

MITEK SYSTEMS INC

Form 10-Q

February 08, 2019

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

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

For the quarterly period ended December 31, 2018

**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 001-35231

MITEK SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware 87-0418827

(State or Other (I.R.S. Employer
Jurisdiction of Identification
No.)

Incorporation or
Organization)

600 B
Street, Suite
100 92101
San Diego,
California

(Address of
Principal
Executive
Offices) (Zip Code)

(619) 269-6800

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

(Do not
check if a
smaller
reporting
company)

Non-accelerated filer

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

There were 38,734,691 shares of the registrant's common stock outstanding as of January 31, 2019.

MITEK SYSTEMS, INC.
FORM 10-Q
For The Quarterly Period Ended December 31, 2018
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PART I
FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.
MITEK SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(amounts in thousands except share data)

| | December 31, 2018 (Unaudited) | September 30, 2018 |
|----------------------------------------------|----------------------------------|--------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 10,437 | \$ 9,028 |
| Short-term investments | 9,248 | 8,448 |
| Accounts receivable, net | 12,831 | 16,821 |
| Prepaid expenses | 2,096 | 2,278 |
| Other current assets | 2,455 | 1,053 |
| Total current assets | 37,067 | 37,628 |
| Property and equipment, net | 4,779 | 4,665 |
| Intangible assets, net | 30,742 | 32,947 |
| Goodwill | 34,058 | 34,407 |
| Deferred income tax assets | 16,716 | 15,356 |
| Other non-current assets | 2,815 | 2,147 |
| Total assets | \$ 126,177 | \$ 127,150 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,507 | 3,573 |
| Accrued payroll and related taxes | 6,202 | 7,915 |
| Deferred revenue, current portion | 4,655 | 4,792 |
| Acquisition-related contingent consideration | 1,823 | 1,849 |
| Other current liabilities | 2,023 | 2,278 |
| Total current liabilities | 19,210 | 20,407 |

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Deferred revenue, non-current portion | 407 | 485 |
| Deferred income tax liabilities | 8,055 | 8,162 |
| Other non-current liabilities | 2,937 | 2,702 |
| Total liabilities | 30,609 | 31,756 |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value, 1,000,000 shares authorized, none issued and outstanding | — | — |
| Common stock, \$0.001 par value, 60,000,000 shares authorized, 38,638,816 and 37,961,224 issued and outstanding, as of December 31, 2018 and September 30, 2018, respectively | 39 | 38 |
| Additional paid-in capital | 120,199 | 116,944 |
| Accumulated other comprehensive loss | (1,397) | (586) |
| Accumulated deficit | (23,273) | (21,002) |
| Total stockholders' equity | 95,568 | 95,394 |
| Total liabilities and stockholders' equity | \$ 126,177 | \$ 127,150 |

See accompanying notes to consolidated financial statements.

MITEK SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE LOSS
(Unaudited)

(amounts in thousands except per share data)

| | Three Months Ended December 31, | |
|-----------------------------------------------------------------|----------------------------------------|-------------|
| | 2018 | 2017 |
| Revenue | | |
| Software and hardware | \$ 9,995 | \$ 7,206 |
| Service and other | 7,688 | 4,930 |
| Total revenue | 17,683 | 12,136 |
| Operating costs and expenses | | |
| Cost of revenue—software and hardware | 845 | 719 |
| Cost of revenue—service and other | 2,033 | 898 |
| Selling and marketing | 7,208 | 4,775 |
| Research and development | 4,488 | 3,280 |
| General and administrative | 5,842 | 3,517 |
| Acquisition-related costs and expenses | 1,827 | 1,259 |
| Total operating costs and expenses | 22,243 | 14,448 |
| Operating loss | (4,560) | (2,312) |
| Other income, net | 14 | 190 |
| Loss before income taxes | (4,546) | (2,122) |
| Income tax benefit (provision) | 1,355 | (3,614) |
| Net loss | \$ (3,191) | (5,736) |
| Net loss per share—basic and diluted | \$ (0.08) | \$ (0.17) |
| Shares used in calculating net loss per share—basic and diluted | 38,247 | 34,207 |

| | | |
|-----------------------------------------|------------|---------|
| Other comprehensive loss | | |
| Net loss | \$ (3,191) | (5,736) |
| Foreign currency translation adjustment | (824) | 189 |
| Unrealized gain (loss) on investments | 13 | (59) |
| Other comprehensive loss | \$ (4,002) | (5,606) |

See accompanying notes to consolidated financial statements.

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MITEK SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(amounts in thousands except per share)

| Three Months Ended December 31, 2018 | | | | | | | |
|---------------------------------------------------------------------------|------------------------------------------------|-------------------------|-------------------------------------------|--------------------------------|------------------------------------------------------------------|-------------------------------------------|---------|
| | Common Stock Outstanding Shares | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity | |
| Balance, September 30, 2018 | 37,96 | \$ 38 | \$ 116,944 | \$ (21,002) | \$ (586) | \$ | 95,394 |
| Exercise of stock options | 135 | — | 586 | — | — | | 586 |
| Settlement of restricted stock units | 543 | 1 | (1) | — | — | | — |
| Stock-based compensation expense | — | — | 2,670 | — | — | | 2,670 |
| Cumulative-effect adjustment from the adoption of ASU 2014-09 | — | — | — | 920 | — | | 920 |
| Components of other comprehensive loss: | | | | | | | |
| Net loss | — | — | — | (3,191) | — | | (3,191) |
| Currency translation adjustment | — | — | — | — | (824) | | (824) |
| Change in unrealized gain on investments | — | — | — | — | 13 | | 13 |
| Total other comprehensive loss | | | | | | | (4,002) |
| Balance, December 31, 2018 | 38,63 | \$ 39 | \$ 120,199 | \$ (23,273) | \$ (1,397) | \$ | 95,568 |

| Three Months Ended December 31, 2017 | | | | | | | |
|---------------------------------------------|------------------------------------------------|-------------------------|-------------------------------------------|--------------------------------|------------------------------------------------------------------|-------------------------------------------|--------|
| | Common Stock Outstanding Shares | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity | |
| Balance, September 30, 2017 | 33,72 | \$ 34 | \$ 78,677 | \$ (17,450) | \$ 147 | \$ | 61,408 |
| Exercise of stock options | 63 | — | 137 | — | — | | 137 |
| Settlement of restricted stock units | 450 | — | — | — | — | | — |

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| | | | | | | | | | | | |
|------------------------------------------------------------------------|-------|----|----|-------|---------|------|----------|---------|-----|----|--------|
| Acquisition-related shares issued | 666 | 1 | | 5,607 | | | | 5,608 | | | |
| Stock-based compensation expense | — | — | | 1,889 | — | — | | 1,889 | | | |
| Amortization of closing shares | — | — | | 710 | — | — | | 710 | | | |
| Cumulative-effect adjustment from the adoption of ASU 2016-09 | — | — | | — | 8,255 | — | | 8,255 | | | |
| Components of other comprehensive loss: | | | | | | | | | | | |
| Net loss | — | — | | — | (5,736) | — | | (5,736) | | | |
| Currency translation adjustment | — | — | | — | — | 189 | | 189 | | | |
| Change in unrealized loss on investments | — | — | | — | — | (59) | | (59) | | | |
| Total other comprehensive loss | | | | | | | | (5,606) | | | |
| Balance, December 31, 2017 | 34,90 | \$ | 35 | \$ | 87,020 | \$ | (14,931) | \$ | 277 | \$ | 72,401 |

See accompanying notes to consolidated financial statements..

MITEK SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(amounts in thousands)

| | Three Months Ended December 31, | |
|---------------------------------------------------------------------------------|----------------------------------------|-------------|
| | 2018 | 2017 |
| Operating activities: | | |
| Net loss | \$ (3,191) | \$ (5,736) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Stock-based compensation expense | 2,670 | 1,889 |
| Amortization of closing and earnout shares | — | 355 |
| Amortization of intangible assets | 1,774 | 484 |
| Depreciation and amortization | 373 | 91 |
| Amortization of investment premiums and other | (9) | (46) |
| Deferred taxes | (1,631) | 4,417 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 3,925 | 3,065 |
| Other assets | (733) | (1,549) |
| Accounts payable | 943 | 307 |
| Accrued payroll and related taxes | (1,809) | (1,389) |
| Deferred revenue | (205) | (326) |
| Other liabilities | 189 | 1,005 |
| Net cash provided by operating activities | 2,296 | 2,567 |
| Investing activities: | | |

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| | | |
|--------------------------------------------------------------------------|-----------|----------|
| Purchases of investments | (1,728) | (15,391) |
| Sales and maturities of investments | 950 | 9,950 |
| Acquisitions, net of cash acquired | — | (2,991) |
| Purchases of property and equipment | (508) | (216) |
| Net cash used in investing activities | (1,286) | (8,648) |
| Financing activities: | | |
| Proceeds from the issuance of equity plan common stock | 586 | 137 |
| Principal payments on other borrowings | (164) | — |
| Net cash provided by financing activities | 422 | 137 |
| Foreign currency effect on cash and cash equivalents | (23) | (4) |
| Net increase (decrease) in cash and cash equivalents | 1,409 | (5,948) |
| Cash and cash equivalents at beginning of period | 9,028 | 12,289 |
| Cash and cash equivalents at end of period | \$ 10,437 | \$ 6,341 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for income taxes | \$ 69 | \$ 9 |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| | \$ 13 | \$ (59) |

Unrealized holding
gain (loss) on
available-for-sale
investments

See accompanying notes to consolidated financial statements. ...

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MITEK SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Mitek Systems, Inc. ("Mitek" or the "Company") is a leading innovator of mobile capture and digital identity verification solutions. Mitek is a software development company with expertise in artificial intelligence and machine learning. The Company is currently serving more than 6,100 financial services organizations and leading marketplace and financial technology ("fintech") brands across the globe. The Company's solutions are embedded in native mobile apps and mobile optimized websites to facilitate better mobile user experiences, fraud detection and reduction, and compliant transactions.

Mitek's Mobile Deposit® solution is used today by millions of consumers in the United States ("U.S."), Canada, the United Kingdom, and Australia for mobile check deposit. Mobile Deposit® is the category leading product that allows individuals and businesses to remotely deposit checks using their camera-equipped smartphone or tablet. The Company's Mobile Deposit® solution has now processed over two billion check deposits. Mitek began selling Mobile Deposit® in the second fiscal quarter of 2008, and received our first patent issued for this product in August 2010. Mitek's Mobile Verify™ is an important technology used to verify people's identities at the point of onboarding via web or mobile device. Scanning an identity document enables an enterprise to identify the person with whom they are conducting business, comply with growing governmental Know Your Customer and Anti-Money Laundering regulatory requirements, and to improve the overall customer experience for digital onboarding. To sure the person submitting the identity document is who they say they are, Mitek's Mobile Verify Face Comparison provides an incremental layer of verification and compares the face on the identity document with the selfie photo of the user. Mitek's Mobile Verify Face Comparison technology uses advanced liveness detection so it cannot be spoofed. The identification capture process provided by Mitek can also provide prefill of much of the data obtained from the identity document into an application, requiring far fewer key strokes, reducing keying errors, and improving both operational efficiency and the customer experience. Today, the financial services verticals (banks, credit unions, lenders, payments processors, card issuers, fintech companies, etc.) represent the greatest percentage of use of the Company's solutions, but marketplaces, sharing economy, telecommunications, healthcare, travel, and retail sectors are showing accelerated adoption. Similarly, websites that must verify the customer's age (or other consumer information) prior to selling goods can do so by verifying identity documents. Mitek uses machine learning to constantly improve the product performance of Mobile Verify™ and applies artificial intelligence to increase automation and speed of approvals of identification documents.

The core of the Company's user experience is Mitek MiSnap™, a touch-free automated capture technology which can be incorporated across product lines. It provides a simple and superior user-experience, making transactions on mobile devices fast, accurate, and easy for the consumer while helping organizations drive revenue from the increasingly popular mobile channel.

Mobile Fill™, Mitek's mobile identity capture solution, enables the camera to serve as a keyboard. Using Mobile Fill™, consumers can quickly prefill any form with personal data by simply snapping a picture of their driver's license, credit card, or other similar identity document.

CheckReader™, which the Company acquired through the acquisition of A2iA (as defined below), enables financial institutions to automatically extract data from a check image received across all deposit channels – branch, ATM, Remote Deposit Capture, and mobile. Through the automatic recognition of all fields on checks, whether handwritten or machine print, CheckReader™ speeds the time to deposit for banks and customers and reduces costs formerly incurred before images could be exchanged.

