**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, 2021**

☐ **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 jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **600 B Street, Suite 100** | |
| **San Diego, California** | **92101** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(619) 269-6800**
**(Registrant’s telephone number, including area code)**

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.001 per share | MITK | The NASDAQ Capital Market |

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 every Interactive Data File required to be submitted 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 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.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| 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 44,297,583 shares of the registrant’s common stock outstanding as of January 31, 2022.

**MITEK SYSTEMS, INC.**

**FORM 10-Q**

**For The Quarterly Period Ended December 31, 2021**

**INDEX**

## PART I
## FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS.

**MITEK SYSTEMS, INC.**
**CONSOLIDATED BALANCE SHEETS**
(amounts in thousands except share data)

| | December 31, 2021 (Unaudited) | September 30, 2021 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 24,214 | $ 30,312 |
| Short-term investments | 137,753 | 149,057 |
| Accounts receivable, net | 16,930 | 16,602 |
| Contract assets | 4,406 | 4,080 |
| Prepaid expenses | 2,540 | 1,920 |
| Other current assets | 2,500 | 2,085 |
| Total current assets | 188,343 | 204,056 |
| Long-term investments | 56,255 | 48,051 |
| Property and equipment, net | 3,654 | 3,671 |
| Right-of-use assets | 6,564 | 7,056 |
| Intangible assets, net | 26,285 | 28,734 |
| Goodwill | 62,305 | 63,096 |
| Deferred income tax assets | 10,677 | 10,511 |
| Convertible senior notes hedge | 42,821 | 48,208 |
| Other non-current assets | 6,097 | 6,310 |
| Total assets | $ 403,001 | $ 419,693 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 2,571 | $ 2,507 |
| Accrued payroll and related taxes | 7,206 | 11,776 |
| Deferred revenue, current portion | 8,168 | 10,381 |
| Lease liabilities, current portion | 1,970 | 1,943 |
| Acquisition-related contingent consideration | 11,210 | 11,050 |
| Other current liabilities | 1,646 | 1,552 |
| Total current liabilities | 32,771 | 39,209 |
| Convertible senior notes | 122,632 | 120,918 |
| Embedded conversion derivative | 42,821 | 48,208 |
| Deferred revenue, non-current portion | 644 | 955 |
| Lease liabilities, non-current portion | 6,004 | 6,588 |
| Deferred income tax liabilities | 4,020 | 4,117 |
| Other non-current liabilities | 6,680 | 6,868 |
| Total liabilities | 215,572 | 226,863 |
| 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, 44,296,771 and 44,168,745 issued and outstanding, as of December 31, 2021 and September 30, 2021, respectively | 44 | 44 |
| Additional paid-in capital | 203,091 | 199,935 |
| Accumulated other comprehensive loss | (2,480) | (943) |
| Accumulated deficit | (13,226) | (6,066) |
| Treasury stock, at cost, no shares and 7,773 shares as of December 31, 2021 and September 30, 2021, respectively | — | (140) |
| Total stockholders' equity | 187,429 | 192,830 |
| Total liabilities and stockholders' equity | $ 403,001 | $ 419,693 |

See accompanying notes to consolidated financial statements.

**MITEK SYSTEMS, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME**
**(Unaudited)**
(amounts in thousands except per share data)

| | Three Months Ended December 31, | | | |
|---|---|---|---|---|
| | **2021** | | **2020** | |
| Revenue | | | | |
| Software and hardware | $ | 15,445 | $ | 12,303 |
| Services and other | | 17,028 | | 13,673 |
| Total revenue | | 32,473 | | 25,976 |
| Operating costs and expenses | | | | |
| Cost of revenue—software and hardware | | 378 | | 1,245 |
| Cost of revenue—services and other | | 2,978 | | 2,893 |
| Selling and marketing | | 8,438 | | 7,385 |
| Research and development | | 7,606 | | 6,165 |
| General and administrative | | 5,965 | | 5,058 |
| Acquisition-related costs and expenses | | 2,279 | | 1,693 |
| Total operating costs and expenses | | 27,644 | | 24,439 |
| Operating income | | 4,829 | | 1,537 |
| Interest expense | | 2,008 | | — |
| Other income, net | | 135 | | 96 |
| Income before income taxes | | 2,956 | | 1,633 |
| Income tax benefit | | 168 | | 534 |
| Net income | $ | 3,124 | $ | 2,167 |
| Net income per share—basic | $ | 0.07 | $ | 0.05 |
| Net income per share—diluted | $ | 0.07 | $ | 0.05 |
| Shares used in calculating net income per share—basic | | 44,788 | | 42,476 |
| Shares used in calculating net income per share—diluted | | 46,155 | | 43,897 |
| Other comprehensive income | | | | |
| Net income | $ | 3,124 | $ | 2,167 |
| Foreign currency translation adjustment | | (1,267) | | 2,760 |
| Unrealized loss on investments | | (270) | | (53) |
| Other comprehensive income | $ | 1,587 | $ | 4,874 |

See accompanying notes to consolidated financial statements.

**MITEK SYSTEMS, INC.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(Unaudited)**
(amounts in thousands)

| | Three Months Ended December 31, 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock Outstanding | | Additional Paid-In Capital | Treasury Stock | | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Stockholders’ Equity |
| | Shares | Amount | | Shares | Amount | | | |
| Balance, September 30, 2021 | 44,169 | $ 44 | $ 199,935 | (8) | $ (140) | $ (6,066) | $ (943) | $ 192,830 |
| Exercise of stock options | 9 | — | 25 | — | — | — | — | 25 |
| Settlement of restricted stock units | 725 | 1 | (1) | — | — | — | — | — |
| Stock-based compensation expense | — | — | 3,132 | — | — | — | — | 3,132 |
| Repurchases and retirements of common stock | (606) | (1) | — | 8 | 140 | (10,284) | — | (10,145) |
| Components of other comprehensive income: | | | | | | | | |
| Net income | — | — | — | — | — | 3,124 | — | 3,124 |
| Currency translation adjustment | — | — | — | — | — | — | (1,267) | (1,267) |
| Change in unrealized gain (loss) on investments | — | — | — | — | — | — | (270) | (270) |
| Total other comprehensive income | | | | | | | | 1,587 |
| Balance, December 31, 2021 | 44,297 | $ 44 | $ 203,091 | — | $ — | $ (13,226) | $ (2,480) | $ 187,429 |

| | Three Months Ended December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock Outstanding Shares | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Stockholders’ Equity |
| Balance, September 30, 2020 | 41,780 | $ 42 | $ 146,518 | $ (13,994) | $ (323) | $ 132,243 |
| Exercise of stock options | 241 | — | 1,889 | — | — | 1,889 |
| Settlement of restricted stock units | 647 | 1 | (1) | — | — | — |
| Stock-based compensation expense | — | — | 2,747 | — | — | 2,747 |
| Components of other comprehensive income: | | | | | | |
| Net income | — | — | — | 2,167 | — | 2,167 |
| Currency translation adjustment | — | — | — | — | 2,760 | 2,760 |
| Change in unrealized gain (loss) on investments | — | — | — | — | (53) | (53) |
| Total other comprehensive income | | | | | | 4,874 |
| Balance, December 31, 2020 | 42,668 | $ 43 | $ 151,153 | $ (11,827) | $ 2,384 | $ 141,753 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Operating activities: | | |
| Net income | $ 3,124 | $ 2,167 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Stock-based compensation expense | 3,132 | 2,747 |
| Amortization of intangible assets | 2,175 | 1,693 |
| Depreciation and amortization | 284 | 390 |
| Amortization of investment premiums & other | 480 | 72 |
| Accretion and amortization on debt securities | 1,715 | — |
| Net changes in estimated fair value of acquisition-related contingent consideration | 30 | — |
| Deferred taxes | (348) | (669) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (402) | 3,084 |
| Contract assets | (175) | 1,529 |
| Other assets | (864) | (342) |
| Accounts payable | 80 | (501) |
| Accrued payroll and related taxes | (4,518) | (2,514) |
| Deferred revenue | (2,496) | 1,273 |
| Other liabilities | 34 | (199) |
| Net cash provided by operating activities | 2,251 | 8,730 |
| Investing activities: | | |
| Purchases of investments | (35,309) | (12,111) |
| Sales and maturities of investments | 37,658 | 8,141 |
| Purchases of property and equipment | (295) | (400) |
| Net cash provided by (used in) investing activities | 2,054 | (4,370) |
| Financing activities: | | |
| Proceeds from the issuance of equity plan common stock | 25 | 1,889 |
| Repurchases and retirements of common stock | (10,145) | — |
| Principal payments on other borrowings | (17) | (18) |
| Net cash provided by (used in) financing activities | (10,137) | 1,871 |
| Foreign currency effect on cash and cash equivalents | (266) | 506 |
| Net increase (decrease) in cash and cash equivalents | (6,098) | 6,737 |
| Cash and cash equivalents at beginning of period | 30,312 | 19,986 |
| Cash and cash equivalents at end of period | $ 24,214 | $ 26,723 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for income taxes | $ 170 | $ 149 |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| Unrealized holding loss on available for sale investments | $ (270) | $ (53) |

See accompanying notes to consolidated financial statements.

**MITEK SYSTEMS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

Mitek is a leading innovator of mobile image capture and digital identity verification solutions. We are a software development company with expertise in computer vision, artificial intelligence, and machine learning. We currently serve more than 7,500 financial services organizations and leading marketplace and financial technology ("fintech") brands around the globe. Customers count on Mitek to deliver trusted and convenient online experiences, detect and reduce fraud, and document Know Your Customer ("KYC") and Anti-Money Laundering ("AML") regulatory compliance. Our solutions are embedded in native mobile apps and web browsers to facilitate digital consumer experiences. Mitek's identity verification and authentication technologies and services make it possible for banks, financial services organizations and the world's leading marketplace and sharing platforms to verify an individual's identity during digital transactions, allowing them to reduce risk and meet regulatory requirements. Our advanced mobile deposit system enables secure, fast and convenient deposit services. Thousands of organizations use Mitek solutions to optimize the security of mobile check deposits, new account openings and more.

To ensure a high level of security against evolving digital fraud threats, in May 2021, Mitek acquired ID R&D, Inc. ("ID R&D"), an award-winning provider of AI-based voice and face biometrics and liveness detection. With a strong research and development team, ID R&D consistently delivers innovative, best-in-class biometric capabilities that raise the bar on usability and performance.

Mitek 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. 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.

### Summary of Significant Accounting Policies

*Basis of Presentation*

The accompanying unaudited consolidated financial statements of the Company as of December 31, 2021 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 consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2021, filed with the U.S. Securities and Exchange Commission ("SEC") on December 13, 2021.

Results for the three months ended December 31, 2021 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 equivalents 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 $1.3 million and a net gain of $2.8 million for the three months ended December 31, 2021 and 2020, respectively.

*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, fair value of debt derivatives, 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 and related services to customers (for both on premise and transactional software as a service ("SaaS") products), 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 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.

