for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
(Dollars in thousands)	Average Balance	Weighted Avg Yields	% of Total	Average Balance	Weighted Avg Yields	% of Total
Interest bearing demand	$342,947	0.16 %	17 %	$242,862	0.10 %	19 %
Individual retirement accounts	100,505	1.21 %	5 %	64,075	1.24 %	5 %
Money market	206,163	0.23 %	10 %	122,670	0.23 %	10 %
Savings	171,602	0.06 %	8 %	78,795	0.05 %	6 %
Certificates of deposit	773,178	1.15 %	38 %	565,600	1.11 %	43 %
Brokered deposits	67,852	1.46 %	3 %	49,950	1.01 %	4 %
Total interest bearing deposits	1,662,247	0.74 %	81 %	1,123,952	0.72 %	87 %
Noninterest bearing demand	387,877	—	19 %	166,863	—	13 %
Total deposits	$2,050,124	0.60 %	100 %	$1,290,815	0.63 %	100 %

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
(Dollars in thousands)	Average Balance	Weighted Avg Yields	% of Total	Average Balance	Weighted Avg Yields	% of Total
Interest bearing demand	$334,316	0.15 %	16 %	$231,851	0.10 %	18 %
Individual retirement accounts	100,992	1.19 %	5 %	62,993	1.24 %	5 %
Money market	207,681	0.23 %	10 %	117,448	0.23 %	9 %
Savings	171,714	0.07 %	8 %	77,673	0.05 %	6 %
Certificates of deposit	764,938	1.13 %	39 %	563,637	1.11 %	45 %
Brokered deposits	67,968	1.43 %	3 %	49,973	1.01 %	4 %
Total interest bearing deposits	1,647,609	0.73 %	81 %	1,103,575	0.73 %	87 %
Noninterest bearing demand	382,851	—	19 %	163,621	—	13 %

Total deposits	$2,030,460	0.59 %	100 %	$1,267,196	0.64 %	100 %

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Other Borrowings

Customer Repurchase Agreements

Customer repurchase agreements outstanding totaled $15.0 million at June 30, 2017 and $10.5 million at December 31, 2016. Our customer repurchase agreements generally overnight maturities. Variances in these balances are attributable to normal customer behavior and seasonal factors affecting their liquidity positions. The following provides a summary of our customer repurchase agreements as of and for the six months ended June 30, 2017 and the year ended December 31, 2016:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Amount outstanding at end of period	$ 14,959	$ 10,490
Weighted average interest rate at end of period	0.02 %	0.02 %
Average daily balance during the period	$ 10,162	$ 11,984
Weighted average interest rate during the period	0.02 %	0.02 %
Maximum month-end balance during the period	$ 14,959	$ 15,329

FHLB Advances

As part of our overall funding and liquidity management program, we borrow from the Federal Home Loan Bank. Our FHLB advances are collateralized by assets, including a blanket pledge of certain loans. Our mortgage warehouse facilities are also included in our borrowing base with the FHLB. Our FHLB borrowings totaled $340.0 million as of June 30, 2017 and $230.0 million as of December 31, 2016. As of June 30, 2017 and December 31, 2016, we had $145.8 million and $267.1 million, respectively, in unused and available advances from the FHLB.

The following provides a summary of our FHLB advances as of and for the six months ended June 30, 2017 and the year ended December 31, 2016:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Amount outstanding at end of period	$ 340,000	$ 230,000
Weighted average interest rate at end of period	1.13 %	0.58 %
Average amount outstanding during the period	236,821	174,784
Weighted average interest rate during the period	0.81 %	0.41 %
Highest month end balance during the period	340,000	291,000

Subordinated Notes

In September 2016, we issued $50.0 million of Fixed-to-Floating Rate Subordinated Notes due 2026 (the “Notes”). The Notes, which initially bear interest at 6.50% per annum, payable semi-annually in arrears, to, but excluding, September 30, 2021, and, thereafter and to, but excluding, the maturity date or earlier redemption, interest shall be payable quarterly in arrears, at an annual floating rate equal to three-month LIBOR as determined for the applicable quarterly period, plus 5.345%. We may, at our option, beginning on September 30, 2021 and on any scheduled interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption.

The Notes are included on the consolidated balance sheet as liabilities; however, for regulatory purposes, the carrying value of these obligations is eligible for inclusion in Tier 2 regulatory capital.

Issuance costs related to the Notes totaled $1.3 million, including an underwriting discount of 1.5%, or $0.8 million, and have been netted against the subordinated notes liability on the consolidated balance sheets. The underwriting discount and other debt issuance costs are being amortized using the effective interest method over the life of the Notes as an adjustment to interest expense.