ID_CLOUD™ is a fully automated identity verification solution that can be integrated into a customers' application to instantly read and validate identity documents. ID_CLOUD™ automated technology enables global enterprises to improve their customer acquisition technology while meeting AML requirements in a safe and cost-effective manner. This solution is available in the cloud, via mobile websites, and desktop applications. Additionally, a version of ID_CLOUD™ is available that works locally on a desktop which is connected to a propriety hardware scanner for reading and validating identity documents. ID_CLOUD™ is a fully automated identity verification solution that can be

integrated into a customers' application to instantly read and validate identity documents. ID_CLOUD™ automated technology enables global enterprises to improve their customer acquisition technology while meeting AML requirements in a safe and cost-effective manner. This solution is available in the cloud, via mobile websites, and desktop applications. Additionally, a version of ID_CLOUD™ is available that works locally on a desktop which is connected to a propriety hardware scanner for reading and validating identity documents.

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The Company markets and sells its products and services worldwide through internal, direct sales teams located in the U.S., Europe, and Latin America as well as through channel partners. The Company's partner sales strategy includes channel partners who are financial services technology providers and identity verification providers. These partners integrate the Company's products into their solutions to meet the needs of their customers.

As of December 31, 2018, the Company has been granted 49 patents and it has an additional 21 patent applications pending.

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company as of December 31, 2018 have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, they do not include all information and footnote disclosures required by accounting principles generally accepted in the U.S. ("GAAP"). The Company believes the footnotes and other disclosures made in the financial statements are adequate for a fair presentation of the results of the interim periods presented. The financial statements include all adjustments (solely of a normal recurring nature) which are, in the opinion of management, necessary to make the information presented not misleading. You should read these financial statements and the accompanying notes in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2018, filed with the U.S. Securities and Exchange Commission on December 14, 2018.

Results for the three months ended December 31, 2018 are not necessarily indicative of results for any other interim period or for a full fiscal year.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Foreign Currency

The Company has foreign subsidiaries that operate and sell products and services in various countries and jurisdictions around the world. As a result, the Company is exposed to foreign currency exchange risks. For those subsidiaries whose functional currency is not the U.S. dollar, assets and liabilities are translated into U.S. dollars at the exchange rate in effect on the balance sheet date and revenues and expenses are translated into U.S. dollars using the average exchange rate over the period. Resulting currency translation adjustments are recorded in accumulated other comprehensive loss in the consolidated balance sheets. The Company recorded a net loss resulting from foreign exchange translation of \$0.8 million for the three months ended December 31, 2018 and a net gain resulting from foreign exchange translation of \$0.2 million for the three months ended December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, deferred taxes, and related disclosure of contingent assets and liabilities. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ materially from those estimates. These estimates include, but are not limited to, assessing the collectability of accounts receivable, estimation of the value of stock-based compensation awards, fair value of assets and liabilities acquired, impairment of goodwill, useful lives of intangible assets, standalone selling price related to revenue recognition, contingent consideration, and income taxes.

Revenue Recognition

The Company recognizes revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, and its related amendments (collectively known as "ASC 606"). ASC 606 outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. The core principle, involving a five-step process, of the revenue model is that an entity recognizes revenue to depict the transfer of promised 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 Company generates revenue primarily from the delivery of licenses (to both on premise and transactional software as a service ("SaaS") products) and related services, as well as the delivery of hardware and professional services. Revenue is measured based on consideration specified in a contract with a customer. The Company

recognizes revenue when it satisfies a

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performance obligation by transferring control over a product or service to a customer which may be at a point in time or over time. See Note 2 of the consolidated financial statements for additional details.

Net Loss Per Share

The Company calculates net loss per share in accordance with FASB ASC Topic 260, *Earnings per Share*. Basic net loss per share is based on the weighted-average number of common shares outstanding during the period. Diluted net loss per share also gives effect to all potentially dilutive securities outstanding during the period, such as restricted stock units (“RSUs”), stock options, and Employee Stock Purchase Plan (“ESPP”) shares, if dilutive. In a period with a net loss position, potentially dilutive securities are not included in the computation of diluted net loss because to do so would be antidilutive, and the number of shares used to calculate basic and diluted net loss is the same.

For the three months ended December 31, 2018 and 2017, the following potentially dilutive common shares were excluded from the calculation of net loss per share, as they would have been antidilutive (*amounts in thousands*):

| | Three Months Ended December 31, | |
|---------------------------------------------------------------------|------------------------------------|-------|
| | 2018 | 2017 |
| Stock options | 3,033 | 3,062 |
| RSUs | 2,949 | 2,786 |
| ESPP common stock equivalents | 70 | — |
| Total potentially dilutive common shares outstanding | 6,052 | 5,848 |

The calculation of basic and diluted net loss per share is as follows (*amounts in thousands, except per share data*):

| | Three Months Ended December 31, | |
|---------------------------------------------------|---------------------------------|------------|
| | 2018 | 2017 |
| Net loss | \$ (3,191) | \$ (5,736) |
| Weighted-average shares outstanding—basic | 38,247 | 34,207 |
| Common stock equivalents | — | — |
| Weighted-average shares outstanding—diluted | 38,247 | 34,207 |
| Net loss per share: | | |
| Basic | \$ (0.08) | \$ (0.17) |
| Diluted | \$ (0.08) | \$ (0.17) |

Investments

Investments consist of corporate notes and bonds, commercial paper, and U.S. Treasury securities. The Company classifies investments as available-for-sale at the time of purchase and reevaluates such classification as of each

balance sheet date. All investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive loss, a component of stockholders' equity. The Company evaluates its investments to assess whether those with unrealized loss positions are other-than-temporarily impaired. Impairments are considered to be other-than-temporary if they are related to deterioration in credit risk or if it is likely that the Company will sell the securities before the recovery of its cost basis. Realized gains and losses and declines in value judged to be other-than-temporary are determined based on the specific identification method and are reported in other income, net in the consolidated statements of operations and other comprehensive loss. No other-than-temporary impairment charges were recognized in the three months ended December 31, 2018 and 2017.

All investments whose maturity or sale is expected within one year are classified as "current" on the consolidated balance sheets. All other securities are classified as "long-term" on the consolidated balance sheets.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. Allowances for doubtful accounts are established based on various factors, including credit profiles of the Company's customers, contractual terms and conditions, historical payments, and current economic trends. The Company reviews its allowances by assessing individual accounts receivable over a specific aging and amount. Accounts receivable are written off on a case-by-case basis, net of any amounts that may be collected. The Company had no write-offs of the allowance for doubtful accounts for the three months ended December 31, 2018 and 2017.

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The Company maintained an allowance for doubtful accounts of \$0.4 million and \$0.3 million as of December 31, 2018 and September 30, 2018, respectively.

Capitalized Software Development Costs

Costs incurred for the development of software that will be sold, leased, or otherwise marketed are capitalized when technological feasibility has been established. Software development costs consist primarily of compensation of development personnel and related overhead incurred to develop new products and upgrade and enhance the Company's current products, as well as fees paid to outside consultants. Capitalization of software development costs ceases, and amortization of capitalized software development costs commences when the products are available for general release. For the three months ended December 31, 2018 and 2017, no software development costs were capitalized because the time period and costs incurred between technological feasibility and general release for all software product releases were not material or were not realizable. We had no amortization expense from capitalized software costs during the three months ended December 31, 2018 and 2017.

Costs related to software acquired, developed, or modified solely to meet our internal requirements, with no substantive plans to market such software at the time of development, are capitalized. Costs incurred during the preliminary planning and evaluation stage of the project and during post implementation operational stage are expensed as incurred. Costs incurred during the application development stage of the project are capitalized. The Company defines the design, configuration, and coding process as the application development stage. The Company capitalized \$49,000 and \$54,000 of costs related to computer software developed for internal use during the three months ended December 31, 2018 and 2017, respectively. The Company had \$81,000 in amortization expense from internal use software during the three months ended December 31, 2018 and no amortization expense from internal use software during the three months ended December 31, 2017.

Goodwill and Purchased Intangible Assets

The Company's goodwill and intangible assets resulted from prior acquisitions. Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually or as circumstances indicate that their value may no longer be recoverable. In accordance with ASC Topic 350, *Intangibles—Goodwill and Other*, the Company reviews its goodwill and indefinite-lived intangible assets for impairment at least annually in its fiscal fourth quarter and more frequently if events or changes in circumstances occur that indicate a potential reduction in the fair value of its reporting unit and/or its indefinite-lived intangible asset below their respective carrying values. Examples of such events or circumstances include: a significant adverse change in legal factors or in the business climate, a significant decline in the Company's stock price, a significant decline in the Company's projected revenue or cash flows, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, or the presence of other indicators that would indicate a reduction in the fair value of a reporting unit. No such events or circumstances have occurred since the last impairment assessment was performed.

The Company's goodwill is considered to be impaired if management determines that the carrying value of the reporting unit to which the goodwill has been assigned exceeds management's estimate of its fair value. Based on the guidance provided by ASC 350 and ASC Topic 280, *Segment Reporting*, management has determined that the Company operates in one segment and consists of one reporting unit given the similarities in economic characteristics between its operations and the common nature of its products, services and customers. Because the Company has only one reporting unit, and because the Company is publicly traded, the Company determines the fair value of the reporting unit based on its market capitalization as it believes this represents the best evidence of fair value. In the fourth quarter of fiscal 2018, management completed its annual goodwill impairment test and concluded that the Company's goodwill was not impaired. The Company's conclusion that goodwill was not impaired was based on a comparison of its net assets to its market capitalization.

Because the Company determines the fair value of its reporting unit based on its market capitalization, the Company's future reviews of goodwill for impairment may be impacted by changes in the price of the Company's common stock, par value \$0.001 per share ("Common Stock"). For example, a significant decline in the price of the Common Stock may cause the fair value of its goodwill to fall below its carrying value. Therefore, the Company cannot assure that when it completes its future reviews of goodwill for impairment a material impairment charge will not be recorded. Intangible assets are amortized over their useful lives. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining

period of amortization. The carrying amounts of these assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparing the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate. The carrying amount of such assets is reduced to fair value if the undiscounted cash flows used in the test for recoverability are less than the carrying amount of such assets.

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Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*. Deferred tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years.

Management evaluates the available evidence about future taxable income and other possible sources of realization of deferred tax assets. The valuation allowance reduces deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized. See Note 7 of the consolidated financial statements for additional details.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to income tax matters in income tax expense. See Note 7 of the consolidated financial statements for additional details.

Stock-Based Compensation

The Company issues RSUs, stock options, performance options, and Senior Executive Long Term Incentive Restricted Stock Units ("Senior Executive Performance RSUs") as awards to its employees. Additionally, eligible employees may participate in the Company's ESPP. Employee stock awards are measured at fair value on the date of grant and expense is recognized using the straight-line single-option method in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation*. Forfeitures are recorded as they occur.

The Company assigns fair value to RSUs based on the closing stock price on the date of grant.

The Company estimates the fair value of stock options and ESPP shares using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the expected life of the grant effective as of the date of the grant. The expected volatility is based on the historical volatility of the Company's stock price. These factors could change in the future, affecting the determination of stock-based compensation expense in future periods.

The Company estimates the fair value of Senior Executive Performance RSUs, performance options, and similar awards using the Monte-Carlo simulation. The Monte-Carlo simulation requires subjective assumptions, including the Company's valuation date stock price, the annual risk-free interest rate, expected volatility, the probability of reaching the performance targets, and a 20-trading-day average stock price.

Other Borrowings

The Company has certain loan agreements with Spanish government agencies which were assumed when the Company acquired ICAR Vision Systems, S.L. ("ICAR"). These agreements have repayment periods of five to twelve years and bear no interest. As of December 31, 2018, \$0.6 million was outstanding under these agreements and \$0.2 million and \$0.4 million is recorded in other current liabilities and other non-current liabilities, respectively, in the consolidated balance sheets. As of September 30, 2018, \$0.8 million was outstanding under these agreements and \$0.3 million and \$0.5 million was recorded in other current liabilities and other non-current liabilities, respectively, in the consolidated balance sheets.

Guarantees

In the ordinary course of business, the Company is not subject to potential obligations under guarantees that fall within the scope of FASB ASC Topic 460, *Guarantees* ("ASC 460"), except for standard indemnification and warranty provisions that are contained within many of the Company's customer license and service agreements and certain supplier agreements, and give rise only to the disclosure requirements prescribed by ASC 460. Indemnification and warranty provisions contained within the Company's customer license and service agreements and certain supplier agreements are generally consistent with those prevalent in the Company's industry. The Company has not historically incurred significant obligations under customer indemnification or warranty provisions and does not expect to incur significant obligations in the future. Accordingly, the Company does not maintain accruals for potential customer indemnification or warranty-related obligations.

Comprehensive Loss

Comprehensive loss consists of net loss, unrealized gains and losses on available-for-sale securities, and foreign currency translation adjustments. Included on the consolidated balance sheets is accumulated other comprehensive loss of \$1.4 million and \$0.6 million at December 31, 2018 and September 30, 2018, respectively.

