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Live Oak Bancshares, Inc.  
Form 10-Q  
November 08, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý 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

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

26-4596286

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

1741 Tiburon Drive

28403

Wilmington, North Carolina

(Address of principal executive offices)

(Zip Code)

(910) 790-5867

(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 ý 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 ý 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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ¨

Accelerated Filer

x

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

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

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 November 7, 2016, there were 29,509,945 shares of the registrant's voting common stock outstanding and 4,723,530 shares of the registrant's non-voting common stock outstanding.

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Form 10-Q  
For the Quarterly Period Ended September 30, 2016  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Live Oak Bancshares, Inc.

## Consolidated Balance Sheets

As of September 30, 2016 (unaudited) and December 31, 2015\*

(Dollars in thousands)

|  | September<br>30,<br>2016 | December<br>31,<br>2015* |
|--|--------------------------|--------------------------|
| Assets   |                          |                          |
| Cash and due from banks  | \$355,485                | \$102,607                |
| Certificates of deposit with other banks   | 7,500                    | 10,250                   |
| Investment securities available-for-sale   | 70,334                   | 53,762                   |
| Loans held for sale  | 345,277                  | 480,619                  |
| Loans held for investment  | 766,977                  | 279,969                  |
| Allowance for loan losses  | (15,178)                 | (7,415)                  |
| Net loans  | 751,799                  | 272,554                  |
| Premises and equipment, net  | 60,646                   | 62,653                   |
| Foreclosed assets  | 2,235                    | 2,666                    |
| Servicing assets   | 49,729                   | 44,230                   |
| Other assets   | 26,735                   | 23,281                   |
| Total assets   | \$1,669,740              | \$1,052,622              |
| Liabilities and Shareholders' Equity   |                          |                          |
| Liabilities  |                          |                          |
| Deposits:  |                          |                          |
| Noninterest-bearing  | \$28,461                 | \$21,502                 |
| Interest-bearing   | 1,374,556                | 783,286                  |
| Total deposits   | 1,403,017                | 804,788                  |
| Long term borrowings   | 28,074                   | 28,375                   |
| Other liabilities  | 24,497                   | 19,971                   |
| Total liabilities  | 1,455,588                | 853,134                  |
| Shareholders' equity   |                          |                          |
| Preferred stock, no par value, 1,000,000 authorized, none issued or outstanding at September 30, 2016 and December 31, 2015  | —                        | —                        |
| Class A common stock, no par value, 100,000,000 shares authorized, 29,491,520 and 29,449,369 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively | 145,284                  | 137,492                  |
| Class B common stock, no par value, 10,000,000 shares authorized, 4,723,530 shares issued and outstanding at September 30, 2016 and December 31, 2015                                | 50,015                   | 50,015                   |
| Retained earnings  | 18,723                   | 12,140                   |
| Accumulated other comprehensive income (loss)  | 130                      | (192)                    |
| Total shareholders' equity attributed to Live Oak Bancshares, Inc.   | 214,152                  | 199,455                  |
| Noncontrolling interest  | —                        | 33                       |
| Total equity   | 214,152                  | 199,488                  |
| Total liabilities and shareholders' equity   | \$1,669,740              | \$1,052,622              |

\* Derived from audited consolidated financial statements.

See Notes to Unaudited Consolidated Financial Statements



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Live Oak Bancshares, Inc.

Consolidated Statements of Income

For the three and nine months ended September 30, 2016 and 2015 (unaudited)

(Dollars in thousands, except per share data)