Junior Subordinated Debentures

The following provides a summary of our junior subordinated debentures as of June 30, 2017:

(Dollars in thousands)	Face Value	Carrying Value	Maturity Date	Interest Rate
National Bancshares Capital Trust II	$15,464	$12,807	September 2033	LIBOR + 3.00%
National Bancshares Capital Trust III	17,526	12,298	July 2036	LIBOR + 1.64%
ColoEast Capital Trust I	5,155	3,387	September 2035	LIBOR + 1.60%
ColoEast Capital Trust II	6,700	4,451	March 2037	LIBOR + 1.79%
	$44,845	$32,943		

These debentures are unsecured obligations and were issued to trusts that are unconsolidated subsidiaries. The trusts in turn issued trust preferred securities with identical payment terms to unrelated investors. The debentures may be called by the Company at par plus any accrued but unpaid interest; however, we have no current plans to redeem them prior to maturity. Interest on the debentures is calculated quarterly, based on a contractual rate equal to three month LIBOR plus a weighted average spread of 2.13%. As part of the purchase accounting adjustments made with the National Bancshares, Inc. acquisition on October 15, 2013 and the ColoEast acquisition on August 1, 2016, we adjusted the carrying value of the junior subordinated debentures to fair value as of the respective acquisition dates. The discounts on the debentures will continue to be amortized through maturity and recognized as a component of interest expense.

The debentures are included on our consolidated balance sheet as liabilities; however, for regulatory purposes, these obligations are eligible for inclusion in regulatory capital, subject to certain limitations. All of the carrying value of $32.9 million was allowed in the calculation of Tier I capital as of June 30, 2017.

Capital Resources and Liquidity Management

Capital Resources

Our stockholders' equity totaled $310.5 million as of June 30, 2017, an increase of $21.2 million from $289.3 million as of December 31, 2016. Stockholders' equity increased during this period primarily due to net income for the period of $20.1 million. Offsetting this increase were dividends paid on our preferred stock.

Liquidity Management

We define liquidity as our ability to generate sufficient cash to fund current loan demand, deposit withdrawals, or other cash demands and disbursement needs, and otherwise to operate on an ongoing basis.

We manage liquidity at the holding company level as well as that of our bank subsidiary. The management of liquidity at both levels is critical, because the holding company and our bank subsidiary have different funding needs and sources, and each are subject to regulatory guidelines and requirements which require minimum levels of liquidity. We believe that our liquidity ratios meet or exceed those guidelines and that our present position is adequate to meet our current and future liquidity needs.

Our liquidity requirements are met primarily through cash flow from operations, receipt of pre-paid and maturing balances in our loan and investment portfolios, debt financing and increases in customer deposits. Our liquidity position is supported by management of liquid assets and liabilities and access to other sources of funds. Liquid assets include cash, interest earning deposits in banks, federal funds sold, securities available for sale and maturing or

prepaying balances in our investment and loan portfolios. Liquid liabilities include core deposits, federal funds purchased, securities sold under repurchase agreements and other borrowings. Other sources of funds include the sale of loans, brokered deposits, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities and the issuance of common securities. For additional information regarding our operating, investing and financing cash flows, see the Consolidated Statements of Cash Flows provided in our consolidated financial statements.

In addition to the liquidity provided by the sources described above, our subsidiary bank maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of June 30, 2017, TBK Bank had unsecured federal funds lines of credit with seven unaffiliated banks totaling $137.5 million, with no amounts advanced against those lines at that time.

Regulatory Capital Requirements

Our capital management consists of providing equity to support our current and future operations. We are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s or TBK Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and TBK Bank each must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Company is subject to the Basel III regulatory capital framework. Beginning in January 2016, the implementation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer was 1.25% and 0.625% at June 30, 2017 and December 31, 2016, respectively. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company’s ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers.

Quantitative measures established by regulations to ensure capital adequacy require the Company and TBK Bank to maintain minimum amounts and ratios (as set forth in the table below) of total, Tier 1, and common equity Tier 1 capital to risk weighted assets, and of Tier 1 capital to average assets. Management believes, as of June 30, 2017, the Company and TBK Bank meet all capital adequacy requirements to which they are subject, including the capital conservation buffer requirement.

As of June 30, 2017, TBK Bank’s capital ratios exceeded those levels necessary to be categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized”, TBK Bank must maintain minimum total risk based, common equity Tier 1 risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since June 30, 2017 that management believes would have changed TBK Bank’s category.