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Recently Adopted Accounting Pronouncements

In October 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (“ASU 2016-16”), which eliminates the current prohibition on immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory, with the intent of reducing complexity and diversity in practice. Under ASU 2016-16, entities must recognize the income tax consequences when the transfer occurs rather than deferring recognition. For public entities, ASU 2016-16 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017. Entities must apply the guidance on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company adopted ASU 2016-16 in the first quarter of 2019, and the adoption did not have a material impact on its consolidated financial statements. In May 2014, the FASB issued guidance codified in ASC 606, to replace existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers. Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services for an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, ASC 606 requires expanded disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted ASC 606 on October 1, 2018 for all contracts that were not completed as of the adoption date using the modified retrospective method and the practical expedient was not applied. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company expects the impact of the adoption of the new revenue standard to be immaterial to our net income on an ongoing basis.

See Note 2 of the consolidated financial statements for additional details on the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Change in Significant Accounting Policy

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in its consolidated financial statements. The details of the significant changes and quantitative impact of the changes are disclosed below.

Contract Assets and Liabilities

The Company previously recognized license revenue on term licenses and transactional SaaS revenue on the date payments become due and payable. Under ASC 606, the Company recognizes revenue when control of the license or transactional SaaS service is transferred to the customer. The Company records a contract asset when the revenue is recognized prior to the date payments become due.

Contract assets that are expected to be paid within one year are recorded in other current assets on the consolidated balance sheets. All other contracts assets are recorded in other non-current assets in the consolidated balance sheet. Contract liabilities consist of deferred revenue. When the performance obligation is expected to be fulfilled within one year, the deferred revenue is recorded in current liabilities in the consolidated balance sheet. When the performance obligation is expected to be fulfilled beyond one year, the deferred revenue is recorded in non-current liabilities in the consolidated balance sheet. The Company reports net contract asset or liability positions on a contract-by-contract basis at the end of each reporting period.

Contract Acquisition Costs

The Company previously recognized commission costs in the period earned if the contract was for one year or less. Under ASC 606, when the commission rate for a customer renewal is not commensurate with the commission rate for a new contract, the commission is capitalized if expected to be recovered. Such costs are capitalized on a contract by contract basis and amortized using a portfolio approach consistent with the pattern of transfer of the good or service to which the asset relates. Contract acquisition costs are recorded in other current and non-current assets in the consolidated balance sheets.

Impacts on Financial Statements

The following table summarizes the cumulative effect of the changes made to the consolidated balance sheet as of October 1, 2018 due to the adoption of ASC 606 (*amounts in thousands*):

| | Balance at September 30, 2018 | Adjustments Due to the Adoption of ASC 606 | Balance at October 1, 2018 |
|---------------------------------------|----------------------------------|--------------------------------------------------|-------------------------------|
| Assets | | | |
| Other current assets | \$ 1,053 | \$ 169 | \$ 1,222 |
| Deferred income tax asset | 15,356 | (267) | 15,089 |
| Other non-current assets | 2,147 | 507 | 2,654 |
| Liabilities | | | |
| Deferred revenue, current portion | 4,792 | (511) | 4,281 |
| Deferred revenue, non-current portion | 485 | — | 485 |
| Equity | | | |
| Accumulated deficit | \$ (21,002) | \$ 920 | \$ (20,082) |

The following tables summarizes the impacts of ASC 606 adoption on the Company's consolidated financial statements as of and for the three months ended December 31, 2018 (*amounts in thousands except per share data*):

**Consolidated
Statement of
Operations**

Impact of changes in accounting policies

| Three Months Ended December 31, 2018: | As reported | Adjustments | Balances without adoption of ASC 606 |
|----------------------------------------------------------|-------------|-------------|--------------------------------------------|
| Revenue | | | |
| Software and hardware | \$ 9,995 | \$ (690) | \$ 9,305 |
| Service and other | 7,688 | — | 7,688 |
| Total revenue | 17,683 | (690) | 16,993 |

Operating
expenses

| | | | | | | |
|--------------------------|----|-------|----|----|----|-------|
| Selling and marketing | \$ | 7,208 | \$ | 11 | \$ | 7,219 |
|--------------------------|----|-------|----|----|----|-------|

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**Consolidated
Balance
Sheet**

Impact of changes in accounting policies

| December 31, 2018: | As reported | Adjustments | Balances without adoption of ASC 606 |
|---------------------------------------|--------------------|--------------------|-------------------------------------------------|
| Assets | | | |
| Other current assets | \$ 2,455 | \$ (772) | \$ 1,683 |
| Deferred income tax asset | 16,716 | 424 | 17,140 |
| Other non-current assets | 2,815 | (517) | 2,298 |
| Liabilities | | | |
| Deferred revenue, current portion | 4,655 | 599 | 5,254 |
| Deferred revenue, non-current portion | 407 | — | 407 |
| Equity | | | |
| Accumulated deficit | \$ (23,273) | \$ (1,464) | \$ (24,737) |

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (ASC 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (“ASU 2018-15”), which requires hosting arrangements that are service contracts to follow the guidance for internal-use software to determine which implementation costs can be capitalized. ASU 2018-15 is effective either prospectively or retrospectively for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The Company does not expect the adoption of ASU 2018-15 to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, to eliminate, add, and modify certain disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for annual and interim periods beginning after December 15, 2019, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company is currently evaluating how to apply the new guidance.

In February 2018, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (“ASU 2018-02”). Under previously existing GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law

was enacted. When deferred tax balances related to items originally recorded in accumulated other comprehensive income are adjusted, certain tax effects become stranded in accumulated other comprehensive income. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The amendments in this ASU also require certain disclosures about stranded tax effects. The guidance is required for fiscal years beginning after December 15, 2018 (our fiscal year 2020), and interim periods within those fiscal years. Early adoption in any period is permitted. The Company does not expect the adoption of ASU 2018-02 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), which eliminates Step 2 of the goodwill impairment test that had required a hypothetical purchase price allocation. Rather, entities should apply the same impairment assessment to all reporting units and recognize an impairment loss for the amount by which a reporting unit’s carrying amount exceeds its fair value, without exceeding the total amount of goodwill allocated to that reporting unit. Entities will continue to have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 will be effective prospectively for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

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In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which requires entities to use a Current Expected Credit Loss model which is a new impairment model based on expected losses rather than incurred losses. Under this model, an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost. The entity’s estimate would consider relevant information about past events, current conditions and reasonable and supportable forecasts. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 31, 2019 with early adoption permitted for annual reporting periods beginning after December 31, 2018. The Company is currently evaluating the impact ASU 2016-13 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which modified lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for the Company beginning in its first quarter of fiscal 2020 and early adoption is permitted. The Company is currently evaluating the timing of its adoption and the impact of adopting the new lease standard on its consolidated financial statements.

No other new accounting pronouncement issued or effective during the three months ended December 31, 2018 had, or is expected to have, a material impact on the Company’s consolidated financial statements.

2. REVENUE RECOGNITION

Nature of Goods and Services

The following is a description of principal activities from which the Company generates its revenue. Contracts with customers are evaluated on a contract-by-contract basis as contracts may include multiple types of goods and services as described below.

Software and Hardware

Software and hardware revenue is generated from on premise software license sales, as well as sales of hardware scanner boxes and on premise appliance products. For software license agreements that are distinct, the Company recognizes software license revenue upon delivery and evidence of a contract exists. Hardware revenue is recognized in the period that the hardware is shipped.

Service and Other

Service and other revenue is generated from the sale of transactional SaaS products and services, maintenance associated with the sale of software and hardware, and consulting and professional services. The Company recognizes services and other revenue over the period in which such services are performed. The Company’s model typically includes an up-front fee and a periodic commitment from the customer that commences upon completion of the implementation through the remainder of the customer life. The up-front fee is the initial setup fee, or the implementation fee. The periodic commitment includes, but is not limited to, a fixed periodic fee and / or a transactional fee based on system usage that exceeds committed minimums. If the up-front fee is not distinct, revenue is deferred until the date the customer commences use of the Company’s services, at which point the up-front fee is recognized ratably over the life of the customer arrangement. The Company does not view the signing of the contract or the provision of initial setup services as discrete earnings events that are distinct.

Significant Judgments in Application of the Guidance

The Company uses the following methods, inputs, and assumptions in determining amounts of revenue to recognize:

Identification of Performance Obligations

For contracts that contain multiple performance obligations, which include combinations of software licenses, maintenance, and services, the Company accounts for individual goods or services as a separate performance obligation if they are distinct. The good or service is distinct if the good or service separately identifiable from other items in the arrangement and if a customer can benefit from it on its own or with other resources that are readily available to the customer. If these criteria are not met, the promised goods or services are accounted for as a combined performance obligation.

Determination of Transaction Price

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring products or services to the customer. The Company includes any fixed charges within its contracts as part of the total transaction price. To the extent that variable consideration is not constrained, the Company includes an estimate of the

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variable amount, as appropriate, within the total transaction price and updates its assumptions over the duration of the contract. As a practical expedient, the Company does not adjust the transaction price for the effects of a significant financing component if, at contract inception, the period between customer payment and the transfer of goods or services is expected to be one year or less.

Assessment of Estimates of Variable Consideration

Many of the Company's contracts with customers contain some component of variable consideration; however, the constraint will generally not result in a reduction in the estimated transaction price for most forms of variable consideration. The Company may constrain the estimated transaction price in the event of a high degree of uncertainty as to the final consideration amount owed because of an extended length of time over which the fees may be adjusted.

Allocation of Transaction Price

The transaction price, including any discounts, is allocated between separate goods and services in contracts that contain multiple performance obligations based on their relative standalone selling prices. The standalone selling prices are determined based on the prices at which the Company separately sells each good or service. For items that are not sold separately, the Company estimates the standalone selling prices using available information such as market conditions and internally approved pricing guidelines. In instances where there are observable selling prices for professional services and support and maintenance, the Company may apply the residual approach to estimate the standalone selling price of software licenses. In certain situations, primarily transactional SaaS revenue described above, the Company allocates variable consideration to a series of distinct goods or services within a contract. The Company allocates variable payments to one or more, but not all, of the distinct goods or services or to a series of distinct goods or services in a contract when (i) the variable payment relates specifically to the Company's efforts to transfer the distinct good or service and (ii) the variable payment is for an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to its customer.

Disaggregation of Revenue

The following table presents the Company's revenue disaggregated by major product category (*amounts in thousands*):

| | Three Months Ended | |
|---------------------------------------------|---------------------------|-------------|
| | December 31, | |
| | 2018 | 2017 |
| Major product category | | |
| Deposits software and hardware | \$ 9,050 | \$ 5,147 |
| Deposits services and other | 2,820 | 1,954 |
| Deposits revenue | 11,870 | 7,101 |
| Identity verification software and hardware | 945 | 2,059 |
| Identity verification services and other | 4,868 | 2,976 |

| | | |
|-------------------------------|--------|--------|
| Identity verification revenue | 5,813 | 5,035 |
| Total revenue | 17,683 | 12,136 |

Software and hardware revenue is generated from on premise software license sales, as well as sales of hardware scanner boxes and on premise appliance products. Service and other revenue is generated from the sale of transactional SaaS products and services, maintenance associated with the sale of software and hardware, and consulting and professional services.

Contract Balances

The following table provides information about contract assets and contract liabilities from contracts with customers (*amounts in thousands*):

| | December 31, 2018 | October 1, 2018 |
|-----------------------------------|----------------------|-----------------|
| Contract assets, current | \$ 772 | \$ 169 |
| Contract assets, non-current | 507 | 507 |
| Contract liabilities, current | 4,655 | 4,792 |
| Contract liabilities, non-current | \$ 407 | \$ 485 |

Contract assets, reported within other current and long-term assets in the consolidated balance sheet, primarily result from revenue being recognized when a license is delivered and payments are made over time. Contract liabilities primarily relate to advance consideration received from customers, deferred revenue, for which transfer of control occurs, and therefore revenue is recognized, as services are provided. Contract balances are reported in a net contract asset or liability position on a contract-by-contract basis at the end of each reporting period. The Company recognized \$2.3 million of revenue during the three months ended December 31, 2018 that was included in the contract liability balance at the beginning of the period.

Contract Costs

The Company incurs incremental costs to obtain a contract, consisting primarily of sales commissions incurred only if a contract is obtained. Capitalized sales commissions included in other current and non-current assets on the consolidated balance sheets totaled \$1.2 million and \$1.0 million at December 31, 2018 and October 1, 2018, respectively.

Capitalized contract costs are amortized based on the transfer of goods or services to which the asset relates. The amortization period also considers expected customer lives and whether the asset relates to goods or services transferred under a specific anticipated contract. These costs are included in selling and marketing expenses in the consolidated statement of operations and totaled \$0.1 million during the three months ended December 31, 2018. There was no impairment loss recognized during the three months ended December 31, 2018 related to capitalized contract costs.

3. BUSINESS COMBINATIONS

A2iA Group II, S.A.S.