|  | Three Months<br>Ended<br>September 30,<br>2016 |         | Nine Months<br>Ended<br>September 30,<br>2016 |          |
|--|--|---------|---|----------|
|  | 2016   | 2015    | 2016  | 2015     |
| Interest income  |  |         |   |          |
| Loans and fees on loans                                  | \$14,961                                       | \$8,728 | \$38,868                                      | \$22,866 |
| Investment securities, taxable                           | 337  | 211     | 840   | 587      |
| Other interest earning assets                            | 264  | 84      | 650   | 220      |
| Total interest income                                    | 15,562   | 9,023   | 40,358  | 23,673   |
| Interest expense   |  |         |   |          |
| Deposits   | 3,689  | 1,997   | 9,376   | 5,274    |
| Borrowings   | 242  | 395     | 725   | 1,280    |
| Total interest expense                                   | 3,931  | 2,392   | 10,101  | 6,554    |
| Net interest income                                      | 11,631   | 6,631   | 30,257  | 17,119   |
| Provision for loan losses                                | 3,806  | 1,212   | 8,692   | 2,339    |
| Net interest income after provision for loan losses      | 7,825  | 5,419   | 21,565  | 14,780   |
| Noninterest income                                       |  |         |   |          |
| Loan servicing revenue                                   | 5,860  | 4,216   | 15,725  | 11,678   |
| Loan servicing asset revaluation                         | (3,421)  | (2,650) | (5,051)                                       | (4,234)  |
| Net gains on sales of loans                              | 21,833   | 15,424  | 52,813  | 46,604   |
| Equity in loss of non-consolidated affiliates            | —  | —       | —   | (26)     |
| Gain on sale of investment in non-consolidated affiliate | —  | —       | —   | 3,782    |
| Gain on sale of investment securities available-for-sale | 1  | 12      | 1   | 12       |
| Construction supervision fee income                      | 502  | 344     | 1,799   | 877      |
| Other noninterest income                                 | 657  | 424     | 1,925   | 1,267    |
| Total noninterest income                                 | 25,432   | 17,770  | 67,212  | 59,960   |
| Noninterest expense                                      |  |         |   |          |
| Salaries and employee benefits                           | 17,471   | 9,949   | 45,875  | 27,623   |
| Travel expense   | 2,218  | 2,200   | 6,394   | 5,914    |
| Professional services expense                            | 907  | 493     | 2,345   | 1,891    |
| Advertising and marketing expense                        | 1,097  | 1,051   | 3,425   | 3,177    |
| Occupancy expense  | 1,058  | 703     | 3,306   | 1,920    |
| Data processing expense                                  | 1,252  | 773     | 3,864   | 2,388    |
| Equipment expense  | 611  | 642     | 1,696   | 1,473    |
| Other loan origination and maintenance expense           | 806  | 673     | 2,001   | 1,384    |
| Other expense  | 1,798  | 1,579   | 5,155   | 3,811    |
| Total noninterest expense                                | 27,218   | 18,063  | 74,061  | 49,581   |
| Income before taxes                                      | 6,039  | 5,126   | 14,716  | 25,159   |
| Income tax expense                                       | 2,561  | 2,228   | 6,432   | 10,272   |
| Net income   | 3,478  | 2,898   | 8,284   | 14,887   |
| Net loss attributable to noncontrolling interest         | 1  | 3       | 9   | 23       |
| Net income attributable to Live Oak Bancshares, Inc.     | \$3,479  | \$2,901 | \$8,293                                       | \$14,910 |
| Basic earnings per share                                 | \$0.10   | \$0.09  | \$0.24  | \$0.50   |
| Diluted earnings per share                               | \$0.10   | \$0.09  | \$0.24  | \$0.48   |

See Notes to Unaudited Consolidated Financial Statements

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Live Oak Bancshares, Inc.

Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2016 and 2015 (unaudited)

(Dollars in thousands)

|   | Three Months<br>Ended<br>September 30,<br>2016 |   | 2015    |   | Nine Months<br>Ended<br>September 30,<br>2016 |   | 2015     |   |
|---|--|---|---------|---|---|---|----------|---|
| Net income  | \$3,478  |   | \$2,898 |   | \$8,284                                       |   | \$14,887 |   |
| Other comprehensive (loss) income before tax:   |  |   |         |   |   |   |          |   |
| Net unrealized (loss) gain on investment securities arising during the period                               | (115   | ) | 151     |   | 525   |   | 15       |   |
| Reclassification adjustment for (gain) loss on sale of securities available-for-sale included in net income | (1   | ) | (12     | ) | (1  | ) | (12      | ) |
| Other comprehensive (loss) income before tax  | (116   | ) | 139     |   | 524   |   | 3        |   |
| Income tax benefit (expense)  | 45   |   | (53     | ) | (202  | ) | (1       | ) |
| Other comprehensive (loss) income, net of tax   | (71  | ) | 86      |   | 322   |   | 2        |   |
| Total comprehensive income  | \$3,407  |   | \$2,984 |   | \$8,606                                       |   | \$14,889 |   |
| See Notes to Unaudited Consolidated Financial Statements  |  |   |         |   |   |   |          |   |



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Live Oak Bancshares, Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the nine months ended September 30, 2016 and 2015 (unaudited)

(Dollars in thousands)