The actual capital amounts and ratios for the Company and TBK Bank are presented in the following table as of June 30, 2017. The capital adequacy amounts and ratios below do not include the capital conservation buffer in effect at June 30, 2017

(Dollars in thousands)	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of June 30, 2017	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$371,471	13.9%	$213,796	8.0%	N/A	N/A
TBK Bank, SSB	$308,862	12.1%	$204,206	8.0%	$255,258	10.0%

Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$302,540	11.3%	$160,641	6.0%	N/A	N/A
TBK Bank, SSB	$288,804	11.3%	$153,347	6.0%	$204,463	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$260,699	9.7%	$120,943	4.5%	N/A	N/A
TBK Bank, SSB	$288,804	11.3%	$115,010	4.5%	$166,126	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$302,540	11.3%	$107,094	4.0%	N/A	N/A
TBK Bank, SSB	$288,804	11.0%	$105,020	4.0%	$131,275	5.0%

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Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of June 30, 2017. The amount of the obligations presented in the table reflects principal amounts only and excludes the amount of interest we are obligated to pay. Also excluded from the table are a number of obligations to be settled in cash. These excluded items are reflected in our consolidated balance sheet and include deposits with no stated maturity, trade payables, and accrued interest payable.

	Payments Due by Period - June 30, 2017				
(Dollars in thousands)	Total	One Year or Less	After One but within Three Years	After Three but within Five Years	After Five Years
Customer repurchase agreements	$14,959	$14,959	$—	$—	$—
Federal Home Loan Bank advances	340,000	325,000	—	—	15,000
Subordinated notes	50,000	—	—	—	50,000
Junior subordinated debentures	44,845	—	—	—	44,845
Operating lease agreements	6,937	1,957	3,098	1,484	398
Time deposits with stated maturity dates	961,793	683,047	234,498	44,242	6
Total contractual obligations	$1,418,534	$1,024,963	$237,596	$45,726	$110,249

Off-Balance Sheet Arrangements

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The following table details our commitments associated with outstanding standby and commercial letters of credit and commitments to extend credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect actual future cash funding requirements.

(Dollars in thousands)	June 30, 2017	December 31, 2016
Commitments to make loans	$66,488	$14,925
Unused lines of credit	296,288	255,086
Standby letters of credit	12,817	7,253
Total other commitments	$375,593	$277,264

Critical Accounting Policies and Estimates

Our accounting policies are fundamental to understanding our management's discussion and analysis of our results of operations and financial condition. We have identified certain significant accounting policies which involve a higher degree of judgment and complexity in making certain estimates and assumptions that affect amounts reported in our consolidated financial statements. The significant accounting policies which we believe to be the most critical in preparing our consolidated financial statements relate to originated loans, purchased loans, factored receivables, ALLL, goodwill and intangibles, and fair values of financial instruments. Since December 31, 2016, there have been no changes in critical accounting policies as further described under "Critical Accounting Policies and Estimates" and in Note 1 to the Consolidated Financial Statements in our 2016 Form 10-K.

Recently Issued Accounting Pronouncements

See Note 1 – Summary of Significant Accounting Policies in the accompanying condensed notes to consolidated financial statements included elsewhere in this report for details of recently issued accounting pronouncements and their expected impact on our consolidated financial statements.

Forward-Looking Statements

This document contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “ “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would” and “outlook,” or the negative version of those other comparable of a future or forward-looking nature. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but are not limited to, the following:

- our limited operating history as an integrated company and our recent acquisitions;
- business and economic conditions generally and in the bank and non-bank financial services industries, nationally and within our local market area;
- our ability to mitigate our risk exposures;
- our ability to maintain our historical earnings trends;
- risks related to the integration of acquired businesses (including our pending acquisition of 9 branches from Independent Bank in Colorado) and any future acquisitions;
- changes in management personnel;
- interest rate risk;
- concentration of our factoring services in the transportation industry;
- credit risk associated with our loan portfolio;
- lack of seasoning in our loan portfolio;
- deteriorating asset quality and higher loan charge-offs;
- time and effort necessary to resolve nonperforming assets;
- inaccuracy of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;
- lack of liquidity;
- fluctuations in the fair value and liquidity of the securities we hold for sale;
- impairment of investment securities, goodwill, other intangible assets or deferred tax assets;
- our risk management strategies;
- environmental liability associated with our lending activities;
- increased competition in the bank and non-bank financial services industries, nationally, regionally or locally, which may adversely affect pricing and terms;
- the accuracy of our financial statements and related disclosures;

- material weaknesses in our internal control over financial reporting;
- system failures or failures to prevent breaches of our network security;

- the institution and outcome of litigation and other legal proceedings against us or to which we become subject;
- changes in carry-forwards of net operating losses;
- changes in federal tax law or policy;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations, such as the Dodd-Frank Act and their application by our regulators;
- governmental monetary and fiscal policies;
- changes in the scope and cost of FDIC, insurance and other coverages;
- failure to receive regulatory approval for future acquisitions; and
- increases in our capital requirements.

