

Live Oak Bancshares, Inc.
Form 10-K/A
March 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

or

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

For the transition period from _____ to _____.

Commission file number: 001-37497

LIVE OAK BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

North Carolina

(State or other jurisdiction of incorporation or organization)

26-4596286

(I.R.S. Employer Identification No.)

1741 Tiburon Drive,

Wilmington, NC

(Address of principal executive offices)

28403

(Zip Code)

Registrant's telephone number, including area code: (910) 790-5867

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Voting Common Stock, no par value per share

Name of each exchange on which registered

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer (Do not check if smaller reporting company) Smaller Reporting Company

Emerging growth company

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2017, was approximately \$593,149,164. Shares of common stock held by each officer and director have been excluded in that such persons may be deemed to be affiliates. There is no public market for the registrant's non-voting common stock. For purposes of this calculation, the registrant has assumed that the market value of each share of non-voting common stock is equal to a share of voting common stock.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of March 7, 2018, there were 35,307,888 shares of the registrant's voting common stock outstanding and 4,643,530 shares of the registrant's non-voting common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Explanatory Note

Live Oak Bancshares, Inc. (the "Company") is filing this Amendment No. 1 to its Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 8, 2018, solely to include hyperlinks to the exhibits listed as incorporated by reference in the exhibit index of the Form 10-K. No other information included in the Company's original Form 10-K is being amended by this Form 10-K/A.

The items of the Company's Form 10-K which are amended herein are:

INDEX TO EXHIBITS

The following exhibits are incorporated by reference or filed herewith. References to the "2015 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2015. References to the "2016 10-K" are to the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Exhibit No.	Description of Exhibit
2.1	<u>Contribution Agreement dated as of May 9, 2017 (incorporated by reference to Exhibit 2.1 of the current report on Form 8-K filed on May 5, 2017)</u>
3.1	<u>Amended and Restated Articles of Incorporation of Live Oak Bancshares, Inc. (incorporated by reference to Exhibit 3.1 of the registration statement on Form S-1, filed on June 19, 2015)</u>
3.2	<u>Amended Bylaws of Live Oak Bancshares, Inc. (incorporated by reference to Exhibit 3.2 of the registration statement on Form S-1, filed on June 19, 2015)</u>
4.1	<u>Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the registration statement on Form S-1, filed on June 19, 2015)</u>
4.2	<u>Registration and Other Rights Agreement between Live Oak Bancshares, Inc. and Wellington purchasers (incorporated by reference to Exhibit 4.2 of the registration statement on Form S-1, filed on June 19, 2015)</u>
10.1	<u>2008 Incentive Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 of the registration statement on Form S-1, filed on June 19, 2015)</u>
10.2	<u>2008 Nonstatutory Stock Option Plan, as amended (incorporated by reference to Exhibit 10.2 of the registration statement on Form S-1, filed on June 19, 2015)</u>
10.3	<u>Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.4 of the quarterly report on Form 10-Q filed on August 8, 2016)</u>
10.4.1	<u>2015 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.4 of the registration statement on Form S-1 filed on June 19, 2015)</u>
10.4.2	<u>Amendment to 2015 Omnibus Stock Incentive Plan dated December 17, 2015 (incorporated by reference to Exhibit 10.4.2 of the 2015 10-K)</u>
10.4.3	<u>2015 Omnibus Stock Incentive Plan as Amended and Restated effective May 24, 2016 (incorporated by reference to Exhibit 10.1 of the current report on Form 8-K filed on May 27, 2016)</u>
10.5.1	<u>Securities Purchase Agreement, dated May 28, 2014 between Live Oak Bancshares, Inc. and Wellington purchasers (incorporated by reference to Exhibit 10.7 of the registration statement on Form S-1 filed on June 19, 2015)</u>
10.5.2	<u>First Amendment to Securities Purchase Agreement, dated July 31, 2014 between Live Oak Bancshares, Inc. and Wellington purchasers (incorporated by reference to Exhibit 10.8 of the registration statement on Form S-1 filed on June 19, 2015)</u>
10.5.3	<u>Second Amendment to Securities Purchase Agreement, dated August 1, 2014 between Live Oak Bancshares, Inc. and Wellington purchasers (incorporated by reference to Exhibit 10.9 of the registration statement on Form S-1 filed on June 19, 2015)</u>
10.6.1	<u>Software Service Agreement between Live Oak Banking Company and nCino, LLC, dated November 1, 2012 (incorporated by reference to Exhibit 10.10 of the registration statement on Form S-1 filed on June 19, 2015)</u>