*Contract Assets and Liabilities*

The Company recognizes revenue when control of the license 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 current assets on the consolidated balance sheets. All other contract 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 customer-by-customer basis at the end of each reporting period.

*Contract Costs*

The Company incurs incremental costs to obtain a contract, consisting primarily of sales commissions incurred only if a contract is obtained. 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 and amortized using a portfolio approach consistent with the pattern of transfer of the good or service to which the asset relates. Contract costs are recorded in other current and non-current assets in the consolidated balance sheets.

*Net Income Per Share*

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

For the three months ended December 31, 2021 and 2020, the following potentially dilutive common shares were excluded from the calculation of net income per share, as they would have been antidilutive (*amounts in thousands*):

| | Three Months Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Stock options | 438 | 721 |
| RSUs | 1,156 | 1,253 |
| ESPP common stock equivalents | 88 | 66 |
| Performance options | 487 | 179 |
| Performance RSUs | 109 | 74 |
| Convertible senior notes | 7,448 | — |
| Warrants | 7,448 | — |
| Total potentially dilutive common shares outstanding | 17,174 | 2,293 |

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

| | Three Months Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Net income | $ 3,124 | $ 2,167 |
| Weighted-average shares outstanding—basic | 44,788 | 42,476 |
| Common stock equivalents | 1,367 | 1,421 |
| Weighted-average shares outstanding—diluted | 46,155 | 43,897 |
| Net income per share: | | |
| Basic | $ 0.07 | $ 0.05 |
| Diluted | $ 0.07 | $ 0.05 |

*Investments*

Investments consist of corporate notes and bonds, commercial paper, U.S. Treasury securities, and asset-backed 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 income. No other-than-temporary impairment charges were recognized in the three months ended December 31, 2021 and 2020.

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.

*Convertible Senior Notes Hedge and Embedded Conversion Derivative*

In February 2021, the Company issued $155.3 million aggregate principal amount of 0.75% convertible notes due 2026 (the "2026 Notes"). Concurrently with the issuance of the 2026 Notes, the Company entered into privately-negotiated convertible senior note hedge (the "Notes Hedge") and warrant transactions (the "Warrant Transactions") which, in combination, are intended to reduce the potential dilution from the conversion of the 2026 Notes. The Company could not elect to issue the shares of its common stock, par value $0.001 per share ("Common Stock") upon settlement of the 2026 Notes due to insufficient authorized share capital. As a result, the embedded conversion option (the "embedded conversion derivative") is accounted for as a derivative liability and the Notes Hedge as a derivative asset with the resulting gain (or loss) reported in other income, net, in the consolidated statement of operations to the extent the valuation changed from the date of issuance of the 2026 Notes. The Warrant Transactions were recorded in additional paid-in-capital in the consolidated balance sheet and are not remeasured as long as they continue to meet the conditions for equity classification. See Note 8. "Convertible Senior Notes" for additional information related to these transactions.

*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 $1,000 of write-offs to the allowance for doubtful accounts for each of the three months ended December 31, 2021 and 2020, respectively. The Company maintained an allowance for doubtful accounts of $0.5 million as of December 31, 2021 and $0.4 million as of September 30, 2021.

*Capitalized Software Development Costs*

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 the 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 $0.2 million and $0.2 million of costs related to computer software developed for internal use during the three months ended December 31, 2021 and 2020, respectively. The Company had $15,000 and $0.1 million in amortization expense from internal use software during the three months ended December 31, 2021 and 2020, respectively.

*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* ("ASC 350"), 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 2021, 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 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. No impairment charge related to the impairment of intangible assets was recorded during the three months ended December 31, 2021 and 2020.

*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, 2021, $0.8 million was outstanding under these agreements and $0.1 million and $0.7 million is recorded in other current liabilities and other non-current liabilities, respectively, in the consolidated balance sheets. As of September 30, 2021, $0.8 million, was outstanding under these agreements and approximately $0.1 million and $0.7 million is 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.

*Income Taxes*

The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes* (“ASC 740”). 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 performance RSUs as awards to its employees. Additionally, eligible employees may participate in the 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 of its Common Stock 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 performance options, Senior Executive Performance RSUs, 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 stock performance targets, and a 20-trading-day average stock price.

*Comprehensive Income*

Comprehensive income consists of net income, 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 $2.5 million and $0.9 million at December 31, 2021 and September 30, 2021, respectively.

**Recently Adopted Accounting Pronouncements**

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2020-06—Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)—Accounting For Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06"). ASU 2020-06 simplifies accounting for convertible instruments by removing major separation models required under current GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features through equity. Without an initial allocation of proceeds to the conversion option, the debt will likely have a lower discount, thereby resulting in less noncash interest expense through accretion. ASU 2020-06 removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for such exception. ASU 2020-06 also simplifies the diluted net income per share calculation in certain areas. ASU 2020-06 is effective for annual and interim periods beginning after December 15, 2021, and early adoption is permitted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. This update permits the use of either the modified retrospective or fully retrospective method of transition. The Company expects that ASU 2020-06 will eliminate the separate accounting described above and reduce the interest expense that we expect to recognize. The Company adopted ASU 2020-06 in the first quarter of fiscal 2022, however, it will not impact the financial statements until after its authorized number of shares of Common Stock has been increased which is expected to occur during the second quarter of fiscal 2022.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. The Company prospectively adopted this ASU 2019-12 in the first quarter of fiscal 2022 and it did not have a material impact on its consolidated financial statements.

**Change in Significant Accounting Policy**

The Company has consistently applied the accounting policies to all periods presented in its consolidated financial statements.

**Recently Issued Accounting Pronouncements**

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("ASU 2021-08"), which is intended to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to the recognition of an acquired contract liability and the payment terms and their effect on subsequent revenue recognized by the acquirer. ASU 2021-08 will improve comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination and improve comparability after the business combination by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. ASU 2021-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption is permitted, including adoption in an interim period. The Company is currently in the process of evaluating the potential impact of adoption of this updated authoritative guidance on the consolidated financial statements.

No other new accounting pronouncement issued or effective during the three months ended December 31, 2021 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 after evidence of a contract exists. Hardware revenue is recognized in the period that the hardware is shipped.

*Services and Other*

Services 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 is 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 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 or due to uncertainty surrounding collectability.

*Allocation of Transaction Price*

The transaction price, including any discounts, is allocated between separate goods and services in a contract that contains 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, | |
|---|---|---|
| | 2021 | 2020 |
| Major product category | | |
| Deposits software and hardware | $ 13,630 | $ 10,755 |
| Deposits services and other | 5,422 | 4,861 |
| Deposits revenue | 19,052 | 15,616 |
| Identity verification software and hardware | 1,815 | 1,548 |
| Identity verification services and other | 11,606 | 8,812 |
| Identity verification revenue | 13,421 | 10,360 |
| Total revenue | $ 32,473 | $ 25,976 |

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. Services 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, 2021 | September 30, 2021 |
|---|---|---|
| Contract assets, current | $ 4,406 | $ 4,080 |
| Contract assets, non-current | 4,234 | 4,409 |
| Contract liabilities (deferred revenue), current | 8,168 | 10,381 |
| Contract liabilities (deferred revenue), non-current | 644 | 955 |

Contract assets, reported within current assets and other non-current assets in the consolidated balance sheets, 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 $7.2 million and $4.9 million of revenue during the three months ended December 31, 2021 and 2020, respectively, which was included in the contract liability balance at the beginning of each such period.

**Contract Costs**

Contract costs included in other current and non-current assets on the consolidated balance sheets totaled $2.6 million and $2.3 million as of December 31, 2021 and September 30, 2021, respectively. 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 other comprehensive income and totaled $0.3 million and $0.2 million during the three months ended December 31, 2021 and 2020, respectively. There were no impairment losses recognized during both the three months ended December 31, 2021 and 2020 related to capitalized contract costs.

**3. BUSINESS COMBINATIONS**

On May 28, 2021 (the “Closing Date”), the Company completed the acquisition of ID R&D (the “ID R&D Acquisition”) pursuant to an Agreement and Plan of Merger (the “Merger Agreement”) dated May 28, 2021, by and among the Company, ID R&D and Alexey Khitrov (the “Representative”). Upon completion of the ID R&D Acquisition, ID R&D became a direct wholly owned subsidiary of Mitek Systems, Inc. ID R&D is an award-winning provider of artificial intelligence-based voice and face biometrics and liveness detection.

As consideration for the ID R&D Acquisition, the Company agreed to pay an aggregate purchase price of up to $49.0 million. On the Closing Date, the equityholders of ID R&D received from the Company: (i) $13.0 million in cash, subject to adjustments for transaction expenses, escrow amounts, indebtedness and working capital adjustments (the “Initial Cash Payment”); and (ii) 867,226 shares or $13.9 million of Common Stock. In addition to the foregoing, the equityholders of ID R&D may become entitled to receive

additional consideration from the Company upon achievement of certain milestones as follows (collectively, the "Earnout Payments"): subject to ID R&D's achievement of target revenue for the period commencing on the Closing Date and ending on the one year anniversary thereof and the period commencing on the one year anniversary of the Closing Date and ending on the one year anniversary thereof (each such period, an "Earnout Period"): (i) an aggregate maximum amount of approximately $12.3 million with respect to the first Earnout Period and (ii) approximately $9.8 million with respect to the second Earnout Period, with 15% of the first Earnout Period's payment to be deposited (as additional funds) into an escrow fund described below. The Company will
make the Earnout Payments in the form of cash and shares of Common Stock as set forth in the Merger Agreement. The Company has granted the Representative an option to shift the Earnout Period(s) out by one year, pursuant to the terms of the Merger Agreement. Moreover, in the event actual revenue for an Earnout Period exceeds the target revenue for such period, the amount of such excess will be credited towards the achievement of the subsequent Earnout Period's Earnout Payment.

The Company estimated the fair value of the consideration for the Earnout Periods to be $15.7 million on the Closing Date, 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, and is included in level three of the fair value hierarchy. Each quarter the Company revises the estimated fair value of the consideration for the Earnout Periods and changes in the fair value are included in acquisition-related costs and expenses in the consolidated statements of operations and other comprehensive income. See Note 4. "Investments," of the notes to consolidated financial statements for more information relating to the consideration for the Earnout Periods.

The Company incurred $0.6 million of expense in connection with the 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 income.

On the Closing Date, the Company deposited a portion of the Initial Cash Payment and a number of shares of Common Stock having a collective value of approximately $4.0 million into an escrow fund to serve as collateral and partial security for working capital adjustments and certain indemnification rights of the Company. As indicated above, 15% of the Earnout Payment with respect to the first Earnout Period, if and when earned, will also be deposited into the escrow fund. The escrow fund will be maintained for up to 24 months following the completion of the ID R&D Acquisition or until such earlier time as the escrow fund is exhausted. The Company used cash on hand for the Initial Cash Payment.