On May 23, 2018, the Company acquired all of the issued and outstanding shares of A2iA Group II, S.A.S. ("A2iA"), a simplified joint stock company formed under the laws of France, pursuant to a share purchase agreement, by and among the Company, each of the holders of outstanding shares of A2iA and Andera Partners, S.C.A., as representative of the sellers (the "A2iA Acquisition"). Upon completion of the A2iA Acquisition, A2iA became a direct wholly owned subsidiary of the Company. The A2iA Acquisition extends Mitek's global leadership position in both mobile check deposit and digital identity verification and combines the two market leaders in document recognition and processing. As consideration for the A2iA Acquisition, the Company (i) made a cash payment of \$26.8 million, net of cash acquired; (ii) issued 2,514,588 shares, or \$21.9 million, of the Company's Common Stock; and (iii) incurred transaction related liabilities of \$0.2 million.

The Company incurred \$2.2 million of expense in connection with the A2iA Acquisition primarily related to legal fees, outside service costs, and travel expense, which are included in acquisition-related costs and expenses in the consolidated statements of operations and other comprehensive loss.

On May 23, 2018, the Company deposited \$0.7 million of the cash payment and 508,479 shares, or \$4.4 million, of Common Stock into an escrow fund to serve as collateral and partial security for certain indemnification rights of the Company. The escrow fund will be maintained for up to 24 months following the completion of the A2iA Acquisition or until such earlier time as the escrow fund is exhausted.

The Company used cash on hand for the cash paid on May 23, 2018.

ICAR Vision Systems, S.L.

On October 16, 2017, Mitek Holding B.V., a company incorporated under the laws of The Netherlands and a wholly owned subsidiary of the Company ("Mitek Holding B.V."), acquired all of the issued and outstanding shares of ICAR, a company incorporated under the laws of Spain (the "ICAR Acquisition"), and each of its subsidiaries, pursuant to a Share Purchase Agreement (the "Purchase Agreement"), by and among, the Company, Mitek Holding B.V., and each of the shareholders of ICAR (the "Sellers"). Upon completion of the ICAR Acquisition, ICAR became a direct wholly owned subsidiary of Mitek Holding B.V. and an indirect wholly owned subsidiary of the Company. ICAR is a leading provider of consumer identity verification solutions in Spain and Latin America. The ICAR Acquisition strengthens the Company's position as a global digital identity verification powerhouse in the Consumer Identity and Access Management solutions market.

As consideration for the ICAR Acquisition, the Company: (i) made a cash payment to Sellers of \$3.0 million, net of cash acquired and subject to adjustments for transaction expenses, escrow amounts, indebtedness, and working capital

adjustments; and (ii) issued to Sellers of 584,291 shares, or \$5.6 million, of Common Stock. In addition to the foregoing, the Sellers may be entitled to additional cash consideration upon achievement of certain milestones as follows: (a) subject to achievement of the revenue target for the fourth quarter of calendar 2017, the Company will pay to Sellers up to \$1.5 million (the “Q4 Consideration”), which amount shall be deposited (as additional funds) into the escrow fund described below; and (b) subject to achievement of certain revenue and net income targets for ICAR for the twelve-month period ending on September 30, 2018,

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and the twelve-month period ending on September 30, 2019, the Company will pay to Sellers up to \$3.8 million in additional cash consideration (the “Earnout Consideration”); provided that if the revenue target set forth in clause (a) is not met, then the Q4 Consideration will instead be added to the Earnout Consideration payable upon (and subject to) achievement of the revenue and net income targets for the twelve-month period ending on September 30, 2018. The Company estimated the fair value of the total Q4 Consideration and Earnout Consideration to be \$2.9 million on October 16, 2017, which was determined using a discounted cash flow methodology based on financial forecasts determined by management that included assumptions about revenue growth and discount rates. Each quarter the Company evaluates the estimated fair value of the Earnout Consideration and revises if necessary.

The Company incurred \$0.5 million of expense in connection with the ICAR Acquisition primarily related to legal fees, outside service costs, and travel expense, which are included in acquisition-related costs and expenses in the consolidated statements of operations and other comprehensive loss.

On October 16, 2017, the Company deposited \$1.5 million of cash into an escrow fund to serve as collateral and partial security for working capital adjustments and certain indemnification rights. In April 2018, the Q4 Consideration of \$1.5 million was deposited into the escrow fund. The escrow fund will be maintained for up to 24 months following the completion of the ICAR Acquisition or until such earlier time as the escrow fund is exhausted. As a result of the achievement of earnout targets during fiscal 2018, the Company paid \$1.8 million in January 2019.

The Company used cash on hand for cash paid on October 16, 2017, and under the terms of the Purchase Agreement, the Company has agreed to guarantee the obligations of Mitek Holding B.V. thereunder.

Acquisitions are accounted for using the purchase method of accounting in accordance with ASC Topic 805, *Business Combinations*. Accordingly, the results of operations of A2iA and ICAR have been included in the accompanying consolidated financial statements since the date of each acquisition. The purchase price for both the A2iA Acquisition and the ICAR Acquisition have been allocated to the tangible and intangible assets acquired and liabilities assumed based upon the respective estimates of fair value as of the date of each acquisition, and are based on assumptions that the Company’s management believes are reasonable given the information currently available. The Company is in the process of completing its valuation of certain intangible assets and the valuation of the acquired deferred income taxes of A2iA. The final allocations of each such purchase price to intangible assets and deferred income taxes may differ materially from the information presented in these unaudited consolidated financial statements.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed during the year ended September 30, 2018 (*amounts shown in thousands*):

| | A2iA | ICAR | Total |
|---------------------------------|-------------|-------------|--------------|
| Current assets | \$ 3,929 | \$ 2,036 | \$ 5,965 |
| Property, plant, and equipment | 307 | 83 | 390 |
| Intangible assets | 28,610 | 6,407 | 35,017 |
| Goodwill | 24,991 | 6,936 | 31,927 |
| Other non-current assets | 1,177 | 87 | 1,264 |
| Current liabilities | (2,688) | (1,652) | (4,340) |
| Deferred income tax liabilities | (7,503) | (1,602) | (9,105) |

| | | | | | | |
|-------------------------------------|-----|--------|-------|--------|----|--------|
| Other non-current liabilities | (7) | (828) | (835) | | | |
| Net assets acquired | \$ | 48,816 | \$ | 11,467 | \$ | 60,283 |

The goodwill recognized is due to expected synergies and other factors and is not expected to be deductible for income tax purposes. The Company estimated the fair value of identifiable acquisition-related intangible assets with definite lives primarily based on discounted cash flow projections that will arise from these assets. The Company exercised significant judgment with regard to assumptions used in the determination of fair value such as with respect to discount rates and the determination of the estimated useful lives of the intangible assets. The following table summarizes the estimated fair values and estimated useful lives of intangible assets with definite lives acquired during the year ended September 30, 2018 (*amounts shown in thousands, except for years*):

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| | Amortization Period | Amount assigned |
|--------------------------------------------|--------------------------------|------------------------|
| A2iA | | |
| Completed technologies | 7.0 years | \$ 13,015 |
| Customer relationships | 5.0 years | 15,360 |
| Trade names | 5.0 years | 235 |
| Total intangible assets acquired from A2iA | | \$ 28,610 |
| ICAR | | |
| Completed technologies | 5.0 years | \$ 4,956 |
| Customer relationships | 2.0 years | 1,298 |
| Trade names | 3.0 years | 153 |
| Total intangible assets acquired from ICAR | | \$ 6,407 |

The following unaudited pro forma financial information is presented as if the acquisitions had taken place at the beginning of the periods presented and should not be taken as representative of the Company's future consolidated results of operations. The following unaudited pro forma information includes adjustments for the amortization expense related to the identified intangible assets.

The following table summarizes the Company's unaudited pro forma financial information presented as if the acquisitions occurred on October 1, 2017 (*amounts shown in thousands*):

| | Three Months Ended December 31, | |
|--------------------|---------------------------------|------------|
| | 2018 | 2017 |
| Pro forma revenue | \$ 18,897 | \$ 17,321 |
| Pro forma net loss | \$ (1,980) | \$ (5,975) |

4. INVESTMENTS

The following tables summarize investments by type of security as of December 31, 2018 and September 30, 2018, respectively (*amounts shown in thousands*):

| December 31, 2018: | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
|---------------------------|------|------------------------|-------------------------|-------------------|
|---------------------------|------|------------------------|-------------------------|-------------------|

Available-for-sale
securities:

| | | | | | | | | |
|---------------------------------------------|----|-------|----|---|----|------|----|-------|
| U.S. Treasury, short-term | \$ | 3,698 | \$ | — | \$ | (2) | \$ | 3,696 |
| Corporate debt securities, short-term | | 5,561 | | — | | (9) | | 5,552 |
| Total | \$ | 9,259 | \$ | — | \$ | (11) | \$ | 9,248 |

**September 30,
2018:**

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
|---------------------------------------------|------|------------------------------|-------------------------------|----------------------|
| Available-for-sale securities: | | | | |
| U.S. Treasury, short-term | \$ | 3,693 | \$ | — |
| Corporate debt securities, short-term | | 4,779 | | (14) |
| Total | \$ | 8,472 | \$ | — |
| | | | | (24) |
| | \$ | | \$ | 8,448 |

The cost of securities sold is based on the specific identification method. Amortization of premiums, accretion of discounts, interest, dividend income and realized gains and losses are included in investment income.

The Company determines the appropriate designation of investments at the time of purchase and reevaluates such designation as of each balance sheet date. All of the Company's investments are designated as available-for-sale debt securities. As of December 31, 2018 and September 30, 2018, the Company's short-term investments have maturity dates of less than one

year from the balance sheet date and the Company's long-term investments have maturity dates of greater than one year from the balance sheet date.

Available-for-sale marketable securities are carried at fair value as determined by quoted market prices for identical or similar assets, with unrealized gains and losses, net of taxes, and reported as a separate component of stockholders' equity. Management reviews the fair value of the portfolio at least monthly and evaluates individual securities with fair value below amortized cost at the balance sheet date. For debt securities, in order to determine whether impairment is other-than-temporary, management must conclude whether the Company intends to sell the impaired security and whether it is more likely than not that the Company will be required to sell the security before recovering its amortized cost basis. If management intends to sell an impaired debt security or it is more likely than not that the Company will be required to sell the security prior to recovering its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. The amount of an other-than-temporary impairment on debt securities related to a credit loss, or securities that management intends to sell before recovery, is recognized in earnings. The amount of an other-than-temporary impairment on debt securities related to other factors is recorded consistent with changes in the fair value of all other available-for-sale securities as a component of stockholders' equity in other comprehensive income. No other-than-temporary impairment charges were recognized in the three months ended December 31, 2018 and 2017. There were no realized gains or losses from the sale of available-for-sale securities during the three months ended December 31, 2018 and 2017.

Fair Value Measurements and Disclosures

FASB ASC Topic 820, *Fair Value Measurements* ("ASC 820") defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an 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. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 describes a fair value hierarchy based on the following three levels of inputs that may be used to measure fair value, of which the first two are considered observable and the last, unobservable:

- Level 1—Quoted prices in active markets for identical assets or liabilities;
- Level 2—Inputs other than Level 1 inputs that are observable, either directly or indirectly, 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 for substantially the full term of the assets or liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables represent the fair value hierarchy of the Company's investments and acquisition-related contingent consideration as of December 31, 2018 and September 30, 2018, respectively (*amounts shown in thousands*):

| December 31, 2018: | Balance | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------|----------|-------------------------------------------|-----------------------------------------------|-------------------------------------------|
| Assets: | | | | |
| Short-term investments: | | | | |
| U.S. Treasury | \$ 3,696 | \$ 3,696 | \$ — | \$ — |
| Corporate debt securities | | | | |
| Financial | 2,246 | — | 2,246 | — |
| Industrial | 1,922 | — | 1,922 | — |
| Commercial paper | | | | |
| Financial | 1,384 | — | 1,384 | — |

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| | | | | |
|----------------------------------------------|----------|----------|----------|----------|
| Total assets at fair value | \$ 9,248 | \$ 3,696 | \$ 5,552 | \$ — |
| Liabilities: | | | | |
| Acquisition-related contingent consideration | 3,007 | — | — | 3,007 |
| Total liabilities at fair value | \$ 3,007 | \$ — | \$ — | \$ 3,007 |

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| September 30, 2018: | Balance | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|----------------------------------------------|----------|-------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|
| Assets: | | | | |
| Short-term investments: | | | | |
| U.S. Treasury | \$ 3,683 | \$ 3,683 | \$ — | \$ — |
| Corporate debt securities | | | | |
| Financial | 2,847 | — | 2,847 | — |
| Industrial | 1,918 | — | 1,918 | — |
| Total assets at fair value | \$ 8,448 | \$ 3,683 | \$ 4,765 | \$ — |
| Liabilities: | | | | |
| Acquisition-related contingent consideration | 3,051 | — | — | 3,051 |
| Total liabilities at fair value | 3,051 | — | — | 3,051 |