- 10.6.2 Amendment to Software Service Agreement dated October 9, 2015, between Live Oak Banking Company and nCino, Inc. (incorporated by reference to Exhibit 10.7.2 of the 2015 10-K)
- 10.7.1 Form of Stock Option Award Agreement for executive officers under the 2015 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.8 of the 2015 10-K)
- 10.7.2 Performance RSU Award Agreement for Neil L. Underwood (incorporated by reference to Exhibit 99.1 of the current report on Form 8-K filed on March 25, 2016)

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Exhibit No.	Description of Exhibit
10.7.3	<u>Performance RSU Award Agreement with Stock Price Condition for Neil L. Underwood (incorporated by reference to Exhibit 99.2 of the current report on Form 8-K filed on March 25, 2016)</u>
10.7.4	<u>Form of Performance RSU Award Agreement with Stock Price Condition for certain executive officers (incorporated by reference to Exhibit 99.1 of the current report on Form 8-K filed on December 2, 2016)</u>
10.7.5	<u>Form of Performance RSU Award Agreement with Stock Price Condition for certain executive officers (incorporated by reference to Exhibit 99.1 of the current report on Form 8-K filed on February 2, 2017)</u>
10.7.6	<u>Form of Performance RSU Award Agreement with Stock Price Condition for certain executive officers</u>
10.7.7	<u>Form of RSU Award Agreement with Separation Agreement for Gregory B. Thompson dated February 12, 2018</u>
10.7.8	<u>Form of 2017 RSU Award Agreement for non-employee directors</u>
21.1	<u>Subsidiaries of the Registrant</u>
23.1	<u>Consent of the Independent Registered Public Accounting Firm - Dixon Hughes Goodman LLP</u>
31.1	<u>Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*</u>
31.2	<u>Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*</u>
32	<u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**</u>
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of December 31, 2017 and 2016; (ii) Consolidated Statements of Income for the Years Ended December 31, 2017, 2016 and 2015; (iii) Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015; (iv) Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2017, 2016 and 2015; (v) Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015; and (vi) Notes to Consolidated Financial Statements.

*Indicates a document being filed with this Form 10-K/A.

Furnished herewith. This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange

**Act of 1934, or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Live Oak Bancshares, Inc.
(Registrant)

Date: March 16, 2018 By: /s/ S. Brett Caines
S. Brett Caines
Chief Financial Officer

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d employees is in accordance with Section 102 of the Israeli Tax Ordinance. The Company granted options to purchase up to 4,100,000 of its issued and outstanding common shares for officers, directors and consultants as part of its incentive stock option plan. As of December 31, 2003 the Company granted 2,976,591 options to employees and directors, 669,189 options to consultants. The vesting period of the options is two years, except for one of the directors that the vesting period of his option is one year. The exercise price shall be \$0.76 - \$1.25 per share. The intrinsic value of these options is equal or less than their exercise price and therefore no compensation costs have been recorded. Any options which are cancelled or forfeited before expiration, become available for future grants. The deferred compensation cost that would have been charged had the Company determined its costs based on the fair value method is consistent with SFAS 123 for its employees would have been \$ 858,136.

The Company has accounted for its options to consultants under the fair value method of SFAS No. 123 and EITF 96-18. The fair value for these options was estimated using the Black & Scholes option-pricing model with the following weighted-average assumption for December 31, 2003: risk-free interest rate of 1.6% dividend yield of 0% for each year, volatility factor of the expected market price of the Company's Common shares of 0.80 and a weighted-average expected life of the options of approximately two years.

The Company did not recorded stock compensation expenses through December 31, 2003 due to immateriality.

PLURISTEM LIFE SYSTEMS INC. AND ITS SUBSIDIARY
(A Development Stage Company)
(Previous Name - A. I. SOFTWARE INC.)

NOTES TO FINANCIAL STATEMENTS

In U.S. Dollars

NOTE 7:- SUBSEQUENT EVENT

In January 2004, the Company consummated a private placement equity investment with a group of individuals and institutional investors (the "investors") representing net proceeds to the Company of approximately \$1.3 million (net of issuance costs of approximately \$200 thousand), for 3,000,000 new shares and warrants issued to the investors, under the terms of a Securities Purchase Agreement dated January 20, 2004 (the "Investment Agreement").