The foregoing factors should not be construed as exhaustive. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and 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. New factors emerge from time to time and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Asset/Liability Management and Interest Rate Risk

The principal objective of our asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing net income and preserving adequate levels of liquidity and capital. The Board of Directors of our subsidiary bank has oversight of our asset and liability management function, which is managed by our Chief Financial Officer. Our Chief Financial Officer meets with our senior executive management team regularly to review, among other things, the sensitivity of our assets and liabilities to market interest rate changes, local and national market conditions and market interest rates. That group also reviews our liquidity, capital, deposit mix, loan mix and investment positions.

As a financial institution, our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the fair value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair values.

We manage our exposure to interest rates primarily by structuring our balance sheet in the ordinary course of business. We do not typically enter into derivative contracts for the purpose of managing interest rate risk, but we may elect to do so in the future. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

We use an interest rate risk simulation model to test the interest rate sensitivity of net interest income and the balance sheet. Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in projected net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment and replacement of asset and liability cash flows. We also analyze the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the fair value of assets less the fair value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of all future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to our future earnings and is used in conjunction with the analyses on net interest income.

The following table summarizes simulated change in net interest income versus unchanged rates as of June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Following 12 Months	Months 13-24	Following 12 Months	Months 13-24
+400 basis points	5.2 %	1.1 %	5.0 %	1.0 %
+300 basis points	3.9 %	1.0 %	3.6 %	0.8 %
+200 basis points	2.5 %	0.6 %	2.1 %	0.2 %
+100 basis points	1.3 %	0.4 %	0.8 %	(0.2 %)
Flat rates	0.0 %	0.0 %	0.0 %	0.0 %
-100 basis points	(1.6 %)	(1.8 %)	(2.8 %)	(3.6 %)

The following table presents the change in our economic value of equity as of June 30, 2017 and December 31, 2016, assuming immediate parallel shifts in interest rates:

	Economic Value of Equity at Risk (%)	
	June 30, 2017	December 31, 2016
+400 basis points	1.2 %	(2.0 %)
+300 basis points	0.1 %	(3.2 %)
+200 basis points	(1.0 %)	(4.3 %)
+100 basis points	(1.3 %)	(4.1 %)
Flat rates	0.0 %	0.0 %
-100 basis points	(12.6 %)	(12.2 %)

Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than our projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates, and actual results may also differ due to any actions taken in response to the changing rates.

As part of our asset/liability management strategy, our management has emphasized the origination of shorter duration loans as well as variable rate loans to limit the negative exposure to a rate increase. We also desire to acquire deposit transaction accounts, particularly noninterest or low interest-bearing non-maturity deposit accounts, whose cost is less sensitive to changes in interest rates. We intend to focus our strategy on utilizing our deposit base and operating platform to increase these deposit transaction accounts.

ITEM 4

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we are a party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

Item 1A. Risk Factors

On March 31, 2017, the Company sold its 100% membership interest in its asset management subsidiary, Triumph Capital Advisors, LLC. As a result, a review of the risk factors related to our asset management business disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 should consider the fact that the Company does not anticipate engaging in this line of business going forward. There have been no other material changes in the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits (Exhibits marked with a "†" denote management contracts or compensatory plans or arrangements)

3.1 Second Amended and Restated Certificate of Formation of the Registrant, effective November 7, 2014, incorporated by reference to Exhibit 3.1 to Form 8-K filed with the SEC on November 13, 2014.
3.2 Second Amended and Restated Bylaws of the Registrant, effective November 7, 2014, incorporated by reference to Exhibit 3.2 to Form 8-K filed with the SEC on November 13, 2014.
31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 XBRL Instance Document

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.

	TRIUMPH BANCORP, INC. (Registrant)
Date: July 21, 2017	/s/ Aaron P. Graft Aaron P. Graft President and Chief Executive Officer
Date: July 21, 2017	/s/ R. Bryce Fowler R. Bryce Fowler Chief Financial Officer