As of December 31, 2018, acquisition-related contingent consideration of \$1.8 million and \$1.2 million is recorded in other current liabilities and non-current liabilities, respectively, in the consolidated balance sheets. The following table includes a summary of the contingent consideration measured at fair value using significant unobservable inputs (Level 3) during the three months ended December 31, 2018 (*amounts shown in thousands*):

Balance at
September 30, 2018, \$ 3,051

Foreign
currency effect
on contingent
consideration (44)

Balance at
December 31, 2018, \$ 3,007

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company had a goodwill balance of \$34.1 million at December 31, 2018, representing the excess of costs over fair value of assets of businesses acquired. Goodwill acquired in a business combination and determined to have an indefinite useful life is not amortized, but instead is tested for impairment at least annually in accordance with ASC 350. The following table summarizes changes in the balance of goodwill during the three months ended December 31, 2018 (*amounts shown in thousands*):

Balance at
September 30, 2018, \$ 34,407

A2iA
purchase
accounting
adjustment
Foreign
currency
effect on
goodwill (470)
Balance at
December \$ 34,058
31, 2018

Intangible assets

Intangible assets include the value assigned to purchased completed technology, customer relationships, and trade names. The estimated useful lives for all of these intangible assets range from two to seven years. Intangible assets as of December 31, 2018 and September 30, 2018, respectively, are summarized as follows (*amounts shown in thousands, except for years*):

| December 31, 2018: | Weighted Average Amortization Period | Cost | Accumulated Amortization | Net |
|---------------------------|-----------------------------------------------|-----------|-----------------------------|-----------|
| Completed technologies | 6.4 years | \$ 20,341 | \$ 4,113 | \$ 16,228 |
| Customer relationships | 4.8 years | 17,628 | 3,472 | 14,156 |
| Trade names | 4.5 years | 618 | 260 | 358 |
| Total intangible assets | | \$ 38,587 | \$ 7,845 | \$ 30,742 |

| September 30, 2018: | Weighted Average Amortization Period | Cost | Accumulated Amortization | Net |
|----------------------------|--------------------------------------|-----------|--------------------------|-----------|
| Completed technologies | 6.4 years | \$ 20,341 | \$ 3,070 | \$ 17,271 |
| Customer relationships | 4.8 years | 17,628 | 2,351 | 15,277 |
| Trade names | 4.5 years | 618 | 219 | 399 |
| Total intangible assets | | \$ 38,587 | \$ 5,640 | \$ 32,947 |

Amortization expense related to acquired intangible assets was \$1.8 million and \$0.5 million for the three months ended December 31, 2018 and 2017, respectively, and is recorded within acquisition-related costs and expenses on the consolidated statements of operations and other comprehensive loss.

The estimated future amortization expense related to intangible assets for each of the five succeeding fiscal years is expected to be as follows (*amounts shown in thousands*):

| | Estimated Future Amortization Expense |
|------------------------------|---------------------------------------|
| 2019 (remaining nine months) | \$ 5,345 |
| 2020 | 6,510 |
| 2021 | 6,238 |
| 2022 | 5,835 |
| 2023 | 3,830 |
| 2024 | 1,813 |
| Thereafter | 1,171 |
| Total | \$ 30,742 |

6. STOCKHOLDERS' EQUITY

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense related to RSUs, stock options, and ESPP shares, which was allocated as follows (*amounts shown in thousands*):

| | Three Months Ended December 31, | |
|----------------------------|---------------------------------|----------|
| | 2018 | 2017 |
| Cost of revenue | \$ 44 | \$ 18 |
| Selling and marketing | 791 | 641 |
| Research and development | 434 | 367 |
| General and administrative | 1,401 | 863 |
| Stock-based compensation | \$ 2,670 | \$ 1,889 |

expense
included in
expenses

The fair value calculations for stock-based compensation awards to employees for the three months ended December 31, 2018 and 2017 were based on the following assumptions:

| | Three Months Ended December 31, 2018 | Three Months Ended December 31, 2017 |
|----------------------------|--------------------------------------------------|--------------------------------------------------|
| Risk-free interest rate | 2.88% – 3.08% | 2.04% |
| Expected life (years) | 5.57 | 5.15 |
| Expected volatility | 57% | 60% |
| Expected dividends | None | None |

The expected life of options granted is derived using assumed exercise rates based on historical exercise patterns and vesting terms, and represents the period of time that options granted are expected to be outstanding. Expected stock price volatility is based upon implied volatility and other factors, including historical volatility. After assessing all available

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information on either historical volatility, or implied volatility, or both, the Company concluded that a combination of both historical and implied volatility provides the best estimate of expected volatility.

As of December 31, 2018, the Company had \$25.5 million of unrecognized compensation expense related to outstanding stock options and RSUs expected to be recognized over a weighted-average period of approximately 2.8 years.

2012 Incentive Plan

In January 2012, the Company's board of directors (the "Board") adopted the Mitek Systems, Inc. 2012 Incentive Plan (the "2012 Plan") upon the recommendation of the compensation committee of the Board. On March 10, 2017, the Company's stockholders approved the amendment and restatement of the 2012 Plan. The total number of shares of Common Stock reserved for issuance under the 2012 Plan is 9,500,000 shares plus that number of shares of Common Stock that would otherwise return to the available pool of unissued shares reserved for awards under its 1999 Stock Option Plan, 2000 Stock Option Plan, 2002 Stock Option Plan, 2006 Stock Option Plan and 2010 Stock Option Plan (collectively, the "Prior Plans"). As of December 31, 2018, (i) stock options to purchase 1,887,915 shares of Common Stock, 2,437,539 RSUs and 2,017,817 Senior Executive Performance RSUs were outstanding under the 2012 Plan, and 433,201 shares of Common Stock were reserved for future grants under the 2012 Plan and (ii) stock options to purchase an aggregate of 972,566 shares of Common Stock were outstanding under the Prior Plans.

Employee Stock Purchase Plan

In January 2018, the Board adopted the ESPP. On March 7, 2018, the Company's stockholders approved the ESPP. The total number of shares of Common Stock reserved for issuance thereunder is 1,000,000 shares. As of December 31, 2018, (i) 60,751 shares were outstanding under the ESPP and (ii) 939,249 shares of Common Stock were reserved for future purchases under the ESPP. The Company commenced the initial offering period on April 2, 2018.

The ESPP enables eligible employees to purchase shares of Common Stock at a discount from the market price through payroll deductions, subject to limitations. Eligible employees may elect to participate in the ESPP only during an open enrollment period. The offering period immediately follows the open enrollment window, at which time ESPP contributions are withheld from the participant's regular paycheck. The ESPP provides for a 15% discount on the market value of the stock at the lower of the grant date price (first day of the offering period) and the purchase date price (last day of the offering period). The Company recognized \$79,000 in stock-based compensation expense related to the ESPP in the three months ended December 31, 2018.

Director Restricted Stock Unit Plan

In January 2011, the Board adopted the Mitek Systems, Inc. Director Restricted Stock Unit Plan, as amended and restated (the "Director Plan"). On March 10, 2017, the Company's stockholders approved an amendment to the Director Plan. The total number of shares of Common Stock reserved for issuance thereunder is 1,500,000 shares. As of December 31, 2018, (i) 416,868 RSUs were outstanding under the Director Plan and (ii) 366,701 shares of Common Stock were reserved for future grants under the Director Plan.

Stock Options

The following table summarizes stock option activity under the Company's equity plans during the three months ended December 31, 2018:

| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in Years) |
|-----------------------------------|------------------|---------------------------------|--------------------------------------------------------|
| Outstanding at September 30, 2018 | 2,806,364 | \$ 4.75 | 4.6 |
| Granted | 364,368 | \$ 9.50 | |
| Exercised | (134,727) | \$ 4.35 | |
| Canceled | (3,345) | \$ 4.27 | |
| Outstanding at December | 3,032,660 | \$ 4.94 | 5.3 |

31, 2018

The Company recognized \$0.2 million and \$0.3 million in stock-based compensation expense related to outstanding stock options in the three months ended December 31, 2018 and 2017, respectively. As of December 31, 2018, the Company had \$2.9 million of unrecognized compensation expense related to outstanding stock options expected to be recognized over a weighted-average period of approximately 3.4 years.

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Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the weighted-average exercise price, multiplied by the number of options outstanding and exercisable. The total intrinsic value of options exercised during the three months ended December 31, 2018 and 2017 was \$0.8 million and \$0.4 million, respectively. The per-share weighted-average fair value of options granted during the three months ended December 31, 2018 was \$4.35. The aggregate intrinsic value of options outstanding as of December 31, 2018 and September 30, 2018, was \$16.7 million and \$8.7 million, respectively.

Restricted Stock Units

The following table summarizes RSU activity under the Company's equity plans during the three months ended December 31, 2018:

| | Number of Shares | Weighted-Average Fair Market Value Per Share |
|-----------------------------------------|---------------------|----------------------------------------------------|
| Outstanding at September 30, 2018 | 2,580,176 | \$ 6.92 |
| Granted | 995,430 | \$ 9.50 |
| Settled | (542,865) | \$ 6.04 |
| Canceled | (83,594) | \$ 7.40 |
| Outstanding at December 31, 2018 | 2,949,147 | \$ 7.95 |

The cost of RSUs is determined using the fair value of Common Stock on the award date, and the compensation expense is recognized ratably over the vesting period. The Company recognized \$2.0 million and \$1.2 million in stock-based compensation expense related to outstanding RSUs in the three months ended December 31, 2018 and 2017, respectively. As of December 31, 2018, the Company had \$19.0 million of unrecognized compensation expense related to outstanding RSUs expected to be recognized over a weighted-average period of approximately 2.8 years.

Senior Executive Performance RSUs

There were 2,017,817 Senior Executive Performance RSUs outstanding as of December 31, 2018. The Company recognized \$0.2 million and \$0.4 million in stock-based compensation expense related to outstanding Senior Executive Performance RSUs in the three months ended December 31, 2018 and 2017, respectively. As of December 31, 2018, the Company had \$1.4 million of unrecognized compensation expense related to outstanding RSUs expected to be recognized over a weighted-average period of approximately 1.7 years.

Performance Options

On November 6, 2018, as an inducement grant pursuant to Nasdaq Listing Rule 5635(c)(4), the Company's Chief Executive Officer was granted performance options (the "Performance Options") to purchase up to 800,000 shares of the Common Stock at an exercise price of \$9.50 per share, the closing market price for a share of the Common Stock on the date of the grant. As long as he remains employed by the Company, such Performance Options shall vest upon the closing market price of the Common Stock achieving certain predetermined levels and his serving as the Chief Executive Officer of the Company for at least 3 years. In the event of a change of control of the Company, all of the unvested Performance Options will vest if the per share price payable to the stockholders of the Company in connection with the Change of Control is an amount reaching those certain predetermined levels required for the Performance Options to otherwise vest. The Company recognized \$0.1 million in stock-based compensation expense related to outstanding Performance Options in the three months ended December 31, 2018. As of December 31, 2018, the Company had \$2.3 million of unrecognized compensation expense related to outstanding Performance Options expected to be recognized over a weighted-average period of approximately 2.8 years.

Earnout Shares

On June 17, 2015, the Company completed the acquisition of IDChecker NL B.V., a company incorporated under the laws of The Netherlands (“IDC NL”), and ID Checker, Inc., a California corporation and wholly owned subsidiary of IDC NL (“IDC Inc.” and together with IDC NL, “IDChecker”). In connection with the acquisition of IDChecker, the Company issued 137,306 shares of Common Stock (the “Earnout Shares”) to the Sellers for achievement by IDChecker of certain revenue targets for the nine-month period ended September 30, 2015. Additionally, 81,182 Earnout Shares were earned by the Sellers for achievement by IDChecker of certain revenue targets for the twelve-month period ended September 30, 2016. The Company estimated the fair value of the Earnout Shares using the Monte-Carlo simulation (using the Company’s valuation date stock price, the annual risk-free interest rate, expected volatility, the probability of reaching the performance targets and a 10-trading day average stock price). In November 2017, a contingency triggered the immediate vesting of all Earnout Shares, resulting in an acceleration of all stock-based compensation related to the earnout shares. Stock-based compensation expense related to the Earnout Shares is recorded within acquisition-related costs and expenses on the consolidated statements of operations and other comprehensive income (loss). The Company recognized \$0.4 million in stock-based compensation expense related to the Earnout Shares for the three months ended December 31, 2017.

Rights Agreement

On October 23, 2018, the Company entered into the Section 382 Rights Agreement (the “Rights Agreement”) and issued a dividend of one preferred share purchase right (a “Right”) for each share of Common Stock payable on November 2, 2018 to the stockholders of record of such shares on that date. Each Right entitles the registered holder, under certain circumstances, to purchase from the Company one one-thousandth of a share of Series B Junior Preferred Stock, par value \$0.001 per share (the “Preferred Shares”), of the Company, at a price of \$35.00 per one one-thousandth of a Preferred Share represented by a Right, subject to adjustment. The description and terms of the Rights are set forth in the Rights Agreement.

The Rights are not exercisable until the Distribution Date (as defined in the Rights Agreement). Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends.