The Company accepted subscriptions for common shares and warrants, each common share priced at \$0.50 per common share. Each warrant is exercisable for one additional common share at a price of \$0.75 per share, and may be exercised until January 31, 2007. In addition, the Company issued 300,000 finder's warrants in connection with this private placement. The finders' warrants are exercisable into one common share at a price of \$0.75 per common share

until January 31, 2007. The securities have not been registered and are therefore restricted pursuant to Rule 144 under the U.S. Securities and Exchange Act of 1993.

Under the investment agreement the Company undertook to register the above mentioned new shares with the SEC under the Securities and Exchange Act of 1993 no later than May 15, 2004. In the Investment Agreement the Company undertook certain limitations as to issuing new Common Stock prior to registration of the new stock under the above mentioned Investment Agreement.

Item 2. Management's Discussion and Analysis or Plan of Operation.

FORWARD LOOKING STATEMENTS

This quarterly report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our company's or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States Dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

In this quarterly report, unless otherwise specified, all dollar amounts are expressed in United States dollars and all references to "common shares" refer to the common shares in our capital stock.

As used in this quarterly report, the terms "we", "us", "our", and "Pluristem" mean Pluristem Life Systems, Inc. and our wholly owned subsidiary, unless otherwise indicated.

Overview

You should read the following discussion of our financial condition and results of operations together with the unaudited financial statements and the notes to unaudited financial statements included elsewhere in this filing prepared in accordance with accounting principles generally accepted in the United States. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those anticipated in these forward-looking statements.

From our inception on May 11, 2001 to May of 2003, we had been engaged in software development, premised on the use of artificial intelligence in computer programming technology and in many areas of the computer, Internet, robotics, and games industries. In May 2003, our board of directors conducted an in-depth analysis of our business plan and related future prospects for software development companies. To better protect stockholder interests and provide future appreciation, it was decided to concurrently pursue initiatives in the biotech industry as an extension to our existing business. On May 5, 2003, we entered into a License Agreement with Weizmann Institute to Science and the Technion-Israel Institution of Technology to acquire an exclusive license for a stem cell expansion technology. To better develop this exclusively licensed technology, we purchased 100% of the issued and outstanding shares of

Pluristem, Ltd. on June 10, 2003. Pluristem, Ltd. is a research and development company based in Israel. As of July 1, 2003, we have suspended our efforts to further develop artificial intelligence in computer programming.

Liquidity and Capital Resources

During the six months ended December 31, 2003, we incurred a net loss of \$693,084, as compared to a net loss of \$40,302 in the six month period to December 31, 2002. For the three months ended December 31, 2003 we incurred a loss of \$370,625 compared to a loss of \$20,023 in the three months ended December 31, 2002. This resulted from the change of business that we undertook in May, 2003, to become a medical product research and development company. We obtained funds to carry on our business during the six months from a private placement we conducted in July, 2003, which raised net proceeds of \$1,235,752 through the issuance of 725,483 units comprising one common share and two common share purchase warrants. By the end of the six month period, on December 31, 2003, we had cash of \$107,798, which is only sufficient to fund our operations for approximately one month.

On January 20, 2004, we closed a private placement for gross proceeds of \$1,500,000 through the issuance of 3,000,000 units, each unit comprising one common share and one common share purchase warrant. The net proceeds of this transaction of approximately \$1,320,000 after payment of commissions and legal costs will be used to fund our operations for the coming year. We expect that we have sufficient funds to operate until early fall, 2004 but we will have to raise additional funds from the market before we have any cash flow from operations. The approval process for our products in the United States and other jurisdictions is protracted and we believe will take several years. In addition, any acquisitions that we may plan or product development that is beyond the scope of what is described in our Plan of Operations below will require additional capital, which must be raised through the issuance of our securities.

Results of Operations

Because of the change of business undertaken by our company in 2003, it would not be meaningful to compare operations for the three or six month periods ended December 31, 2003 to December 31, 2002. Instead, we present a plan of operation for our company for the twelve month period ending December 31, 2004.

Plan of Operations

Our primary objective over the twelve months ending December 31, 2004 will be to conduct further development and research on our proprietary technology - PluriX™ Bioreactor. In order to optimize the system, we will build new PluriX™ Bioreactors for laboratory use to examine all of its parts and their different functions. We will begin feasibility studies of ex vivo expanded stem cells on animals. In addition, we intend to identify proteins that are involved with stem cell regulators.

Concurrently, we will initiate contact with research centers and cord blood banks to establish cooperative relations for future business development.