Acquisitions are accounted for using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. Accordingly, the results of operations of ID R&D have been included in the accompanying consolidated financial statements since the date of such acquisition. The purchase price has 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 the ID R&D Acquisition and are based on assumptions that the Company's management believes are reasonable.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed from the ID R&D Acquisition as of the Closing Date (*amounts shown in thousands*):

| | | |
|---|---|---|
| Current assets | $ | 320 |
| Property, plant, and equipment | | 114 |
| Intangible assets | | 16,930 |
| Goodwill | | 27,748 |
| Current liabilities | | (425) |
| Other non-current liabilities | | (2,355) |
| Net assets acquired | $ | 42,332 |

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 from the ID R&D Acquisition as of the Closing Date (*amounts shown in thousands, except for years*):

| | **Amortization Period** | | **Amount assigned** |
|---|---|---|---|
| Completed technologies | 7.0 years | $ | 14,020 |
| Customer relationships | 3.0 years | | 2,540 |
| Trade names | 5.0 years | | 370 |
| Total intangible assets acquired | | $ | 16,930 |

The following unaudited pro forma financial information should not be taken as representative of the Company's future consolidated results of operations and includes adjustments for the amortization expense related to the identified intangible assets. The following table summarizes the Company's unaudited pro forma financial information and is presented as if the ID R&D Acquisition occurred on October 1, 2020 (*amounts shown in thousands*):

| | Three months ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Pro forma revenue | $ 32,473 | $ 26,372 |
| Pro forma net income (loss) | $ 3,124 | $ 1,152 |

**4. INVESTMENTS**

The following tables summarize investments by type of security as of December 31, 2021 and September 30, 2021, respectively *(amounts shown in thousands):*

| December 31, 2021: | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
|---|---|---|---|---|
| Available-for-sale securities: | | | | |
| U.S. Treasury, short-term | $ 7,711 | $ — | $ (11) | $ 7,700 |
| Asset-backed securities, short-term | 4,514 | — | (2) | 4,512 |
| Corporate debt securities, short-term | 125,632 | 1 | (92) | 125,541 |
| U.S. Treasury, long-term | 7,497 | — | (29) | 7,468 |
| Foreign government and agency securities, long-term | 2,898 | — | (11) | 2,887 |
| Corporate debt securities, long-term | 46,081 | — | (181) | 45,900 |
| Total | $ 194,333 | $ 1 | $ (326) | $ 194,008 |

| September 30, 2021: | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
|---|---|---|---|---|
| Available-for-sale securities: | | | | |
| U.S. Treasury, short-term | $ 4,222 | $ 1 | $ — | $ 4,223 |
| Asset-backed securities, short-term | 4,812 | 1 | (2) | 4,811 |
| Corporate debt securities, short-term | 140,042 | 6 | (25) | 140,023 |
| U.S. Treasury, long-term | 6,996 | 1 | (2) | 6,995 |
| Foreign government and agency securities, long-term | 2,909 | — | (1) | 2,908 |
| Corporate debt securities, long-term | 38,184 | 3 | (39) | 38,148 |
| Total | $ 197,165 | $ 12 | $ (69) | $ 197,108 |

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 other income, net in the consolidated statements of operations and other comprehensive 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, 2021 and September 30, 2021, 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, 2021 and 2020. There were no realized gains or losses from the sale of available-for-sale securities during the three months ended December 31, 2021 and 2020.

*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, convertible senior notes hedge, acquisition-related contingent consideration, and embedded conversion derivative as of December 31, 2021 and September 30, 2021, respectively *(amounts shown in thousands)*:

| **December 31, 2021:** | **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 | $ 7,700 | $ 7,700 | $ — | $ — |
| Asset-backed securities | 4,512 | — | 4,512 | — |
| Corporate debt securities | 125,541 | — | 125,541 | — |
| Total short-term investments at fair value | 137,753 | 7,700 | 130,053 | — |
| Long-term investments: | | | | |
| U.S. Treasury | 7,468 | 7,468 | — | — |
| Foreign government and agency securities | 2,887 | — | 2,887 | — |
| Corporate debt securities | 45,900 | — | 45,900 | — |
| Total long-term investments at fair value | 56,255 | 7,468 | 48,787 | — |
| Convertible senior notes hedge | 42,821 | — | 42,821 | — |
| Total assets at fair value | $ 236,829 | $ 15,168 | $ 221,661 | $ — |
| **Liabilities:** | | | | |
| Current liabilities: | | | | |
| Acquisition-related contingent consideration | $ 11,210 | $ — | $ — | $ 11,210 |
| Non-current liabilities: | | | | |
| Acquisition-related contingent consideration | 5,590 | — | — | 5,590 |
| Embedded conversion derivative | 42,821 | — | 42,821 | — |
| Total liabilities at fair value | $ 59,621 | $ — | $ 42,821 | $ 16,800 |

| September 30, 2021: | 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 | $ 4,223 | $ 4,223 | $ — | $ — |
| Asset-backed securities, short-term | 4,811 | — | 4,811 | — |
| Corporate debt securities | 140,023 | — | 140,023 | — |
| Total short-term investments at fair value | 149,057 | 4,223 | 144,834 | — |
| Long-term investments: | | | | |
| U.S. Treasury | 6,995 | 6,995 | — | — |
| Foreign government and agency securities | 2,908 | — | 2,908 | — |
| Corporate debt securities | 38,148 | — | 38,148 | — |
| Total long-term investments at fair value | 48,051 | 6,995 | 41,056 | — |
| Convertible senior notes hedge | 48,208 | $ — | 48,208 | $ — |
| Total assets at fair value | $ 245,316 | $ 11,218 | $ 234,098 | $ — |
| **Liabilities:** | | | | |
| Current liabilities: | | | | |
| Acquisition-related contingent consideration | $ 11,050 | $ — | $ — | $ 11,050 |
| Non-current liabilities: | | | | |
| Acquisition-related contingent consideration | 5,720 | — | — | 5,720 |
| Embedded conversion derivative | 48,208 | — | 48,208 | — |
| Total liabilities at fair value | $ 64,978 | $ — | $ 48,208 | $ 16,770 |

- Level 1: Includes investments in U.S. Government and agency securities, which are valued based on recently executed transactions in the same or similar securities.
- Level 2: Convertible Senior Notes. On February 5, 2021, the Company issued $155.3 million aggregate principal amount of 0.75% 2026 Notes as further described in Note 8. “Convertible Senior Notes.” Concurrently with the issuance of the 2026 Notes, the Company entered into the Notes Hedge and Warrant Transactions which in combination are intended to reduce the potential dilution from the conversion of the 2026 Notes. Initially, conversion of the 2026 Notes will be settled solely in cash; however, following satisfaction of certain share reservation conditions, conversion of the 2026 Notes may be settled in cash, shares of Common Stock or a combination of cash and shares of Common Stock, at the Company’s election. The embedded conversion derivative associated with the 2026 Notes currently meets the criteria for an embedded derivative liability which required bifurcation and separate accounting. The Notes Hedge and Warrant Transactions are also currently classified as a derivative asset and as an increase to additional paid-in capital, respectively, on the Company’s consolidated balance sheet. On the date the Company increases its authorized shares of Common Stock and satisfies the share reservation condition, the Notes Hedge and embedded conversion derivative will be reclassified to additional paid-in capital as the equity classification criteria is met. Changes in the fair value of these derivatives prior to being classified in equity are reflected in Other income, net, in the Company’s consolidated statement of operations and other comprehensive income.

  The fair value of the Notes Hedge and the embedded conversion derivative are estimated using a Black-Scholes model. Based on the fair value hierarchy, the Company classified the Notes Hedge and the embedded conversion derivative as Level 2 as significant inputs are observable, either directly or indirectly. The significant inputs and assumptions used in the models to calculate the fair value of the derivatives include the Common Stock price, exercise price of the derivatives, risk-free interest rate, volatility, annual coupon rate and remaining contractual term.

  The Company carries the 2026 Notes at face value less unamortized discount and issuance costs on its consolidated balance sheets. Based on the fair value hierarchy, the Company classified the 2026 Notes as Level 2 as they are not actively traded.
- Level 3: As of December 31, 2021, total acquisition-related contingent consideration of $11.2 million and $5.6 million is recorded in acquisition-related contingent consideration and other 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, 2021 *(amounts shown in thousands)*:

| | | |
|---|---|---|
| Balance at September 30, 2021 | $ | 16,770 |
| Expenses recorded due to changes in fair value | | 30 |
| Balance at December 31, 2021 | $ | 16,800 |

## 5. GOODWILL AND INTANGIBLE ASSETS

*Goodwill*

The Company had a goodwill balance of $62.3 million at December 31, 2021, 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, 2021 *(amounts shown in thousands)*:

| | | |
|---|---|---|
| Balance at September 30, 2021 | $ | 63,096 |
| Foreign currency effect on goodwill | | (791) |
| Balance at December 31, 2021 | $ | 62,305 |

*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, 2021 and September 30, 2021, respectively, are summarized as follows *(amounts shown in thousands, except for years):*

| **December 31, 2021:** | **Weighted Average Amortization Period** | | **Cost** | | **Accumulated Amortization** | | **Net** |
|---|---|---|---|---|---|---|---|
| Completed technologies | 6.6 years | $ | 34,361 | $ | 14,680 | $ | 19,681 |
| Customer relationships | 4.6 years | | 20,168 | | 13,953 | | 6,215 |
| Trade names | 4.7 years | | 988 | | 599 | | 389 |
| Total intangible assets | | $ | 55,517 | $ | 29,232 | $ | 26,285 |

| **September 30, 2021:** | **Weighted Average Amortization Period** | | **Cost** | | **Accumulated Amortization** | | **Net** |
|---|---|---|---|---|---|---|---|
| Completed technologies | 6.6 years | $ | 34,361 | $ | 13,311 | $ | 21,050 |
| Customer relationships | 4.6 years | | 20,168 | | 12,905 | | 7,263 |
| Trade names | 4.7 years | | 988 | | 567 | | 421 |
| Total intangible assets | | $ | 55,517 | $ | 26,783 | $ | 28,734 |

Amortization expense related to acquired intangible assets was $2.2 million and $1.7 million for the three months ended December 31, 2021 and 2020, respectively, and is recorded within acquisition-related costs and expenses on the consolidated statements of operations and other comprehensive income.

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** |
|---|---|---|
| 2022—remaining | $ | 6,532 |
| 2023 | | 6,721 |
| 2024 | | 4,428 |
| 2025 | | 3,236 |
| 2026 | | 2,051 |
| Thereafter | | 3,317 |
| Total | $ | 26,285 |

## 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, | |
|---|---|---|
| | 2021 | 2020 |
| Cost of revenue | $ 97 | $ 87 |
| Selling and marketing | 944 | 788 |
| Research and development | 937 | 740 |
| General and administrative | 1,154 | 1,132 |
| Stock-based compensation expense included in expenses | $ 3,132 | $ 2,747 |

As of December 31, 2021, the Company had $31.2 million of unrecognized compensation expense related to outstanding stock options and RSUs expected to be recognized over a weighted-average period of approximately 2.6 years.