At any time prior to the time any Person becomes an Acquiring Person (as defined in the Rights Agreement), the Board may redeem the Rights in whole, but not in part, at a price of \$0.0001 per Right (the “Redemption Price”). The redemption of the Rights may be made effective at such time, on such basis and with such conditions as the Board in its sole discretion may establish. Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

The Rights will expire on the earlier of (i) the close of business on October 22, 2021, (ii) the time at which the Rights are redeemed, (iii) the time at which the Rights are exchanged, and (iv) if the Rights Agreement has not been approved by the stockholders prior to the conclusion of the Company’s 2019 Annual Meeting of Stockholders, the close of business on such date.

7. INCOME TAXES

The Company’s tax provision for interim periods is determined using an estimate of the annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, management updates the estimate of the annual effective tax rate, and any changes in the annual effective tax rate are recorded in a cumulative adjustment in that quarter. The quarterly tax provision and quarterly estimate of the annual effective tax rate are subject to significant volatility due to several factors, including management’s ability to accurately predict the portion of loss before income taxes in multiple jurisdictions, the tax effects of our stock-based compensation awards, and the effects of acquisitions and the integration of those acquisitions. The annual effective tax rate differs from the U.S. statutory rate primarily due to state taxes.

For the three months ended December 31, 2018, the Company recorded an income tax benefit of \$1.4 million, which yielded an effective tax rate of 30%.

As the Company has a fiscal year ending September 30th, it is subject to transitional tax rate rules. Therefore, a blended rate of 22.5% was computed as effective for the current fiscal year. The difference between the U.S. federal statutory tax rate and the Company’s effective tax rate for the three months ended December 31, 2018 is primarily due

to foreign taxes, state taxes, and the impact of federal and state research and development credits on its tax provision.

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8. COMMITMENTS AND CONTINGENCIES

Claim Against ICAR

On June 11, 2018, a claim was filed before the Juzgado de Primera Instancia number 5 of Barcelona, Spain, the first instance court in the Spanish civil procedure system, against ICAR. The claim, also directed to Mr. Xavier Codó Grasa, former controlling shareholder of ICAR and its current General Manager, was brought by the Spanish company Global Equity & Corporate Consulting, S.L. for the alleged breach by ICAR of a services agreement entered into in the context of the ICAR Acquisition.

ICAR responded to the claim on September 7, 2018 and the court process is ongoing.

The amount claimed is €0.8 million (or \$0.9 million), plus the interests accrued during the court proceedings.

Pursuant and subject to the terms of the sale and purchase agreement concerning the acquisition of the shares in ICAR, Mitek Holding B.V. is to be indemnified in respect of any damages suffered by ICAR and/or Mitek Holding B.V. in respect of this claim.

Other Legal Matters

In addition to the foregoing, the Company is subject to various claims and legal proceedings arising in the ordinary course of its business. The Company accrues for such liabilities when it is both (i) probable that a loss has occurred and (ii) the amount of the loss can be reasonably estimated in accordance with ASC 450. While any legal proceeding has an element of uncertainty, the Company believes that the disposition of such matters, in the aggregate, will not have a material effect on the Company's financial condition or results of operations.

Facility Leases

The Company's principal executive offices, as well as its research and development facility, are located in approximately 29,000 square feet of office space in San Diego, California and the term of the lease for the Company's offices continues through June 30, 2024. The average annual base rent under this lease is approximately \$1.0 million per year. In connection with this lease, the Company received tenant improvement allowances totaling \$1.0 million. These lease incentives are being amortized as a reduction of rent expense over the term of the lease. As of December 31, 2018, the unamortized balance of the lease incentives was \$0.8 million, of which \$0.1 million has been included in other current liabilities and \$0.6 million has been included in other non-current liabilities. The offices of A2iA are located in France and New York, New York and the terms of each lease continue through July 31, 2021 and September 30, 2019, respectively, with annual base rent of approximately €0.4 million (or approximately \$0.4 million) and approximately \$0.3 million per year, respectively. The offices of IDChecker are located in the Netherlands and the term of such lease continues through December 31, 2023 with annual base rent of approximately €0.2 million (or approximately \$0.2 million) per year. The Company has a sales office in London, UK. The term of this lease continues through May 31, 2020. The annual base rent under this lease is approximately £63,000 (or approximately \$80,000) per year. The offices of ICAR are located in Barcelona, Spain and the term of such lease continues through May 31, 2023 with annual base rent of approximately €0.1 million (or approximately \$0.1 million) per year. The Company believes its existing properties are in good condition and are sufficient and suitable for the conduct of its business.

Revolving Credit Facility

On May 3, 2018, the Company and IDChecker, Inc. (together, the "Co-Borrowers") entered into a Loan and Security Agreement (the "Loan Agreement") with Silicon Valley Bank ("SVB"). Pursuant to the Loan Agreement, the Company arranged for a \$10.0 million secured revolving credit facility (the "Revolver") with a floating per annum interest rate equal to the greater of the Wall Street Journal prime rate, plus 0.25%, or 4.5%. The Co-Borrowers must maintain, at all times when any amounts are outstanding under the Revolver, either (i) minimum unrestricted cash at SVB and unused availability on the Revolver of at least \$15.0 million and (ii) Adjusted Quick Ratio of 1.75:1.00. The Revolver has a maturity date of May 3, 2019. There were no borrowings outstanding under the Revolver as of December 31, 2018.

9. REVENUE AND VENDOR CONCENTRATIONS

Revenue Concentration

For the three months ended December 31, 2018, the Company derived revenue of \$5.5 million from two customers, with such customers accounting for 20% and 11%, respectively, of the Company's total revenue. For the three months

ended December 31, 2017, the Company derived revenue of \$2.5 million from one customer, with such customer accounting for 21% of the Company's total revenue. The corresponding accounts receivable balances of customers from which revenues were in excess of 10% of total revenue were \$3.9 million and \$1.2 million at December 31, 2018 and 2017, respectively.

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The Company's revenue is derived primarily from sales by the Company to channel partners, including systems integrators and resellers, and end-users of licenses to sell products covered by the Company's patented technologies. These contractual arrangements do not obligate the Company's channel partners to order, purchase or distribute any fixed or minimum quantities of the Company's products. In most cases, the channel partners purchase the license from the Company after they receive an order from an end-user. The channel partners receive orders from various individual end-users; therefore, the sale of a license to a channel partner may represent sales to multiple end-users. End-users can purchase the Company's products through more than one channel partner.

Revenues can fluctuate based on the timing of license renewals by channel partners. When a channel partner purchases or renews a license, the Company receives a license fee in consideration for the grant of a license to sell the Company's products and there are no future payment obligations related to such agreement; therefore, the license fee the Company receives with respect to a particular license renewal in one period does not have a correlation with revenue in future periods. During the last several quarters, sales of licenses to one or more channel partners have comprised a significant part of the Company's revenue. This is attributable to the timing of renewals or purchases of licenses and does not represent a dependence on any single channel partner. The Company believes that it is not dependent upon any single channel partner, even those from which revenues were in excess of 10% of the Company's total revenue in a specific reporting period, and that the loss or termination of the Company's relationship with any such channel partner would not have a material adverse effect on the Company's future operations because either the Company or another channel partner could sell the Company's products to the end-user that had purchased from the channel partner the Company lost.

International sales accounted for approximately 35% of the Company's total revenue for the three months ended December 31, 2018. International sales accounted for approximately 29% of the Company's total revenue for the three months ended December 31, 2017.

Vendor Concentration

The Company purchases its integrated software components from multiple third-party software providers at competitive prices. For the three months ended December 31, 2018 and 2017, the Company did not make purchases from any one vendor comprising 10% or more of the Company's total purchases. The Company has entered into contractual relationships with some of its vendors; however, the Company does not believe it is substantially dependent upon nor exposed to any significant concentration risk related to purchases from any of its vendors given the availability of alternative sources for its necessary integrated software components.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This Quarterly Report on Form 10-Q (this "Form 10-Q"), contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or they prove incorrect, could cause our results to differ materially and adversely from those expressed or implied by such forward-looking statements. The forward-looking statements are contained principally in Part I, Item 2—"Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A—"Risk Factors," but appear throughout this Form 10-Q. Forward-looking statements may include, but are not limited to, statements relating to our outlook or expectations for earnings, revenues, expenses, asset quality, volatility of our common stock, financial condition or other future financial or business performance, strategies, expectations, or business prospects, or the impact of legal, regulatory or supervisory matters on our business, results of operations or financial condition.

Forward-looking statements can be identified by the use of words such as "estimate," "plan," "project," "forecast," "intend," "expect," "anticipate," "believe," "seek," "target", "will," "would," "could," "can," "may", or similar expressions. Forward-looking statements reflect our judgment based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Part II, Item 1A—"Risk Factors" in this Form 10-Q and in our other filings with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for the fiscal year ended September 30, 2018, filed with the SEC on December 14, 2018 (the "Form 10-K"). Additionally, there may be other factors that could preclude us from realizing the predictions made in the forward-looking statements. We operate in a continually changing business environment and new factors emerge from time to time. We cannot predict such factors or assess the impact, if any, of such factors on our financial position or results of operations. All forward-looking statements included in this Form 10-Q speak only as of the date of this Form 10-Q and you are cautioned not to place undue reliance on any such forward-looking statements. Except as required by law, we undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect any events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

In this Form 10-Q, unless the context indicates otherwise, the terms "Mitek," "the Company," "we," "us," and "our" refer to Mitek Systems, Inc., a Delaware corporation and its subsidiaries.

Overview

Mitek is a leading innovator of mobile capture and digital identity verification solutions. We are a software development company with expertise in artificial intelligence and machine learning. We are currently serving more than 6,100 financial services organizations and leading marketplace and financial technology ("fintech") brands across the globe. Our solutions are embedded in native mobile apps and mobile optimized websites to facilitate better mobile user experiences, fraud detection and reduction, and compliant transactions.

Mitek's Mobile Deposit® solution is used today by millions of consumers in the United States ("U.S."), Canada, the United Kingdom, and Australia for mobile check deposit. Mobile Deposit® is the category leading product that allows individuals and businesses to remotely deposit checks using their camera-equipped smartphone or tablet. Our Mobile Deposit® solution has now processed over two billion check deposits. Mitek began selling Mobile Deposit® in the second fiscal quarter of 2008, and received our first patent issued for this product in August 2010.

Mitek's Mobile Verify™ is an important technology used to verify people's identities at the point of onboarding via web or mobile device. Scanning an identity document enables an enterprise to identify the person with whom they are conducting business, comply with growing governmental Know Your Customer and Anti-Money Laundering regulatory requirements, and to improve the overall customer experience for digital onboarding. To be sure the person submitting the identity document is who they say they are, Mitek's Mobile Verify Face Comparison provides an incremental layer of verification and compares the face on the identity document with the selfie photo of the user. Mitek's Mobile Verify Face Comparison technology uses advanced liveness detection so it cannot be spoofed.

The identification capture process provided by Mitek can also provide prefill of much of the data obtained from the identity document into an application, requiring far fewer key strokes, reducing keying errors, and improving both operational efficiency and the customer experience. Today, the financial services verticals (banks, credit unions, lenders, payments processors, card issuers, fintech companies, etc.) represent the greatest percentage of use of our

solutions, but there is accelerated adoption by marketplaces, sharing economy, telecommunications, healthcare, travel, and retail sectors. Similarly, websites that must verify the customer's age (or other consumer information) prior to selling goods can do so by verifying identity documents. Mitek uses machine learning to constantly improve the product performance of Mobile Verify™ and applies artificial intelligence to increase automation and speed of approvals of identification documents.

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The core of our user experience is Mitek MiSnap™, a touch-free automated capture technology which can be incorporated across our product lines. It provides a simple and superior user-experience, making transactions on mobile devices fast, accurate, and easy for the consumer while helping organizations drive revenue from the increasingly popular mobile channel.

Mobile Fill™, our mobile identity capture solution, enables the camera to serve as a keyboard. Using Mobile Fill™, consumers can quickly prefill any form with personal data by simply snapping a picture of their driver's license, credit card, or other similar identity document.

CheckReader™, which we acquired through the acquisition of A2iA (as defined below), enables financial institutions to automatically extract data from a check image received across all deposit channels – branch, ATM, Remote Deposit Capture ("RDC"), and mobile. Through the automatic recognition of all fields on checks, whether handwritten or machine print, CheckReader™ speeds the time to deposit for banks and customers and reduces costs formerly incurred before images could be exchanged.

ID_CLOUD™ is a fully automated identity verification solution that can be integrated into a customers' application to instantly read and validate identity documents. ID_CLOUD™ automated technology enables global enterprises to improve their customer acquisition technology while meeting AML requirements in a safe and cost-effective manner. This solution is available in the cloud, via mobile websites, and desktop applications. Additionally, a version of ID_CLOUD™ is available that works locally on a desktop which is connected to a propriety hardware scanner for reading and validating identity documents.