We intend to consult with an FDA advisor to assist us in determining our path in the process toward gaining FDA regulatory approval.

We have not generated any revenues and our operating activities have used cash resources of \$690,284 for the six months ended December 31, 2003, compared to \$29,441 for the six months ended December 31, 2002. This negative cash flow is primarily attributable to the costs incurred in the acquisition of Pluristem, Ltd., the payment of employees and research costs. We anticipate that our operating expenses will increase as we intend to conduct trials and experiments with our technology and work toward its commercialization. We estimate our expenses in the twelve months ending December 31, 2004 will be \$2,446,000, generally falling in three major categories: research and development costs, purchase of in-process research and development, business development and general and

administrative expenses.

Research and Development Costs

For the twelve months ending December 31, 2004, we estimate that our research and development costs will be approximately \$1,410,000. We intend to spend our research and development costs on optimizing the 3-D bioreactor operations, implanting stem cells from cord blood into the stromal cell cultures of PluriX™ bioreactors for expansion and on conducting studies on mice to examine stem cell development and expansion.

Costs Associated with Purchase of In-Process Research and Development

For the twelve months ending December 31, 2004, we estimate that our costs associated with purchased in-process research and development will be approximately \$969,000. We intend to continue to purchase in-process research and development from our subsidiary.

Business Development, General and Administrative Expenses

For the twelve months ending December 31, 2004, we estimate that our general and administrative expenses will be approximately \$1,036,000. Aside from salaries, rent, telephone, utilities and other normal general expenses, these expenses will also include examining new business opportunities, public relations, investors relations, office and miscellaneous charges, which consist primarily of charges incurred for purchase of office supplies and other administrative expenses. These expenses will also include professional fees, which consist primarily of accounting and auditing fees for the year end audit and legal fees for securities advice, directors liability insurance and cost of fundraising. We also are considering issuing shares of our common stock for certain services performed by consultants on behalf of our company.

We do not expect to generate any revenues in the twelve month period ending December 31, 2004. Our products will not be ready for sale for up to three years.

In our management's opinion, we need to achieve the following events or milestones in the next twelve months in order for us to begin generating revenues as planned within three years:

- Raise equity or debt financing or a combination of equity and debt financing of at least \$4,000,000.
- Build new bioreactors for continued research into bioreactor functionality in laboratory conditions.
- Optimize 3-D PluriX™ bioreactor operations - using the 3-D environment of the PluriX™, a dense population of stromal cells (support cells) has been reached to provide the basis for stem cell expansion without differentiation. The stromal cells release a signal to prevent differentiation. Optimization of the bioreactor system is a continuous process to enable the stem cells to self-renew while remaining in their original state.
- Studies to obtain an animal model. Trials will be conducted on SCID mice to examine the stem cell development and expansion process. "SCID mice" are mice without immune systems so that they can be used to simulate human immune systems.
- establish relations with research centers and cord blood banks.

Research and Development

During the six month period ended December 31, 2003, we continued our research activities in our clean rooms and laboratory. We built bioreactors to conduct research and development in a 3-D environment and seeded stromal cells into the bioreactors to produce the stromal cell culture where the stem cells will be implanted. Throughout this period and into 2004, we will continue with these R&D activities.

Purchase or Sale of Equipment

With the acquisition of Pluristem Ltd., we obtained much of the specialized laboratory equipment that we need to conduct our research. This equipment included incubators, freezers, computers, hot plates, generators, microscopes, and other equipment. We expect that we now own most of the laboratory equipment that we will need to conduct our planned research and development for the year ending June 30, 2004. Our planned equipment purchases in the year ending June 30, 2004 are a FACS (Fluorescence Activated Cell Sorter) analysis machine and build a customized incubator.

Dilution

The continuation of our business is dependent upon us raising additional financial support. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

Recently Issued Accounting Standards

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 except for mandatory redeemable financial instruments of nonpublic entities. The Company does not expect that the adoption of this standard will have a material effect on its financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure variable interest entity were established. As of June 30, 2003, the Company does not expect that the adoption of this standard will have a material effect on its financial position or results of operations.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our unaudited financial statements and accompanying notes have been prepared in conformity with generally accepted accounting principles in the United States of America for interim financial statements. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our financial statements is critical to an understanding of our financials.