*2020 Incentive Plan*

In January 2020, the Company’s board of directors (the “Board”) adopted the Mitek Systems, Inc. 2020 Incentive Plan (the “2020 Plan”) upon the recommendation of the compensation committee of the Board. On March 4, 2020, the Company’s stockholders approved the 2020 Plan. The total number of shares of Common Stock reserved for issuance under the 2020 Plan is 4,500,000 shares plus such number of shares, not to exceed 107,903, as remained available for issuance under the 2002 Stock Option Plan, 2006 Stock Option Plan, 2010 Stock Option Plan, and 2012 Incentive Plan (collectively, the “Prior Plans”) as of January 17, 2020, plus any shares underlying awards under the Prior Plans that are terminated, forfeited, cancelled, expire unexercised or are settled in cash after January 17, 2020. As of December 31, 2021, (i) 1,314,982 RSUs and 843,270 Performance RSUs were outstanding under the 2020 Plan, and 1,621,243 shares of Common Stock were reserved for future grants under the 2020 Plan and (ii) stock options to purchase an aggregate of 497,553 shares of Common Stock and 586,099 RSUs 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, 2021, (i) 479,135 shares have been issued to participants pursuant to the ESPP and (ii) 520,865 shares of Common Stock were reserved for future purchases under the ESPP. The Company commenced the initial offering period on April 2, 2018. Subsequent offering periods commence semi-annually in February and August each year.

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 $0.1 million in stock-based compensation expense related to the ESPP in each of the three months ended December 31, 2021 and 2020.

*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, 2021, (i) 286,084 RSUs were outstanding under the Director Plan and (ii) 214,888 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, 2021:

| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in Years) | Aggregate Intrinsic Value (*in thousands*) |
|---|---|---|---|---|
| Outstanding at September 30, 2021 | 816,717 | $ 7.42 | 5.8 | $ 9,046 |
| Granted | — | $ — | | |
| Exercised | (9,375) | $ 2.66 | | |
| Canceled | — | | | |
| Outstanding at December 31, 2021 | 807,342 | $ 7.48 | 5.6 | 8,292 |
| Vested and Expected to Vest at December 31, 2021 | 807,342 | $ 7.48 | 5.6 | 8,292 |
| Exercisable at December 31, 2021 | 651,807 | $ 6.98 | 5.2 | 7,023 |

The Company recognized $0.2 million in stock-based compensation expense related to outstanding stock options in each of the three months ended December 31, 2021 and 2020. As of December 31, 2021, the Company had $0.6 million of unrecognized compensation expense related to outstanding stock options expected to be recognized over a weighted-average period of approximately 1.6 years.

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, 2021 and 2020 was $0.1 million and $1.5 million, respectively. There were no options granted during the three months ended December 31, 2021.

*Restricted Stock Units*

The following table summarizes RSU activity under the Company's equity plans during the three months ended December 31, 2021:

| | Number of Shares | Weighted-Average Fair Market Value Per Share |
|---|---|---|
| Outstanding at September 30, 2021 | 2,411,267 | $ 9.99 |
| Granted | 609,166 | 16.98 |
| Settled | (652,847) | 8.97 |
| Canceled | (78,922) | 9.41 |
| Outstanding at December 31, 2021 | 2,288,664 | 12.16 |

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 $2.3 million and $1.9 million in stock-based compensation expense related to outstanding RSUs in the three months ended December 31, 2021 and 2020, respectively. As of December 31, 2021, the Company had $23.4 million of unrecognized compensation expense related to outstanding RSUs expected to be recognized over a weighted-average period of approximately 2.7 years.

*Performance Restricted Stock Units*

The following table summarizes Performance RSU activity under the Company's equity plans during the three months ended December 31, 2021:

| | Number of Shares | Weighted-Average Fair Market Value Per Share |
|---|---|---|
| Outstanding at September 30, 2021 | 528,724 | $ 9.17 |
| Granted | 393,911 | 16.95 |
| Settled | (72,213) | 11.84 |
| Canceled | (7,152) | 6.06 |
| Outstanding at December 31, 2021 | 843,270 | 12.60 |

The Company recognized $0.5 million and $0.3 million in stock-based compensation expense related to outstanding Performance RSUs in the three months ended December 31, 2021 and 2020, respectively. As of December 31, 2021, the Company had $7.1 million of unrecognized compensation expense related to outstanding RSUs expected to be recognized over a weighted-average period of approximately 2.6 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 Common Stock at an exercise price of $9.50 per share, the closing market price for a share of Common Stock on the date of the grant. During fiscal 2021 the performance conditions were achieved and in November 2021 the time vesting condition was met and the performance options vested in full. The Company recognized $0.1 million and $0.2 million in stock-based compensation expense related to outstanding Performance Options in the three months ended December 31, 2021 and 2020, respectively.

*Share Repurchase Program*

On December 13, 2019, the Board authorized and approved a share repurchase program for up to $10 million of the currently outstanding shares of our Common Stock. The share repurchase program expired on December 16, 2020. Total purchases made under the share repurchase program were $1.0 million or approximately 137,000 shares at an average price of $7.33. The purchases under the share repurchase program were made through open market trades.

On June 15, 2021, the Board authorized and approved a share repurchase program for up to $15 million of the currently outstanding shares of our Common Stock. The share repurchase program will expire on June 30, 2022. The timing, price and volume of repurchases will be based on market conditions, relevant securities laws and other factors. The repurchases may be made from time to time, through solicited or unsolicited transactions in the open market, in privately negotiated transactions or pursuant to a share repurchase trading plan. The program may be discontinued or amended at any time.

The Company made purchases of $10.1 million, or approximately 598,636 shares, during the three months ended December 31, 2021 at an average price of $16.95 per share. Total purchases made under the share repurchase program since its inception were $10.3 million as of December 31, 2021.

During the period January 1, 2022 through January 19, 2022, the Company made purchases of $4.7 million, or 287,568 shares at an average price of $16.29 per share and the share repurchase program was completed.

*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.

On February 28, 2019, the Company entered into an Amendment No. 1 to the Rights Agreement for the purpose of (i) modifying the definitions of "Beneficial Owner," "Beneficially Own," and "Beneficial Ownership" under the Rights Agreement to more closely align such definitions to the actual and constructive ownership rules under Section 382 of the Internal Revenue Code of 1986, as amended ("Section 382") or such similar provisions of the Tax Cuts and Jobs Act of 2017 and the rules and regulations promulgated thereunder, and (ii) adding an exemption request process for persons to seek an exemption from becoming an "Acquiring Person" under the Rights Agreement in the event such person wishes to acquire 4.9% or more of the Common Stock then outstanding.

The Rights expired on October 22, 2021 and no Rights were redeemed or exchanged.

## 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 income 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 foreign and state taxes.

For the three months ended December 31, 2021, the Company recorded an income tax benefit of $0.2 million which yielded an effective tax rate of negative 6%. For the three months ended December 31, 2020, the Company recorded an income tax benefit of $0.5 million which yielded an effective tax rate of negative 33%. The difference between the U.S. federal statutory tax rate and the Company's effective tax rate for the three months ended December 31, 2021 was primarily due to excess tax benefits resulting from the vesting of restricted stock and the exercise of stock options as well as the impact of foreign and state taxes, and the impact of federal and state research and development credits on its tax provision.

## 8. CONVERTIBLE SENIOR NOTES

The carrying values of the Company's 2026 Notes are as follows (in thousands):

| | | December 31, 2021 |
|---|---|---|
| 2026 Notes: | | |
| Principal amount | $ | 155,250 |
| Less: unamortized discount and issuance costs, net of amortization | | (32,618) |
| Carrying amount | $ | 122,632 |
| 2026 Notes embedded conversion derivative | $ | 42,821 |

In February 2021, the Company issued $155.3 million aggregate principal amount of the 2026 Notes (including the Additional Notes, as defined below). The 2026 Notes are senior unsecured obligations of the Company. The 2026 Notes were issued pursuant to an Indenture, dated February 5, 2021 (the "Indenture"), between the Company and UMB Bank, National Association, as trustee. The Indenture includes customary covenants and sets forth certain events of default after which the 2026 Notes may be declared immediately due and payable and sets forth certain types of bankruptcy or insolvency events of default involving the Company after which the 2026 Notes become automatically due and payable. The Company granted the initial purchasers of the 2026 Notes (collectively, the "Initial Purchasers") a 13-day option to purchase up to an additional $20.25 million aggregate principal amount of the 2026 Notes (the "Additional Notes"), which was exercised in full. The 2026 Notes were purchased in a transaction that was completed on February 5, 2021.

The 2026 Notes will mature on February 1, 2026, unless earlier redeemed, repurchased or converted. The 2026 Notes will bear interest from February 5, 2021 at a rate of 0.750% per year payable semiannually in arrears on February 1 and August 1 of each year, beginning on August 1, 2021. The 2026 Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding August 1, 2025, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2021, if the last reported sale price per share of Common Stock exceeds 130% of the conversion price for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter; (2) during five consecutive business days immediately after any five consecutive trading day period (such five consecutive trading day period, the "measurement period") in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price per share of the Common Stock on such trading day and the conversion rate on such trading day; (3) upon the occurrence of certain corporate events or distributions on the Common Stock. On or after August 1, 2025, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their 2026 Notes, in multiples of $1,000 principal amount, at the option of the holder regardless of the foregoing circumstances. Upon conversion, the Company may satisfy its conversion obligation by paying and/or delivering, as the case may be, cash and, if applicable at the Company's election, shares of the Common Stock, based on the applicable conversion rate(s); provided that the Company will be required to settle conversions solely in cash unless and until the Company (i) receives stockholder approval to increase the number of authorized shares of the Common Stock and (ii) reserves such amount of shares of the Common Stock for future issuance as required pursuant to the Indenture that governs the 2026 Notes. The conversion rate for the 2026 Notes will initially be 47.9731 shares of the Common Stock per $1,000 principal amount of 2026 Notes, which is equivalent to an initial conversion price of approximately $20.85 per share of the Common Stock. The initial conversion price of the 2026 Notes represents a premium of approximately 37.5% to the $15.16 per share last reported sale price of the Common Stock on February 2, 2021. The conversion rate is subject to adjustment under certain circumstances in accordance with the terms of the Indenture.

The net proceeds from this offering were approximately $149.7 million, after deducting the Initial Purchasers' discounts and commissions and the Company's estimated offering expenses related to the offering. The Company used approximately $9.3 million of the net proceeds from the offering to pay the cost of the Notes Hedge (as defined below) (after such cost is partially offset by the proceeds from the Warrant Transactions described below). The Initial Purchasers exercised their option to purchase Additional Notes in full and the Company used a portion of the net proceeds from the sale of such Additional Notes to enter into additional Notes Hedges (after such cost is partially offset by the proceeds from the additional Warrant Transactions) with the Option Counterparties (as defined below). The Company intends to use the remainder of the net proceeds from the offering for general corporate purposes, which may include working capital, capital expenditures, and potential acquisitions and strategic transactions.