We market and sell our products and services worldwide through internal, direct sales teams located in the U.S., Canada, Europe, and Latin America as well as through channel partners. Our partner sales strategy includes channel partners who are financial services technology providers and identity verification providers. These partners integrate our products into their solutions to meet the needs of their customers.

First Quarter Fiscal 2019 Highlights

- Revenues for the three months ended December 31, 2018 were \$17.7 million, an increase of 46% compared to revenues of \$12.1 million in the three months ended December 31, 2017.
- Net loss was \$3.2 million, or \$0.08 per share, during the three months ended December 31, 2018, compared to net loss of \$5.7 million, or \$0.17 per share, during the three months ended December 31, 2017.
- Cash provided by operating activities was \$2.3 million for the three months ended December 31, 2018, compared to \$2.6 million for the three months ended December 31, 2017.
- We added new patents to our portfolio during fiscal 2019 bringing our total number of issued patents to 49 as of December 31, 2018. In addition, we have 21 domestic and international patent applications pending as of December 31, 2018.

Acquisition of A2iA Group II, S.A.S.

On May 23, 2018, Mitek acquired all of the issued and outstanding shares of A2iA Group II, S.A.S. ("A2iA"), a simplified joint stock company formed under the laws of France, pursuant to a share purchase agreement, by and among Mitek, each of the holders of outstanding shares of A2iA and Andera Partners, S.C.A., as representative of the sellers (the "A2iA Acquisition"). Upon completion of the A2iA Acquisition, A2iA became a direct wholly owned subsidiary of Mitek. As consideration for the A2iA Acquisition, we (i) made a cash payment of \$26.8 million, net of cash acquired; (ii) issued 2,514,588 shares, or \$21.9 million, of Mitek's common stock, par value \$0.001 per share ("Common Stock"); and (iii) incurred liabilities of \$0.2 million.

Acquisition of ICAR Vision Systems, S.L.

On October 16, 2017, Mitek Holding B.V., a company incorporated under the laws of The Netherlands and our wholly owned subsidiary ("Mitek Holding B.V."), acquired all of the issued and outstanding shares of ICAR Vision Systems, S.L., ("ICAR") (the "ICAR Acquisition") and each of its subsidiaries, pursuant to a Share Purchase Agreement (the "ICAR Purchase Agreement"), by and among, Mitek, Mitek Holding B.V., and each of the shareholders of ICAR (the "ICAR Sellers"). Upon completion of the ICAR Acquisition, ICAR became a direct wholly owned subsidiary of Mitek Holding B.V. and our indirect wholly owned subsidiary. Under the terms of the ICAR Purchase Agreement, Mitek Holding B.V. agreed to purchase all of the outstanding shares of ICAR for an aggregate purchase price of up to \$13.9 million, net of cash acquired. On closing, \$3.0 million was paid in cash, net of cash acquired and \$5.6 million in shares of Common Stock, or 584,291 shares, were issued to the ICAR Sellers. The ICAR Purchase Agreement also

provides for additional payments of up to approximately \$5.3 million upon the achievement of certain financial milestones during fiscal 2018 and fiscal 2019. As a result of the achievement of earnout targets during fiscal 2018, the Company paid \$1.5 million in April 2018 and \$1.8 million in January 2019.

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Market Opportunities, Challenges & Risks

The rapid growth of digital transactions, the rise of the sharing economy and cryptocurrencies, and the steady shift toward digital onboarding are driving accelerated demand for digital identity verification. Validating one's identity, while easy to do in person, can be cumbersome online, and because consumers increasingly expect a seamless purchase experience, organizations are turning to Mitek to assist in mitigating fraud and improving the process, in order to provide the fastest onboarding of new customers.

We believe that organizations recognize Mitek's core differentials for digital identity verification which include sophisticated artificial intelligence and superior image capture.

Mobile check deposit is now a mainstream capability offered by all leading banks and demanded by the majority of consumers globally. With financial services executives now viewing Mobile Deposit® as an essential building block of their overall digital channel migration, cost-reduction, and digital payments strategies, we envision banks offering the service free-of-charge and widely promoting the service to improve consumer adoption. Furthermore, banks are beginning to raise limits and reduce hold times of deposit checks—all driving to greater adoption and usage of mobile check deposit.

To sustain our growth in 2019 and beyond, we will continue to prioritize innovation in our identity verification solutions and leverage the breadth of our mobile check deposit solution at more than 6,100 financial institutions to increase adoption of our identification capture and verification solutions.

Factors adversely affecting the pricing of or demand for our mobile applications, including competition from other products or technologies, any decline in the demand for mobile applications, or negative publicity or obsolescence of the software environments in which our products operate, could result in lower revenues or gross margins. Further, because most of our revenues are from a single type of technology, our product concentration may make us especially vulnerable to market demand and competition from other technologies, which could reduce our revenues.

Results of Operations**Comparison of the Three Months Ended December 31, 2018 and 2017**

The following table summarizes certain aspects of our results of operations for the three months ended December 31, 2018 and 2017 (*amounts in thousands, except percentages*):

| | Three Months Ended December 31, | | Percentage of | | Increase | |
|----------------------------------------|---------------------------------|-----------|---------------|---------------|----------|------------|
| | 2018 | 2017 | Total Revenue | Total Revenue | \$ | (Decrease) |
| | | | 2018 | 2017 | | % |
| Revenue | | | | | | |
| Software and hardware | \$ 9,995 | \$ 7,206 | 5% | 5% | 2,789 | 3% |
| Service and other | 7,688 | 4,930 | 4% | 4% | 2,758 | 5% |
| Total revenue | \$ 17,683 | \$ 12,136 | 100 | 100 | 5,547 | 4% |
| Cost of revenue | 2,878 | 1,617 | 16% | 13% | 1,261 | 7% |
| Selling and marketing | 7,208 | 4,775 | 4% | 3% | 2,433 | 5% |
| Research and development | 4,488 | 3,280 | 25% | 2% | 1,208 | 3% |
| General and administrative | 5,842 | 3,517 | 3% | 2% | 2,325 | 6% |
| Acquisition-related costs and expenses | 1,827 | 1,259 | 10% | 10% | 568 | 4% |
| Other income (expense), net | 14 | 190 | —% | 2% | (176) | (9%) |

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| | | | | | | |
|-----------------------------------|-------|---------|----|------|-------|-------|
| Income tax benefit (provision) | 1,355 | (3,614) | 8% | (30) | 4,969 | (137) |
|-----------------------------------|-------|---------|----|------|-------|-------|

Revenue

Total revenue increased \$5.5 million, or 46%, to \$17.7 million in the three months ended December 31, 2018 compared to \$12.1 million in the three months ended December 31, 2017. Software and hardware revenue increased \$2.8 million, or 39%, to \$10.0 million in the three months ended December 31, 2018 compared to \$7.2 million in the three months ended December 31, 2017 primarily due to the addition of A2iA as well as an increase in sales of our Mobile Deposit® software products. Service and other revenue increased \$2.8 million, or 56%, to \$7.7 million in the three months ended December 31, 2018 compared to \$4.9 million in the three months ended December 31, 2017 primarily due to strong growth in Mobile Verify™ transactional software as a service ("SaaS") revenue of \$1.8 million in the three months ended December 31, 2018 compared to

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the same period in 2017, as well as an increase in maintenance and professional services associated with A2iA and ICAR software sales.

Cost of Revenue

Cost of revenue includes personnel costs related to billable services and software support, direct costs associated with our hardware products, hosting costs, and the costs of royalties for third party products embedded in our products. Cost of revenue increased \$1.3 million, or 78%, to \$2.9 million in the three months ended December 31, 2018 compared to \$1.6 million in the three months ended December 31, 2017. As a percentage of revenue, cost of revenue increased to 16% in the three months ended December 31, 2018 from 13% in the three months ended December 31, 2017. The increase in cost of revenue is primarily due to an increase in variable personnel and hosting costs associated with a higher volume of Mobile Verify™ transactions processed during the three months ended December 31, 2018 compared to the same period in 2017, as well as additional labor costs associated with the delivery of A2iA maintenance.

Selling and Marketing Expenses

Selling and marketing expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with sales, marketing, and product management personnel. Selling and marketing expenses also include non-billable costs of professional services personnel, advertising expenses, product promotion costs, trade shows, and other brand awareness programs. Selling and marketing expenses increased \$2.4 million, or 51%, to \$7.2 million in the three months ended December 31, 2018 compared to \$4.8 million in the three months ended December 31, 2017. As a percentage of revenue, selling and marketing expenses increased to 41% in the three months ended December 31, 2018 from 39% in the three months ended December 31, 2017. The increase in selling and marketing expense is primarily due to sales and marketing expenses associated with the A2iA Acquisition of \$1.4 million, as well as higher personnel-related costs of \$0.7 million and higher facility and overhead costs of \$0.1 million associated with our increased headcount in the three months ended December 31, 2018 compared to the same period in 2017. Sales and marketing expense during three months ended December 31, 2018 also included executive transition costs of \$0.2 million.

Research and Development Expenses

Research and development expenses include payroll, employee benefits, stock-based compensation, third party contractor expenses, and other headcount-related costs associated with software engineering and mobile capture science. Research and development expenses increased \$1.2 million, or 37%, to \$4.5 million in the three months ended December 31, 2018 compared to \$3.3 million in the three months ended December 31, 2017. As a percentage of revenue, research and development expenses decreased to 25% in the three months ended December 31, 2018 from 27% in the three months ended December 31, 2017. The increase in research and development expenses is primarily due to research and development expenses associated with the A2iA Acquisition of \$0.8 million, as well as higher personnel-related costs of \$0.2 million and higher facility and overhead costs of \$0.1 million resulting from increased research and development personnel in the three months ended December 31, 2018 compared to the same period in 2017.

General and Administrative Expenses

General and administrative expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with finance, legal, administration, and information technology functions, as well as third party legal, accounting, and other administrative costs. General and administrative expenses increased \$2.3 million, or 66%, to \$5.8 million in the three months ended December 31, 2018 compared to \$3.5 million in the three months ended December 31, 2017. As a percentage of revenue, general and administrative expenses increased to 33% in the three months ended December 31, 2018 from 29% in the three months ended December 31, 2017. The increase in general and administrative expenses is primarily due to third party costs associated with the unsolicited ASG proposal activity of \$0.9 million, higher personnel-related costs of \$0.7 million, general and administrative expenses associated with the A2iA Acquisition of \$0.7 million, and executive transition costs of \$0.1 million during the three months ended December 31, 2018 compared to the same period in 2017.

Acquisition-Related Costs and Expenses

Acquisition-related costs and expenses include amortization of intangible assets, expenses recorded due to changes in the fair value of contingent consideration, stock-based compensation, and other costs associated with acquisitions.

Acquisition-related costs and expenses increased \$0.6 million, or 45%, to \$1.8 million in the three months ended December 31, 2018 compared to \$1.3 million in the three months ended December 31, 2017. As a percentage of revenue, acquisition-related costs and expenses remained consistent at 10% in each of the three months ended December 31, 2018 and 2017. The increase in acquisition-related costs and expenses is primarily due to an increase expense related to the amortization of intangible assets associated with the A2iA Acquisition and the ICAR Acquisition of \$1.3 million, partially offset by a decrease in expense due to

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changes in the fair value of acquisition-related contingent consideration of \$0.6 million and a decrease in legal and other integration costs associated with the ICAR Acquisition of \$0.2 million.

Other Income, Net

Other income, net includes interest income net of amortization and net realized gains or losses on our marketable securities portfolio, foreign currency transactional gains or losses, and interest expense. Other income, net decreased \$176,000, to \$14,000 in the three months ended December 31, 2018 compared to \$190,000 in the three months ended December 31, 2017, primarily due to a decrease in interest income as a result of lower cash and investment balances.

Income Tax Benefit (Provision)

Income tax benefit for the three months ended December 31, 2018 was \$1.4 million, compared to an income tax provision for the three months ended December 31, 2017 of \$3.6 million. The income tax benefit for the three months ended December 31, 2018 is primarily due to our net loss before income taxes for the three months ended December 31, 2018. The income tax provision for the three months ended December 31, 2017 included a tax provision of \$4.4 million related to the enactment of the Tax Cuts and Jobs Act, partially offset by an income tax benefit related to our net loss before income taxes for the three months ended December 31, 2017.

Liquidity and Capital Resources

On December 31, 2018, we had \$19.7 million in cash and cash equivalents and investments compared to \$17.5 million on September 30, 2018, an increase of \$2.2 million, or 13%. The increase in cash and cash equivalents and investments is primarily due to net cash provided by operating activities of \$2.3 million and net proceeds from the issuance of equity plan Common Stock of \$0.6 million, partially offset by capital expenditures of \$0.5 million and principal payments on other borrowings of \$0.2 million.