Going Concern

Our interim financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. The interim financial statements have been prepared assuming we will continue as a going concern. However, certain conditions exist which raise doubt about our ability to continue as a going concern. We have suffered recurring losses from operations and have accumulated losses of approximately \$1,233,982 since inception through the period ended December 31, 2003.

Acquisition of Technology Rights

In the acquisition of stem cell expansion technology rights through the License Agreement, we considered whether these rights meet the criteria of an asset or should have been expensed. In our opinion, the PluriX™ Bio-reactor System and License Agreement technology, which are patent protected in certain jurisdictions and can be used for other applications as explained in Item 1, meet the criteria of an "Asset". We believe this technology will be in use for several years.

RISK FACTORS

Readers should refer to the risk factors referred to in our Form 10-KSB filed for the fiscal year ended June 30, 2003.

Item 3. Controls and Procedures.

As required by Rule 13a-15 under the Exchange Act, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures as of the end of the six month period ended December 31, 2003. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's chief executive officer and chief financial officer. Based upon that evaluation, our company's chief executive officer and chief financial officer concluded that our company's disclosure controls and procedures are effective. There have been no significant changes in our company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Exchange Act is accumulated and communicated to management, including our company's chairman and chief financial as appropriate, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

Item 2. Changes in Securities.

Recent Sales of Unregistered Securities

On January 20, 2004, we issued an aggregate of 3,000,000 common shares at a price of \$0.50 per share to a number of private investors. The transaction was private in nature, and the shares were issued in reliance upon Regulation S and/or Rule 506 promulgated under the Securities Act of 1933. These shares form part of the 3,000,000 units which were authorized for issuance by directors' consent resolution dated December 12, 2003. Each unit was issued at a price of \$0.50 and consists of one common share and one common share purchase warrant. Each warrant is exercisable at a price of \$0.75 until January 31, 2007. In addition, we issued 300,000 finders' warrants exercisable at a price of \$0.75 until January 31, 2007. Gross proceeds of the placement was \$1,500,000.

Item 5. Other Information.

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In October, 2003, our board of directors approved a loan in the amount of \$350,000 to our subsidiary Pluristem Ltd. to finance its obligations to pay for its R&D.

On October 2, 2003, our board of directors approved the creation of and appointed members to our Audit Committee, Compensation Committee, Corporate Governance Committee, Insider Trading Policy, Code of Business Conduct and Ethics and Compliance and our Fund Raising Committee.

On November 25, 2003, our board of directors approved the adoption of a formal stock option plan to purchase up to a maximum of 4,100,000 shares. On December 29, 2003, we filed our 2003 Stock Option Plan on Form S-8, with the SEC. On December 30, 2003, pursuant to our 2003 Stock Option Plan, we granted 3,645,780 options to certain of our employees, directors and consultants.

On December 17, 2003 we appointed Shmuel Levi as CFO of our company. Mr. Levi has been the CFO of our subsidiary, Pluristem, Ltd. since we acquired it in June, 2003.

Item 6. Exhibits and Reports on Form 8-K.

Exhibits required by Item 601 of Regulation S-B

(3) Articles of Incorporation and Bylaws

3.1 Articles of Incorporation (incorporated by reference from our Registration Statement on Form SB-2 filed September 10, 2001).

3.2 Bylaws (incorporated by reference from our Registration Statement on Form SB-2 filed September 10, 2001).

3.3 Restated Bylaws (incorporated by reference from our Quarterly Report on Form 10-QSB filed November 19, 2003).

(10) Material Contracts

10.1 Software Development Agreement (incorporated by reference from our Registration Statement on Form SB-2 filed September 10, 2001).

10.2 Exclusive, World Wide Patent and Technology License and Assignment Agreement (incorporated by reference from our Current Report on Form 8-K filed May 6, 2003).

(21) Subsidiaries

Pluristem, Ltd.

(31) Section 302 Certifications

31.1 Section 302 Certification.

31.2 Section 302 Certification.

(32) Section 906 Certification

32.1 Section 906 Certification.

Reports on Form 8-K

On October 16, 2003, reporting the increase in the number of our current directors from three to six and the appointments of Doron Shorrer, Hava Klemperer Meretzki and Robert J. Pico as directors to our board of directors.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PLURISTEM LIFE SYSTEMS, INC.

Date: February 15, 2004

/s/ Irit Arbel

Irit Arbel, President and CEO

(Principal Executive Officer)

Date: February 15, 2004

/s/ Shmuel Levi

Shmuel Levi, Chief Financial Officer

(Principal Financial Officer)