As of December 31, 2021, the number of authorized and unissued shares of Common Stock that are not reserved for other purposes is less than the maximum number of underlying shares that will be required to settle the 2026 Notes into equity. Accordingly, unless and until the Company has a number of authorized shares that have not been issued or reserved for any other purpose that equals or exceeds the maximum number of underlying shares ("share reservation condition"), the Company will pay to the converting holder in respect of each $1,000 principal amount of notes being converted solely cash in an amount equal to the sum of the daily conversion values for each of the 40 consecutive trading days during the related observation period. However, following satisfaction of the share reservation condition, the Company may settle conversions of notes through payment or delivery, as the case may be, of cash, shares of Common Stock or a combination of cash and shares of Common Stock, at the Company's election.

In accounting for the issuance of the 2026 Notes, the conversion option of the 2026 Notes was deemed an embedded derivative requiring bifurcation from the 2026 Notes ("host contract") and separate accounting as an embedded derivative liability, as a result of the Company not having the necessary number of authorized but unissued shares of its Common Stock available to settle the conversion option of the 2026 Notes in shares. The proceeds from the 2026 Notes are first allocated to the embedded derivative liability and the remaining proceeds are then allocated to the host contract. On February 5, 2021, the fair value of the embedded derivative liability representing the conversion option was $33.2 million and the remaining $116.5 million was allocated to the host contract. The difference between the principal amount of the 2026 Notes and the fair value of the host contract (the "debt discount") is amortized to interest expense using the effective interest method over the term of the 2026 Notes.

As of December 31, 2021, the embedded derivative liability is included in embedded conversion derivative in the consolidated balance sheet and the change in fair value of derivative is included in Other income, net in the consolidated statement of operations and other comprehensive income. The carrying amount of the embedded derivative liability was determined using a Black-Scholes option valuation model.

The following table presents the fair value and the change in fair value for the embedded conversion derivative (in thousands):

| | | |
|---|---|---|
| **Embedded conversion derivative** | | |
| Fair value as of September 30, 2021 | $ | 48,208 |
| Change in fair value | | (5,387) |
| Fair value as of December 31, 2021 | $ | 42,821 |

Debt issuance costs for the issuance of the 2026 Notes were approximately $5.5 million, consisting of initial purchasers' discount and other issuance costs. In accounting for the transaction costs, the Company allocated the total amount incurred to the 2026 Notes. Transaction costs were recorded as debt issuance cost (presented as contra debt in the consolidated balance sheet) and are being amortized using the effective interest method to interest expense over the term of the 2026 Notes.

The following table presents the total amount of interest cost recognized relating to the 2026 Notes (in thousands):

| | Three Months Ended December 31, | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| Contractual interest expense | $ | 293 | $ | — |
| Amortization of debt discount and issuance costs | | 1,715 | | — |
| Total interest expense recognized | $ | 2,008 | $ | — |

The derived effective interest rate on the 2026 Notes host contract was determined to be 6.71%, which remains unchanged from the date of issuance. The remaining unamortized debt discount was $32.6 million as of December 31, 2021, and will be amortized over approximately 4.1 years.

*Convertible Senior Notes Hedge and Warrants*

In connection with the pricing of the 2026 Notes, the Company entered into the Notes Hedge with Bank of America, N.A., Jefferies International Limited and Goldman Sachs & Co. LLC (the "Option Counterparties"). The Notes Hedge provided the Company with the option to acquire, on a net settlement basis, approximately 7.4 million shares of Common Stock at a strike price of

$20.85, which is equal to the number of shares of Common Stock that notionally underlie and corresponds to the conversion price of the 2026 Notes. The Company also entered into Warrant Transactions with the Option Counterparties relating to the same number of shares of the Common Stock, subject to customary anti-dilution adjustments. The strike price of the Warrant Transactions is $26.53 per share, which represents a 75.0% premium to the last reported sale price of the Common Stock on The NASDAQ Capital Market on February 2, 2021, and is subject to certain adjustments under the terms of the Warrant Transactions.

As the Company is required to settle the Notes Hedge in cash, they do not qualify for the scope exception for contracts involving an issuer's own equity in ASC 815 and have been accounted for as a derivative asset. Upon initial purchase, the Notes Hedge was recorded in our consolidated balance sheets in convertible senior notes hedge at $33.2 million. As of December 31, 2021, the Notes Hedge is included in convertible senior notes hedge in the consolidated balance sheet and the change in fair value is included in Other income, net in the consolidated statement of operations and other comprehensive income. As of December 31, 2021, the Company had not purchased any shares under the Notes Hedge.

As a result of the Warrant Transactions, the Company is required to recognize incremental dilution of earnings per share to the extent the average share price is over $26.53 for any fiscal quarter. During the three months ended December 31, 2021, there was no dilution of earnings per share. The Warrant Transactions expire over a period of 80 trading days commencing on May 1, 2026 and may be settled in net shares of Common Stock or net cash at the Company's election. Upon initial sale, the Warrant Transactions were recorded as an increase in additional paid-in capital within stockholders' equity of $23.9 million. As of December 31, 2021, the Warrant Transactions had not been exercised and remained outstanding.

## 9. COMMITMENTS AND CONTINGENCIES

### 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 continues through June 30, 2024. The Company's other offices are located in Paris, France; Amsterdam, The Netherlands; New York, New York; Barcelona, Spain; London, United Kingdom; and St. Petersburg, Russia. Other than the lease for office space in San Diego, California, the Company does not believe that the leases for the offices are material to the Company. The Company believes its existing properties are in good condition and are sufficient and suitable for the conduct of its business.

The Company's leases have remaining terms of one to eight years. Certain leases contain renewal options for varying periods, which are at the Company's sole discretion. For leases where the Company is reasonably certain to exercise a renewal option, such option periods have been included in the determination of the Company's right-of-use ("ROU") assets and lease liabilities. As of December 31, 2021, the weighted-average remaining lease term for the Company's operating leases was 5.3 years and the weighted-average discount rate was 3.2%.

Lease liabilities expected to be paid within one year are recorded in current liabilities in the consolidated balance sheets. All other lease liabilities are recorded in non-current liabilities in the consolidated balance sheets. As of December 31, 2021, the Company had operating ROU assets of $6.6 million. Total operating lease liabilities of $8.0 million were comprised of current lease liabilities of $2.0 million and non-current lease liabilities of $6.0 million. As of September 30, 2021, the Company had operating ROU assets of $7.1 million. Total operating lease liabilities of $8.5 million were comprised of current lease liabilities of $1.9 million and non-current lease liabilities of $6.6 million.

The Company recognized $0.6 million of operating lease costs in the three months ended December 31, 2021, and $0.5 million of operating lease costs in the three months ended December 31, 2020. Operating lease costs are included within cost of revenue, selling and marketing, research and development, and general and administrative expenses, dependent upon the nature and use of the ROU asset, in the Company's consolidated statement of operations and other comprehensive income.

The Company paid $0.6 million in operating cash flows for operating leases in the three months ended December 31, 2021.

Maturities of operating lease liabilities as of December 31, 2021 were as follows *(amounts shown in thousands)*:

| | Operating leases |
|---|---|
| 2022—remaining | $ 1,614 |
| 2023 | 2,081 |
| 2024 | 1,749 |
| 2025 | 662 |
| 2026 | 655 |
| 2027 | 660 |
| Thereafter | 1,058 |
| Total lease payments | 8,479 |
| Less: amount representing interest | (505) |
| Present value of future lease payments | $ 7,974 |

**Legal Proceedings**

*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 sale of the shares in ICAR to Mitek Holding B.V. ICAR responded to the claim on September 7, 2018 and the court process is ongoing but has been delayed as a consequence of the COVID-19 pandemic.

The amount claimed is €0.8 million (or $0.9 million), plus the interest 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.

*Third Party Claims Against Our Customers*

The Company receives indemnification demands from end-user customers who received third party patentee offers to license patents and allegations of patent infringement. Some of the offers and allegations have resulted in ongoing litigation. The Company is not a party to any such litigation. License offers to and infringement allegations against the Company's end-customers were made by Lighthouse Consulting Group, LLC; Lupercal, LLC; Pebble Tide, LLC; Dominion Harbor Group, LLC; and IP Edge, LLC, which appear to be non-practicing entities ("NPEs")—often called "patent trolls"—and not the Company's competitors. These NPEs may seek to extract settlements from our end-customers, resulting in new or renewed indemnification demands to the Company. At this time, the Company does not believe it is obligated to indemnify any customers or end-customers resulting from license offers or patent infringement allegations by the companies listed above. However, the Company could incur substantial costs if it is determined that it is required to indemnify any customers or end-customers in connection with these offers or allegations. Given the potential for impact to other customers and the industry, the Company is actively monitoring the offers, allegations and any resulting litigation.

On July 7, 2018, United Services Automobile Association ("USAA") filed a lawsuit against Wells Fargo Bank, N.A. ("Wells Fargo") in the Eastern District of Texas alleging that Wells Fargo's remote deposit capture systems (which in part utilize technology provided by the Company to Wells Fargo through a partner) infringe four USAA owned patents related to mobile deposits (the "First Wells Lawsuit"). On August 17, 2018, USAA filed a second lawsuit (the "Second Wells Lawsuit" and together with the First Wells Lawsuit, the "Wells Lawsuits") against Wells Fargo in the Eastern District of Texas asserting that an additional five patents owned by USAA were infringed by Wells Fargo's remote deposit capture system. In neither lawsuit was the Company named in the Complaint as an infringer and at no time did USAA allege specifically that the Company's products by themselves infringed any of the asserted patents. Subsequently, on November 6, 2019, a jury in the First Wells Lawsuit found that Wells Fargo willfully infringed at least one of the Subject Patents (as defined below) and awarded USAA $200 million in damages. In the Second Wells Lawsuit, USAA dropped two of the patents from the litigation, and the judge in the case found that one of the remaining three patents was invalid. On January 10, 2020, a jury in the Second Wells Lawsuit found that Wells Fargo willfully infringed at least one of the patents at issue in that case and awarded USAA $102 million in damages. No Mitek product was accused of infringing either of the two patents in question in the Second Wells Lawsuit as the litigation involved broad banking processes and not Mitek's specific mobile deposit features. USAA and Wells Fargo subsequently reached a settlement, and on April 1, 2021 the court granted the parties' joint motion and stipulation of dismissal of the Wells Lawsuits with prejudice.

Wells Fargo filed petitions for *Inter Partes* Review ("IPR") with the Patent Trial and Appeal Board ("PTAB") challenging the validity of the four patents in the First Wells Lawsuit. Three of those four petitions were instituted, while one (relating to the '090

Patent) was denied institution. On November 24, 2020 and January 26, 2021, the PTAB issued final written decisions determining that Wells Fargo had not demonstrated by a preponderance of the evidence that any claims of the ‘571 Patent, the ‘779 Patent, or ‘517 Patent were unpatentable.