|   | Common stock<br>Shares |           |           | Retained<br>earnings<br>(accumulated<br>deficit) | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Non-<br>controlling<br>interest | Total<br>equity |
|---|------------------------|-----------|-----------|--|---|---------------------------------|-----------------|
|   | Class A                | Class B   | Amount    |  |   |                                 |                 |
| Balance at December 31, 2014  | 23,896,400             | 4,723,530 | \$98,672  | \$ (6,943 )                                      | \$ 85   | \$ —                            | \$91,814        |
| Net income (loss)   | —                      | —         | —         | 14,910   | —   | (23 )                           | 14,887          |
| Other comprehensive income  | —                      | —         | —         | —  | 2   | —                               | 2               |
| Consolidation of investment with<br>non-controlling interest                                  | —                      | —         | —         | —  | —   | 35                              | 35              |
| Stock option exercises  | 47,570                 | —         | 215       | —  | —   | —                               | 215             |
| Stock option based compensation<br>expense  | —                      | —         | 726       | —  | —   | —                               | 726             |
| Restricted stock expense  | —                      | —         | 83        | —  | —   | —                               | 83              |
| Capital contribution from<br>non-controlling interest   | —                      | —         | —         | —  | —   | 22                              | 22              |
| Issuance of common stock in<br>connection with initial public<br>offering, net of issue costs | 5,500,000              | —         | 87,171    | —  | —   | —                               | 87,171          |
| Dividends (distributions to<br>shareholders)  | —                      | —         | —         | (859 )   | —   | —                               | (859 )          |
| Balance at September 30, 2015   | 29,443,970             | 4,723,530 | \$186,867 | \$ 7,108   | \$ 87   | \$ 34                           | \$194,096       |
| Balance at December 31, 2015  | 29,449,369             | 4,723,530 | \$187,507 | \$ 12,140  | \$ (192 )   | \$ 33                           | \$199,488       |
| Net income (loss)   | —                      | —         | —         | 8,293  | —   | (9 )                            | 8,284           |
| Other comprehensive income  | —                      | —         | —         | —  | 322   | —                               | 322             |
| Issuance of restricted stock  | 16,745                 | —         | —         | —  | —   | —                               | —               |
| Stock option exercises  | 25,406                 | —         | 147       | —  | —   | —                               | 147             |
| Stock option based compensation<br>expense  | —                      | —         | 1,752     | —  | —   | —                               | 1,752           |
| Restricted stock expense  | —                      | —         | 5,893     | —  | —   | —                               | 5,893           |
| Acquisition of non-controlling<br>interest  | —                      | —         | —         | —  | —   | (24 )                           | (24 )           |
| Dividends (distributions to<br>shareholders)  | —                      | —         | —         | (1,710 )   | —   | —                               | (1,710 )        |
| Balance at September 30, 2016   | 29,491,520             | 4,723,530 | \$195,299 | \$ 18,723  | \$ 130  | \$ —                            | \$214,152       |
| See Notes to Unaudited Consolidated Financial Statements                                      |                        |           |           |  |   |                                 |                 |

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Live Oak Bancshares, Inc.

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2016 and 2015 (unaudited)

(Dollars in thousands)

|   | Nine Months<br>Ended<br>September 30,<br>2016      2015 |            |
|---|---|------------|
| Cash flows from operating activities  |   |            |
| Net income  | \$8,284   | \$14,887   |
| Adjustments to reconcile net income to net cash used by operating activities:                   |   |            |
| Depreciation and amortization   | 3,201   | 1,917      |
| Provision for loan losses   | 8,692   | 2,339      |
| Amortization of premium on securities, net of accretion   | 135   | 36         |
| Amortization (accretion) of discount on unguaranteed loans, net                                 | 773   | 1,650      |
| Deferred tax (benefit) expense  | (510 )  | 936        |
| Originations of loans held for sale   | (701,415 )  | (740,378 ) |
| Proceeds from sales of loans held for sale  | 555,192   | 508,322    |
| Net gains on sale of loans held for sale  | (52,813 )   | (46,604 )  |
| Net loss on sale of foreclosed assets   | 61  | 12         |
| Net increase in servicing assets  | (5,499 )  | (5,591 )   |
| Gain on sale of securities available-for-sale   | (1 )  | (12 )      |
| Gain on sale of investment in non-consolidated affiliate  | —   | (3,782 )   |
| Net loss on disposal of premises and equipment  | —   | 16         |
| Stock option based compensation expense   | 1,752   | 726        |
| Restricted stock expense  | 5,893   | 83         |
| Equity in loss of non-consolidated affiliates   | —   | 26         |
| Changes in assets and liabilities:  |   |            |
| Other assets  | (858 )  | (2,431 )   |
| Other liabilities   | 2,652   | 2,025      |
| Net cash used by operating activities   | (174,461 )  | (265,823 ) |
| Cash flows from investing activities  |   |            |
| Purchases of securities available-for-sale  | (24,946 )   | (15,437 )  |
| Proceeds from sales, maturities, calls, and principal paydowns of securities available-for-sale | 8,764   | 13,106     |
| Proceeds from sale/collection of foreclosed assets  | 680   | 514        |
| Maturities of certificates of deposit with other banks  | 2,750   | —          |
| Proceeds from sale of investment in non-consolidated affiliate                                  | —   | 9,896      |
| Net cash acquired in consolidation of equity method investment                                  | —   | 319        |
| Capital contribution from non-controlling interest  | —   | 22         |
| Loan originations and principal collections, net  | (154,738 )  | 66,835     |
| Purchases of premises and equipment, net  | (1,194 )  | (29,295 )  |
| Net cash (used in) provided by investing activities   | (168,684 )  | 45,960     |
| See Notes to Unaudited Consolidated Financial Statements  |   |            |