Cash Flows from Operating Activities

Net cash provided by operating activities during the three months ended December 31, 2018 was \$2.3 million and resulted primarily from a net loss of \$3.2 million adjusted for non-cash charges of \$3.2 million as well as favorable changes in operating assets and liabilities of \$2.3 million. The primary non-cash adjustments to operating activities were stock-based compensation expense, amortization of intangible assets, and depreciation and amortization totaling \$2.7 million, \$1.8 million, and \$0.4 million, respectively, and were partially offset by a deferred tax benefit of \$1.6 million.

Net cash provided by operating activities during the three months ended December 31, 2017 was \$2.6 million and resulted primarily from net loss of \$5.7 million adjusted for non-cash charges of \$7.2 million as well as favorable changes in operating assets and liabilities of \$1.1 million. The primary non-cash adjustments to operating activities were deferred taxes, stock-based compensation expense, amortization of intangible assets, amortization of closing shares and earnout shares, and depreciation and amortization totaling \$4.4 million, \$1.9 million, \$0.5 million, \$0.4 million, and \$0.1 million, respectively.

Cash Flows from Investing Activities

Net cash used in investing activities was \$1.3 million during the three months ended December 31, 2018, which consisted primarily of net purchases of investments of \$0.8 million and capital expenditures of \$0.5 million.

Net cash used in investing activities was \$8.6 million during the three months ended December 31, 2017, which consisted primarily of net purchases of investments of \$5.4 million, net cash paid in conjunction with the ICAR Acquisition of \$3.0 million, and capital expenditures of \$0.2 million.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$0.4 million during the three months ended December 31, 2018, which consisted of net proceeds from the issuance of equity plan Common Stock of \$0.6 million, partially offset by principal payments on other borrowings of \$0.2 million.

Net cash provided by financing activities was \$0.1 million during the three months ended December 31, 2017, which consisted of net proceeds from the issuance of equity plan Common Stock.

Revolving Credit Facility

On May 3, 2018, the Company and IDChecker, Inc. (together, the “Co-Borrowers”) entered into a Loan and Security Agreement (the “Loan Agreement”) with Silicon Valley Bank (“SVB”). Pursuant to the Loan Agreement, we arranged for a \$10.0 million secured revolving credit facility (the “Revolver”) with a floating per annum interest rate equal to the

greater of the
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Wall Street Journal prime rate, plus 0.25%, or 4.5%. The Co-Borrowers must maintain, at all times when any amounts are outstanding under the Revolver, either (i) minimum unrestricted cash at SVB and unused availability on the Revolver of at least \$15.0 million and (ii) Adjusted Quick Ratio of 1.75:1.00. The Revolver has a maturity date of May 3, 2019. There were no borrowings outstanding under the Revolver as of December 31, 2018.

Rights Agreement

On October 23, 2018, we entered into the Section 382 Rights Agreement (the "Rights Agreement" and issued a dividend of one preferred share purchase right (a "Right") for each share of Common Stock payable on November 2, 2018 to the stockholders of record of such shares on that date. Each Right entitles the registered holder, under certain circumstances, to purchase from us one one-thousandth of a share of Series B Junior Preferred Stock, par value \$0.001 per share (the "Preferred Shares"), of the Company, at a price of \$35.00 per one one-thousandth of a Preferred Share represented by a Right, subject to adjustment. The description and terms of the Rights are set forth in the Rights Agreement.

The Rights are not exercisable until the Distribution Date (as defined in the Rights Agreement). Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends.

At any time prior to the time any Person becomes an Acquiring Person (as defined in the Rights Agreement), the Board may redeem the Rights in whole, but not in part, at a price of \$0.0001 per Right (the "Redemption Price"). The redemption of the Rights may be made effective at such time, on such basis and with such conditions as the Board in its sole discretion may establish. Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

The Rights will expire on the earlier of (i) the close of business on October 22, 2021, (ii) the time at which the Rights are redeemed, (iii) the time at which the Rights are exchanged, and (iv) if the Rights Agreement has not been approved by the stockholders prior to the conclusion of the Company's 2019 Annual Meeting of Stockholders, the close of business on such date.

Other Liquidity Matters

On December 31, 2018, we had investments of \$9.2 million, designated as available-for-sale debt securities, which consisted of U.S. Treasury notes, commercial paper, and corporate issuances, carried at fair value as determined by quoted market prices for identical or similar assets, with unrealized gains and losses, net of tax, and reported as a separate component of stockholders' equity. All securities whose maturity or sale is expected within one year are classified as "current" on the consolidated balance sheets. All other securities are classified as "long-term" on the consolidated balance sheets. At December 31, 2018, we had \$9.2 million of our available-for-sale securities classified as current. At September 30, 2018, we had \$8.4 million of our available-for-sale securities classified as current. We had working capital of \$17.9 million at December 31, 2018 compared to \$17.2 million at September 30, 2018. Based on our current operating plan, we believe the current cash balance and cash expected to be generated from operations will be adequate to satisfy our working capital needs for the next twelve months from the date the financial statements are filed.

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements as of December 31, 2018.

Changes in Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of the consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. We review our estimates on an on-going basis, including those related to revenue recognition, stock-based compensation, income taxes and the valuation of goodwill, intangibles and other long-lived assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, 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. The critical accounting policies and estimates used in the preparation of our consolidated financial statements are described in Item 7—“Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in the Form 10-K for the year ended September 30, 2018. Significant changes to our critical accounting policies and estimates as a result of adopting ASU 2014-09, *Revenue from Contracts with Customers*, and its related amendments (collectively “ASC 606”) are as follows:

Revenue Recognition

We adopted ASC 606 effective October 1, 2018 using the modified retrospective transition approach applied to all contracts. Additional information about our revenue recognition policies and the related impact of the adoption is included in Notes 1 and 2 to the consolidated financial statements.

There have been no other material changes to our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended September 30, 2018.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rates

The primary objective of our investment activities is to preserve principal while at the same time maximizing after-tax yields without significantly increasing risk. To achieve this objective, we maintain our investment portfolio of cash equivalents and marketable securities in a variety of securities, including corporate debt securities, commercial paper and certificates of deposit. We have not used derivative financial instruments in our investment portfolio, and none of our investments are held for trading or speculative purposes. Short-term and long-term debt securities are generally classified as available-for-sale and consequently are recorded on the consolidated balance sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of estimated tax. As of December 31, 2018, our marketable securities had remaining maturities between approximately one and 9 months and a fair market value of \$9.2 million, representing 7% of our total assets.

The fair value of our cash equivalents and debt securities is subject to change as a result of changes in market interest rates and investment risk related to the issuers’ credit worthiness. We do not utilize financial contracts to manage our investment portfolio’s exposure to changes in market interest rates. A hypothetical 100 basis point increase or decrease in market interest rates would not have a material impact on the fair value of our cash equivalents and debt securities due to the relatively short maturities of these investments. While changes in market interest rates may affect the fair value of our investment portfolio, any gains or losses will not be recognized in our results of operations until the investment is sold or if the reduction in fair value was determined to be an other-than-temporary impairment.

Foreign Currency Risk

As a result of past acquisitions, we have operations in France, the Netherlands, and Spain that are exposed to fluctuations in the foreign currency exchange rate between the U.S. dollar, the Euro, and the British pound sterling. The functional currency of our French, Dutch, and Spanish operations is the Euro. Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro. Translation adjustments resulting from translating the functional currency financial statements into U.S. dollar equivalents are reported separately in the consolidated statements of operations and other comprehensive loss.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. We recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Changes in Internal Control over Financial Reporting

We are in the process of implementing a new Enterprise Resource Planning ("ERP") system. In connection with this ERP system implementation, we are updating our internal controls over financial reporting, as necessary, to accommodate modifications to our business processes and accounting procedures. We do not believe that this ERP system implementation will have an adverse effect on our internal control over financial reporting.

Scope of Management's Report on Internal Control over Financial Reporting

As described throughout this Form 10-Q, on May 23, 2018, the Company acquired A2iA. While our financial statements for the three months ended December 31, 2018 include the results of A2iA, as permitted by the rules and regulations of the SEC, our management's assessment of our internal control over financial reporting did not include an evaluation of A2iA's internal control over financial reporting. Further, our management's conclusion regarding the effectiveness of our internal control over financial reporting as of December 31, 2018 does not extend to A2iA's internal control over financial reporting.

We are currently integrating policies, processes, technology, and operations for the combined company and will continue to evaluate our internal control over financial reporting as we develop and execute our integration plans. Until the companies are fully integrated, we will maintain the operational integrity of each company's legacy internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding our legal proceedings, see Note 8 to the consolidated financial statements included in this Form 10-Q and Item 3—“Legal Proceedings” in the Form 10-K. There have been no material developments in our historical legal proceedings since September 30, 2018.

ITEM 1A. RISK FACTORS

While we attempt to identify, manage, and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A—“Risk Factors” in the Form 10-K describes some of the risks and uncertainties associated with our business, which we strongly encourage you to review. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results, and future prospects. There have been no material changes in our risk factors from those disclosed in the Form 10-K.

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

There were no unregistered sales of the Company’s equity securities during the quarter ended December 31, 2018, that were not previously disclosed in a Current Report on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| Exhibit No. | Description | Incorporated by Reference from Document |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| 2.1** | <u>Share Purchase Agreement, dated May 26, 2015, by and among Mitek Systems, Inc., ID Checker NL B.V., ID Checker Holding B.V., Stichting Administratiekantoor OPID, Pierre L.M. deBoer, and Michael Hagen.</u> | (1) |
| 2.2** | <u>Share Purchase Agreement, dated October 16, 2017, by and among Mitek Systems, Inc., Mitek Systems Holdings B.V., and the shareholders of ICAR Vision Systems, S.L.</u> | (2) |
| 2.3** | <u>Share Purchase Agreement, dated May 23, 2018, by and among Mitek Systems, Inc., the shareholders of A2iA Group II, S.A.S. and Andera Partners, S.C.A., as representative of the Sellers.</u> | (3) |
| 3.1 | <u>Restated Certificate of Incorporation of Mitek Systems, Inc., as amended.</u> | (4) |
| 3.2 | <u>Second Amended and Restated Bylaws of Mitek Systems, Inc.</u> | (5) |

| | | |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 3.3 | <u>Certificate of Designation of Series B Junior Participating Preferred Stock.</u> | (6) |
| 4.1 | <u>Section 328 Rights Agreement, dated October 23, 2018, between Mitek Systems, Inc. and Computershare Trust Company, N.A., as Rights Agent.</u> | (6) |
| 10.1 | <u>Executive Employment Agreement, dated November 6, 2018, between Mitek Systems, Inc. and Scipio “Max” Carnecchia.</u> | (7) |
| 10.2 | <u>Indemnification Agreement, dated November 6, 2018, between Mitek Systems, Inc. and Scipio “Max” Carnecchia.</u> | (7) |
| 10.3 | <u>Stock Option Agreement, dated as of November 6, 2018, between Scipio “Max” Carnecchia and Mitek Systems, Inc.</u> | (7) |
| 10.4 | <u>Conditional Stock Option Agreement, dated November 6, 2018, by and between Scipio “Max” Carnecchia and Mitek Systems, Inc.</u> | (7) |
| 10.5 | <u>Performance Stock Option Agreement, dated as of November 6, 2018, between Scipio “Max” Carnecchia and Mitek Systems, Inc.</u> | (7) |
| 10.6 | | (7) |

| | | |
|------|-------------------------------------------------------------------------------------------------------------------------------------------|-----|
| | <u>Restricted Stock Unit Award Agreement, dated as of November 6, 2018, between Scipio “Max” Carnecchia and Mitek Systems, Inc.</u> | |
| 10.7 | <u>Conditional Restricted Stock Unit Award Agreement, dated November 6, 2018, between Scipio “Max” Carnecchia and Mitek Systems, Inc.</u> | (7) |
| 10.8 | <u>Mitek Systems, Inc. Executive Bonus Program Fiscal Year 2019.</u> | (8) |
| 31.1 | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u> | * |
| 31.2 | <u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u> | * |
| 32.1 | <u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> | * |

101 Financial statements from the Quarterly Report on Form 10-Q of Mitek Systems, Inc. for the quarter ended December 31, 2018, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Other Comprehensive Loss, (iii) the Consolidated Statement of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, (v) the Notes to Consolidated Financial Statements. *

* Filed herewith.

** Certain schedules, appendices and exhibits to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished supplementally to the SEC upon request.

1. Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on June 17, 2015.
2. Incorporated by reference to the Company's Current Report on Form 8-K/A filed with the SEC on October 20, 2017.
3. Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on May 23, 2018.
4. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.
5. Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on November 10, 2014.
6. Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on October 23, 2018.
7. Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on November 7, 2018.
8. Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on December 10, 2018.

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.

February 8, 2019 MITEK SYSTEMS, INC.

By: /s/ Scipio
Maximus
Carnecchia
Scipio
Maximus
Carnecchia
Chief
Executive
Officer
(Principal
Executive
Officer)

By: /s/ Jeffrey C.
Davison
Jeffrey C.
Davison
Chief
Financial
Officer
(Principal
Financial and
Accounting
Officer)