On September 30, 2020, USAA filed suit against PNC Bank (the “First PNC Lawsuit”) in the Eastern District of Texas alleging infringement of U.S. Patent Nos. 10,482,432 and 10,621,559. These two patents are continuations of an asserted patent in the Second Wells Lawsuit and relate to similar subject matter. On October 19, 2020, PNC Bank’s integration partner, NCR Corporation, sent an indemnification demand to the Company requesting indemnification from all claims related to the First PNC Lawsuit. The complaint against PNC does not claim that any Company product infringes any of the asserted patents. At this time, the Company does not believe it is obligated to indemnify NCR Corporation or end-users of NCR Corporation resulting from the patent infringement allegations by USAA. On December 4, 2020, USAA filed an amended complaint against PNC Bank also asserting two patents at issue in the First Wells Lawsuit—U.S. Patent Nos. 8,699,779 (“the ’779 Patent”) and 8,977,571 (“the ’571 Patent”). Also on December 4, 2020, PNC Bank filed a complaint for declaratory judgement of non-infringement of the ’779 Patent and the ’571 Patent in the Western District of Pennsylvania (“PNC DJ Action”). On January 19, 2021, USAA filed a motion to dismiss the PNC DJ Action in view of the pending lawsuit between the parties in the Eastern District of Texas. On February 2, 2021, NCR Corporation sent a second indemnification demand to the Company requesting indemnification of the claims described in the amended complaint. On March 31, 2021, USAA filed another suit against PNC Bank in the Eastern District of Texas alleging infringement of two patents from the Second Wells Lawsuit, U.S. Patent Nos. 10,013,605 and 10,013,681 (the “Second PNC Lawsuit”). On June 1, 2021, the Western District of Pennsylvania court stayed the PNC DJ Action in view of the earlier-filed action between USAA and PNC in the Eastern District of Texas. On July 7, 2021, USAA filed a third lawsuit against PNC Bank (the “Third PNC Lawsuit” and together with the First PNC Lawsuit and the Second PNC Lawsuit, the “PNC Lawsuits”) asserting infringement of U.S. Patents 10,769,598; 10,402,638; and 9,224,136. A jury trial has been set for the PNC Lawsuits in April 2022.

While neither the Wells Lawsuits nor the PNC Lawsuits name the Company as a defendant, given (among other factors) the Company’s prior history of litigation with USAA and the continued use of the Company’s products by its customers, on November 1, 2019, the Company filed a Complaint in the U.S. District Court for the Northern District of California seeking declaratory judgment that its products do not infringe the ’779 Patent, the ’571 Patent, U.S. Patent No. 9,336,517 (“the ’517 Patent”), and U.S. Patent No. 9,818,090 (“the ’090 Patent”) (collectively, the “Subject Patents”). On January 15, 2020, USAA filed motions requesting the dismissal of the declaratory judgement of the Subject Patents and transfer of the case to the Eastern District of Texas, both of which the Company opposed. On April 21, 2020, the court in the Northern District of California transferred the Company’s declaratory judgement action to the Eastern District of Texas and did not rule on USAA’s motion to dismiss. On April 28, 2021, the court in the Eastern District of Texas granted USAA’s motion to dismiss the Company’s declaratory judgment action on jurisdictional grounds. The Court’s ruling did not address the merits of the Company’s claim of non-infringement. The Company appealed the ruling on the motion to dismiss and the decision to transfer the declaratory judgment action from California to Texas to the U.S. Court of Appeals for the Federal Circuit. The appeal is fully briefed and pending oral argument. The Company continues to believe that its products do not infringe the Subject Patents and will vigorously defend the right of its end-users to use its technology.

In April, May, and June 2020, the Company filed petitions for IPR with the PTAB of the U.S. Patent & Trademark Office challenging the validity of the Subject Patents. On November 6 and 17, 2020, the PTAB decided to exercise its discretion and deny institution of the four petitions due to the alleged relationship between the Company and Wells Fargo, who previously filed petitions for IPR on the Subject Patents. The PTAB did not address the merits of the Company’s petitions or the prior art cited in those petitions. The Company continues to believe that the prior art cited in the petitions renders all the claims of the Subject Patents invalid. On December 6, 2020, December 17, 2020, and February 23, 2021, the Company filed requests for rehearing and Precedential Opinion Panel (“POP”) review of the four denied IPR petitions. The Patent Office denied the requests for rehearing and for POP review.

In September 2020, the Company filed an additional two petitions for IPR with the U.S. Patent & Trademark Office challenging the validity of U.S. Patent Nos. 10,013,681 and 10,013,605—two of the patents at issue in the Second Wells Lawsuit. In March 2021, the PTAB decided not to institute the two petitions.

On July 7 and July 14, 2021, PNC Bank filed six additional petitions for IPR with the U.S. Patent & Trademark Office challenging the validity of the ’779 Patent, the ’571 Patent, the ‘559 Patent, and the ‘432 Patent. On August 27, 2021, PNC filed two additional petitions for IPR challenging the validity of the ‘681 Patent and the ‘605 Patent. In November and December of 2021, PNC Bank filed four more petitions for IPR challenging the validity of the ‘638 Patent, the ‘136 Patent, and the ‘598 Patent. The Patent Office denied institution with respect to the petitions challenging the ‘432 Patent, but instituted *inter partes* review on the petitions relating to the ‘779 Patent, the ‘571 Patent, and the ‘559 Patent—finding a reasonable likelihood that at least one challenged patent claim was invalid. Decisions from the Patent Office whether to institute the remaining petitions for IPRs are expected in March and May 2022.

On August 16, 2021, USAA filed suit against BBVA USA (“BBVA”) in the Eastern District of Texas alleging infringement of the same patents at issue in the lawsuits against PNC. While Mitek’s IPR petitions were mentioned in the complaint, Mitek was not named as a defendant or mentioned in connection with any alleged infringement. BBVA then sent Mitek an indemnification demand on September 7, 2021. For the same reasons discussed above in connection with PNC, the Company does not believe it is obligated to indemnify BBVA.

The Company incurred legal fees of $0.4 million in the three months ended December 31, 2021 related to third party claims against our customers. Such fees are included in general and administrative expenses in the consolidated statement of operations and other comprehensive income.

*Claim Against UrbanFT, Inc.*

On July 31, 2019, the Company filed a lawsuit against one of its customers, UrbanFT, Inc. ("UrbanFT") in the United States District Court for the Southern District of California (case No. 19-CV-1432-CAB-DEB). UrbanFT is delinquent in payment and attempted to justify its non-payment by asserting that the Company is or may be infringing on purported UrbanFT patents. The Company filed such lawsuit to collect the delinquent payments and to obtain a declaratory judgment of non-infringement of five purported UrbanFT patents. UrbanFT filed an answer and later asserted infringement of two of the five patents-at-issue in the Company's lawsuit against UrbanFT. The Company thereafter filed counterclaims seeking a declaration that the two patents now asserted by UrbanFT are invalid in addition to being not infringed. During the course of the litigation, the Company learned that a judgment had been entered against UrbanFT's affiliates and its predecessor owner in which an Oregon court ordered that the patents in issue revert to a prior owner, Mr. Stevens, because UrbanFT's affiliates did not pay the purchase price owed to the prior owner. On September 8, 2020, the Company filed a motion for summary judgment on its breach of contract claim. On September 15, 2020, the district court issued an order to show cause regarding jurisdiction over patent issues in light of the Oregon judgment. On December 17, 2020, the district court dismissed Mitek's claims for declaratory judgment of non-infringement and UrbanFT's counterclaims for patent infringement and related affirmative defenses based on infringement of the patents for lack of subject matter jurisdiction because UrbanFT does not own the patents. The district court then dismissed the remaining state law claims without prejudice to refiling in state court.

On December 18, 2020, the Company filed a new suit against UrbanFT in the Superior Court of the State of California, County of San Diego (case no. 37-2020-00046670-CU-BC-CTL) asserting claims for breach of contract, open book account, and monetary damages. UrbanFT filed an answer and has not asserted any cross-claims. The Company filed a motion for summary judgment which is set to be heard on April 15, 2022. No trial date has been set. We intend to vigorously pursue our claims and defend any cross-claims if any are filed at a later date.

*Claim Against Maplebear, Inc (dba Instacart):*

On December 13, 2021, Mitek filed a lawsuit against Mapleabear Inc., d/b/a Instacart, in California Superior Court – San Diego County (Case No, 37-2021-00052089-CU-BC-CTL). Mitek is alleging breach of contract, breach of the implied covenant, and requesting over $2.0 million in damages.

On August, 3, 2018 Maplebear entered into a Master Services Agreement with Mitek agreeing to purchase a subscription to Mitek's Mobile Verify Advanced service. On June 19, 2020, the parties entered into a second Order Form in connection with the Master Services Agreement. The Order Form has a term of June 18, 2020 to December 31, 2023 and calls for an annual commitment of $1.2 million. On September 23, 2021, Maplebear sent a letter to Mitek purporting to outline breaches under the Master Services Agreement. Mitek responded on November 11, 2021, refuting Maplebear's claims and offering to engage in further discussions. Maplebear thereafter sent a Notice of Termination of the Master Services Agreement dated November 24, 2021. The Parties have agreed to participate in mediation on March 15, 2022 and further agreed that any responsive pleading by Maplebear shall not be due until after the mediation.

*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, *Contingencies*. 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.

**10. REVENUE CONCENTRATION**

For the three months ended December 31, 2021, the Company derived revenue of $8.0 million from two customers, with such customers accounting for 15% and 10% of the Company's total revenue, respectively. For the three months ended December 31, 2020, the Company derived revenue of $3.9 million from one customer, with such customer accounting for 15% 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 $2.8 million and $0.1 million at December 31, 2021 and 2020, respectively.

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 32% and 31% of the Company's total revenue for the three months ended December 31, 2021 and 2020, respectively. From a geographic perspective, approximately 23% and 24% of the Company's total long-term assets as of December 31, 2021 and September 30, 2021, respectively, are associated with the Company's international subsidiaries. From a geographic perspective, approximately 5% and 6% of the Company's total long-term assets excluding goodwill and other intangible assets as of December 31, 2021 and September 30, 2021, respectively, are associated with the Company's international subsidiaries.

## 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, the duration and impact of the novel COVID-19 pandemic on our business, our customers, and markets generally, 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, 2021, filed with the U.S. Securities and Exchange Commission ("SEC") on December 13, 2021. 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 image capture and digital identity verification solutions. We are a software development company with expertise in computer vision, artificial intelligence, and machine learning. We currently serve more than 7,500 financial services organizations and leading marketplace and financial technology ("fintech") brands around the globe. Customers count on Mitek to deliver trusted and convenient online experiences, detect and reduce fraud, and document Know Your Customer ("KYC") and Anti-Money Laundering ("AML") regulatory compliance. Our solutions are embedded in native mobile apps and web browsers to facilitate digital consumer experiences. Mitek's identity verification and authentication technologies and services make it possible for banks, financial services organizations and the world's leading marketplace and sharing platforms to verify an individual's identity during digital transactions, allowing them to reduce risk and meet regulatory requirements. Our advanced mobile deposit system enables secure, fast and convenient deposit services. Thousands of organizations use Mitek solutions to optimize the security of mobile check deposits, new account openings and more.

To ensure a high level of security against evolving digital fraud threats, in May of 2021, Mitek acquired ID R&D, an award-winning provider of AI-based voice and face biometrics and liveness detection. With one of the strongest research and development teams in the industry, ID R&D consistently delivers innovative, best-in-class biometric capabilities that raise the bar on usability and performance.

Mitek 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. 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 2022 Highlights*

- Revenue for the three months ended December 31, 2021 was $32.5 million, an increase of 25% compared to revenue of $26.0 million in the three months ended December 31, 2020.
- Net income was $3.1 million, or $0.07 per diluted share, during the three months ended December 31, 2021, compared to net income of $2.2 million, or $0.05 per share, during the three months ended December 31, 2020.
- Cash provided by operating activities was $2.3 million for the three months ended December 31, 2021, compared to $8.7 million for the three months ended December 31, 2020.

- We added new patents to our portfolio during the first quarter of fiscal 2022 bringing our total number of issued patents to 78 as of December 31, 2021. In addition, we have 17 domestic and international patent applications pending as of December 31, 2021.

***Acquisition of ID R&D, Inc.***

On May 28, 2021 (the "Closing Date"), the Company completed the acquisition of ID R&D (the "ID R&D Acquisition") pursuant to an Agreement and Plan of Merger (the "Merger Agreement") dated May 28, 2021, by and among the Company, ID R&D and Alexey Khitrov. Upon completion of the ID R&D Acquisition, ID R&D became a direct wholly owned subsidiary of Mitek Systems, Inc. ID R&D is an award-winning provider of artificial intelligence-based voice and face biometrics and liveness detection. Under the terms of the Merger Agreement, the Company agreed to pay an aggregate purchase price of up to $49.0 million. On the Closing Date, the equityholders of ID R&D received from the Company: (i) $13.0 million in cash, subject to adjustments for transaction expenses, escrow amounts, indebtedness and working capital adjustments and (ii) 867,226 shares (or $13.9 million) of Common Stock. The terms of the Merger Agreement also provide for additional payments of up to approximately $22.1 million in a combination of cash and Common Stock upon the achievement of certain financial milestones during fiscal 2022 and fiscal 2023.

**Market Opportunities, Challenges & Risks**

We believe that financial institutions, fintechs, and other companies see our patented solutions as a way to provide a superior digital customer experience to meet growing consumer demand for trust and convenience online and, at the same time, assist them in meeting regulatory requirements. The value of digital transformation to our customers is a possible increase in top line revenue and a reduction in the cost of sales and services. As the use of new technology increases, so does associated fraud and cyber-attacks. The negative outcomes of fraud encompass financial losses, brand damage, and loss of loyal customers. We predict growth in both our deposits and identity verification products based on current trends in payments, online lending, more stringent regulations, growing usage of sharing apps and online marketplaces, and the ever-increasing demand for digital services.

Factors adversely affecting the pricing of, or demand for, our digital solutions, such as competition from other products or technologies, any decline in the demand for digital transactions, or negative publicity or obsolescence of the software environments in which our products operate, could result in lower revenues or gross margins. Further, because substantially all of our revenues are from a few types of technology, our product concentration may make us especially vulnerable to market demand and competition from other technologies, which could reduce our revenues.

The sales cycle for our software and services can be lengthy and the implementation cycles for our software and services by our channel partners and customers can also be lengthy, often as long as six months and sometimes longer for larger customers. If implementation of our products by our channel partners and customers is delayed or otherwise not completed, our business, financial condition, and results of operations may be adversely affected.

Revenues related to most of our on-premise licenses for mobile products are required to be recognized up front upon satisfaction of all applicable revenue recognition criteria. Revenue related to our software as a service ("SaaS") products is recognized ratably over the life of the contract or as transactions are used depending on the contract criteria. The recognition of future revenues from these licenses is dependent upon a number of factors, including, but not limited to, the term of our license agreements, the timing of implementation of our products by our channel partners and customers, and the timing of any re-orders of additional licenses and/or license renewals by our channel partners and customers.

During each of the last few years, sales of licenses to one or more channel partners have comprised a significant part of our revenue each year. This is attributable to the timing of renewals or purchases of licenses and does not represent a dependence on any single channel partner. If we were to lose a channel partner relationship, we do not believe such a loss would adversely affect our operations because either we or another channel partner could sell our products to the end-users that had purchased products from the channel partner we lost. However, in that case, we or another channel partner must establish a relationship with the end-users, which could take time to develop, if it develops at all.

We have a growing number of competitors in the mobile image capture and identity verification industry, many of which have greater financial, technical, marketing, and other resources. However, we believe our patented mobile image capture and identity verification technology, our growing portfolio of products and geographic coverage for the financial services industry, and our market expertise gives us a distinct competitive advantage. To remain competitive, we must continue to offer products that are attractive to the consumer as well as being secure, accurate, and convenient. To help us remain competitive, we intend to further strengthen performance of our portfolio of products through research and development as well as partnering with other technology providers.

The COVID-19 pandemic has created significant uncertainty in the U.S. and around the globe, resulting in both challenges and opportunities for our business. In response to this situation and in an effort to protect the health and safety of our employees, our workforce has transitioned to working remotely and employee travel, including to our international subsidiaries, has been severely curtailed. Because of our IT infrastructure and the nature of our business, our employees have generally been able to work remotely and productively, but future productivity and the effects of COVID-19 on our operations is unknown at this time. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state, local, or foreign authorities, or that we determine are in the best interests of our employees, customers, partners, and stockholders.

We anticipate in certain circumstances that the impact of the COVID-19 pandemic may accelerate the adoption of digital technologies and create future opportunities and uses for our products and we continue to seek new and innovative opportunities to serve our customers' needs. However, given the continuing uncertainties related to the COVID-19 pandemic, we cannot predict how it will continue to affect our operational and financial performance, including our long term revenue growth and profitability, the impact on our customers' and our sales cycles, our ability to generate new business leads, the impact on our customers', employee and industry events, and the effects on our vendors. As a result, the extent to which the COVID-19 pandemic will continue to impact our financial condition or results of operations is uncertain.

**Results of Operations**

**Comparison of the Three Months Ended December 31, 2021 and 2020**

The following table summarizes certain aspects of our results of operations for the three months ended December 31, 2021 and 2020 (*amounts in thousands, except percentages*):

| | Three Months Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | | | Percentage of Total Revenue | | Increase (Decrease) | |
| | 2021 | 2020 | 2021 | 2020 | $ | % |
| Revenue | | | | | | |
| Software and hardware | $ 15,445 | $ 12,303 | 48 % | 47 % | $ 3,142 | 26 % |
| Services and other | 17,028 | 13,673 | 52 % | 53 % | 3,355 | 25 % |
| Total revenue | $ 32,473 | $ 25,976 | 100 % | 100 % | $ 6,497 | 25 % |
| Cost of revenue | 3,356 | 4,138 | 10 % | 16 % | (782) | (19) % |
| Selling and marketing | 8,438 | 7,385 | 26 % | 28 % | 1,053 | 14 % |
| Research and development | 7,606 | 6,165 | 23 % | 24 % | 1,441 | 23 % |
| General and administrative | 5,965 | 5,058 | 18 % | 19 % | 907 | 18 % |
| Acquisition-related costs and expenses | 2,279 | 1,693 | 7 % | 7 % | 586 | 35 % |
| Interest expense | 2,008 | — | 6 % | — % | 2,008 | 100 % |
| Other income, net | 135 | 96 | — % | — % | 39 | 41 % |
| Income tax benefit | 168 | 534 | 1 % | 2 % | (366) | 69 % |
| Net income | $ 3,124 | $ 2,167 | 10 % | 8 % | $ 957 | 44 % |

*Revenue*

Total revenue increased $6.5 million, or 25%, to $32.5 million in the three months ended December 31, 2021 compared to $26.0 million in the three months ended December 31, 2020. Software and hardware revenue increased $3.1 million, or 26%, to $15.4 million in the three months ended December 31, 2021 compared to $12.3 million in the three months ended December 31, 2020. This increase is primarily due to an increase in sales of our Mobile Deposit®, CheckReader™, and IDLive® Face software products of $3.8 million. This increase was partially offset by a decline in revenue from our identity verification hardware products of $0.7 million. Services and other revenue increased $3.4 million, or 25%, to $17.0 million in the three months ended December 31, 2021 compared to $13.7 million in the three months ended December 31, 2020. This increase is primarily due to continued growth in Mobile Verify® transactional SaaS revenue of $2.6 million, or 31%, in the three months ended December 31, 2021 compared to the same period in 2020, as well as an increase in maintenance revenue associated with Mobile Deposit® software sales and hosted mobile deposit transactional revenue of $0.7 million.

*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 decreased $0.8 million, or 19%, to $3.4 million in the three months ended December 31, 2021 compared to $4.1 million in the three months ended December 31, 2020. As a percentage of revenue, cost of revenue decreased to 10% in the three months ended December 31, 2021 from 16% in the three months ended December 31, 2020. The decrease is primarily due to decreased costs of our identity verification hardware products as a result of lower hardware revenues during the three months ended December 31, 2021 compared to the same period in 2020.

*Selling and Marketing Expenses*

Selling and marketing expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with sales and marketing 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 $1.0 million, or 14%, to $8.4 million in the three months ended December 31, 2021 compared to $7.4 million in the three months ended December 31, 2020. As a percentage of revenue, selling and marketing expenses decreased to 26% in the three months ended December 31, 2021 from 28% in the three months ended December 31, 2020. The increase in selling and marketing expense is due to higher personnel-related costs resulting from our increased headcount costs of $0.8 million and higher travel and related expenses of $0.2 million in the three months ended December 31, 2021 compared to the same period in 2020.

*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 $1.4 million, or 23%, to $7.6 million in the three months ended December 31, 2021 compared to $6.2 million in the three months ended December 31, 2020. As a percentage of revenue, research and development expenses decreased to 23% in the three months ended December 31, 2021 from 24% in the three months ended December 31, 2020. The increase in research and development expenses is primarily due to higher personnel-related costs from the ID R&D acquisition and our increased headcount of $1.1 million, and third-party contractor expenses and other of $0.3 million in the three months ended December 31, 2021 compared to the same period in 2020.

*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 $0.9 million, or 18%, to $6.0 million in the three months ended December 31, 2021 compared to $5.1 million in the three months ended December 31, 2020. As a percentage of revenue, general and administrative expenses decreased to 18% in the three months ended December 31, 2021 from 19% in the three months ended December 31, 2020. The increase in general and administrative expenses is primarily due to higher third-party professional fees of $0.4 million, higher personnel-related costs resulting from our increased headcount of $0.3 million, and higher litigation and other expenses of $0.2 million during the three months ended December 31, 2021 compared to the same period in 2020.

*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, and other costs associated with acquisitions. Acquisition-related costs and expenses increased $0.6 million, or 35%, to $2.3 million in the three months ended December 31, 2021 compared to $1.7 million in the three months ended December 31, 2020. As a percentage of revenue, acquisition-related costs and expenses was consistent at 7% in each of the three months ended December 31, 2021 and 2020. The increase in acquisition-related costs and expenses is primarily due to expenses associated with the ID R&D Acquisition during the three months ended December 31, 2021 compared to the same period in 2020.

*Interest Expense*

Interest expense includes the amortization of debt discount and issuance costs and coupon interest accrued on our 0.75% convertible senior notes due 2026 (the “2026 Notes”). Interest expense was $2.0 million for the three months ended December 31, 2021 and consisted of $1.7 million of amortization of debt discount and issuance costs and $0.3 million of coupon interest incurred. There was no interest expense in the three months ended December 31, 2020.

*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 the change in fair value of our convertible senior notes hedge and embedded conversion derivative. Other income, net was consistent at $0.1 million in each of the three months ended December 31, 2021 and 2020.

*Income Tax Benefit*

For the three months ended December 31, 2021, we recorded an income tax benefit of $0.2 million, which yielded an effective tax rate of negative 6%. For the three months ended December 31, 2020, we recorded an income tax benefit of $0.5 million, or an effective tax rate of negative 33%. The difference between the U.S. federal statutory tax rate and our effective tax rate for the three months ended December 31, 2021 and 2020 was primarily due to excess tax benefits resulting from the vesting of restricted stock and the exercise of stock options as well as the impact of foreign and state taxes, and the impact of federal and state research and development credits on its tax provision.

**Liquidity and Capital Resources**

On December 31, 2021, we had $218.2 million in cash and cash equivalents and investments compared to $227.4 million on September 30, 2021, a decrease of $9.2 million, or 4%. The decrease in cash and cash equivalents and investments is primarily due to $10.1 million in repurchases and retirements of our common stock, par value $0.001 ("Common Stock"), amortization of investment premiums and other of $0.5 million, capital expenditures of $0.3 million, and unfavorable foreign currency losses of $0.3 million. These decreases were partially offset by net cash provided by operating activities of $2.3 million.

*Cash Flows from Operating Activities*

Net cash provided by operating activities during the three months ended December 31, 2021 was $2.3 million and resulted primarily from net income of $3.1 million, net non-cash charges of $7.5 million, and favorable changes in operating assets and liabilities of $8.3 million. The primary non-cash adjustments to operating activities were stock-based compensation expense, amortization of intangible assets, accretion and amortization on debt securities, amortization of investment premiums & other, and depreciation and amortization totaling $3.1 million, $2.2 million, $1.7 million, $0.5 million, and $0.3 million, respectively, which were partially offset by a deferred tax benefit of $0.3 million.

Net cash provided by operating activities during the three months ended December 31, 2020 was $8.7 million and resulted primarily from net income of $2.2 million, net non-cash charges of $4.2 million, and 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, depreciation and amortization and amortization of investment premiums totaling $2.7 million, $1.7 million, $0.4 million, and $0.1 million, respectively, and were partially offset by a deferred tax benefit of $0.7 million.

*Cash Flows from Investing Activities*

Net cash provided by investing activities was $2.1 million during the three months ended December 31, 2021, which consisted primarily of net sales and maturities of investments of $2.4 million, partially offset by capital expenditures of $0.3 million.

Net cash used in investing activities was $4.4 million during the three months ended December 31, 2020, which consisted primarily of net purchases of investments of $4.0 million and capital expenditures of $0.4 million.

*Cash Flows from Financing Activities*

Net cash used in financing activities was $10.1 million during the three months ended December 31, 2021, primarily due to $10.1 million in repurchases and retirements of our Common Stock.

Net cash provided by financing activities was $1.9 million during the three months ended December 31, 2020, which consisted of net proceeds from the issuance of equity plan Common Stock of $1.9 million, partially offset by principal payments on other borrowings of $18,000.

*0.75% Convertible Senior Notes due 2026*

In February 2021, the Company issued $155.3 million aggregate principal amount of the 2026 Notes. The 2026 Notes are senior unsecured obligations of the Company. The 2026 Notes were issued pursuant to an Indenture, dated February 5, 2021 (the "Indenture"), between the Company and UMB Bank, National Association, as trustee. The Indenture includes customary covenants and sets forth certain events of default after which the 2026 Notes may be declared immediately due and payable and sets forth certain types of bankruptcy or insolvency events of default involving the Company after which the 2026 Notes become automatically due and payable.

The net proceeds from this offering were approximately $149.7 million, after deducting the Initial Purchasers' discounts and commissions and the Company's estimated offering expenses related to the offering. The 2026 Notes will mature on February 1, 2026, unless earlier redeemed, repurchased or converted. The 2026 Notes will bear interest from February 5, 2021 at a rate of 0.750% per year payable semiannually in arrears on February 1 and August 1 of each year, beginning on August 1, 2021. The 2026 Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding August 1, 2025, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2021, if the last reported sale price per share of the Company's Common Stock exceeds 130% of the conversion price for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter; (2) during five consecutive business days immediately after any five consecutive trading day period (such five consecutive trading day period, the "measurement period") in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price per share of the Common Stock on such trading day and the conversion rate on such trading day; and (3) upon the occurrence of certain corporate events or distributions on the Common Stock. On or after August 1, 2025, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of the 2026 Notes, in multiples of $1,000 principal amount, at the option of the holder regardless of the foregoing circumstances. Upon conversion, the Company may satisfy its conversion obligation by paying and/or delivering, as the case may be, cash and, if applicable at the Company's election, shares of Common Stock, based on the applicable conversion rate(s); provided that the Company will be required to settle conversions solely in cash unless and until the Company (i) receives stockholder approval to increase the number of authorized shares of the Common Stock and (ii) reserves such amount of shares of the Common Stock for future issuance as required pursuant to the indenture that will govern the 2026 Notes. The conversion rate for the 2026 Notes will initially be 47.9731 shares of the Common Stock per $1,000 principal amount of 2026 Notes, which is equivalent to an initial conversion price of approximately $20.85 per share of the Common Stock. The initial conversion price of the 2026 Notes represents a premium of approximately 37.5% to the $15.16 per share last reported sale price of the Common Stock on February 2, 2021. The conversion rate is subject to adjustment under certain circumstances in accordance with the terms of the Indenture. The impact of the convertible feature will be dilutive to our earnings per share when our average stock price for the period is greater than the conversion price.

In connection with the issuance of the 2026 Notes, we entered into transactions for convertible notes hedge (the "Notes Hedge") and warrants (the "Warrant Transactions"). The Notes Hedge was entered into with Bank of America, N.A., Jefferies International Limited and Goldman Sachs & Co. LLC, and provided the Company with the option to acquire, on a net settlement basis, approximately 7.4 million shares of Common Stock at a strike price of $20.85, which is equal to the number of shares of Common Stock that notionally underlie and corresponds to the conversion price of the 2026 Notes. The cost of the Notes Hedge was $33.2 million. The Notes Hedge will expire on February 1, 2026, equal to the maturity date of the 2026 Notes. The Notes Hedge is expected to reduce the potential equity dilution upon conversion of the 2026 Notes if the daily volume-weighted average price per share of our Common Stock exceeds the strike price of the Notes Hedge.

In addition, the Warrant Transactions provided us with the ability to acquire up to 7.4 million shares of our Common Stock. The Warrant Transactions will expire ratably during the 80 trading days commencing on and including May 1, 2026 and may be settled in net shares of Common Stock or net cash at the Company's election. We received $23.9 million in cash proceeds from the Warrant Transactions. As a result of the Warrant Transactions, the Company is required to recognize incremental dilution of earnings per share to the extent the average share price is over $26.53 for any fiscal quarter.

As of February 3, 2022, the 2026 Notes were not convertible, therefore, we had not purchased any shares under the Notes Hedge and the Warrant Transactions had not been exercised and remain outstanding. See Note 8. "Convertible Senior Notes," of the notes to consolidated financial statements included in Part I, Item 1 of this Form 10-Q for more information relating to the Notes Hedge and Warrant Transactions.

*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.

On February 28, 2019, the Company entered into Amendment No. 1 to the Rights Agreement for the purpose of (i) modifying the definitions of "Beneficial Owner," "Beneficially Own," and "Beneficial Ownership" under the Rights Agreement to more closely align such definitions to the actual and constructive ownership rules under Section 382 of the Internal Revenue Code of 1986, as amended or such similar provisions of the Tax Cuts and Jobs Act of 2017 and the rules and regulations promulgated thereunder, and (ii) adding an exemption request process for persons to seek an exemption from becoming an "Acquiring Person" under the Rights Agreement in the event such person wishes to acquire 4.9% or more of the Common Stock then outstanding.

The Rights expired on October 22, 2021 and no Rights were redeemed or exchanged.

*Share Repurchase Program*

On June 15, 2021, the Board authorized and approved a share repurchase program for up to $15 million of the currently outstanding shares of our Common Stock. The share repurchase program will expire on June 30, 2022. The timing, price and volume of repurchases will be based on market conditions, relevant securities laws and other factors. The repurchases may be made from time to time, through solicited or unsolicited transactions in the open market, in privately negotiated transactions or pursuant to a share repurchase trading plan. The program may be discontinued or amended at any time.

The Company made purchases of $10.1 million, or approximately 598,636 shares, during the three months ended December 31, 2021 at an average price of $16.95 per share. Total purchases made under the share repurchase program were $10.3 million as of December 31, 2021.

From the period January 1, 2022 through January 19, 2022, the Company made purchases of $4.7 million, or 287,568 shares at an average price of $16.29 per share.

On December 13, 2019, the Board authorized and approved a share repurchase program for up to $10 million of the currently outstanding shares of our Common Stock. The share repurchase program expired on December 16, 2020. Total purchases made under the share repurchase program were $1.0 million or approximately 137,000 shares at an average price of $7.33. The purchases under the share repurchase program were made through open market trades.

*Other Liquidity Matters*

On December 31, 2021, we had investments of $194.0 million, designated as available-for-sale debt securities, which consisted of commercial paper, corporate issuances, and asset-backed securities, 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, 2021, we had $137.8 million of our available-for-sale securities classified as current and $56.3 million of our available-for-sale securities classified as long-term. At September 30, 2021, we had $149.1 million of our available-for-sale securities classified as current and $48.1 million of our available-for-sale securities classified as long-term.

We had working capital of $155.6 million at December 31, 2021 compared to $164.8 million at September 30, 2021.

The Company does not have any other material cash requirements other than those related to leases as described in Note 9. "Commitments and Contingencies." Based on our current operating plan, we believe the current cash and cash equivalents and cash expected to be generated from operations will be adequate to satisfy our working capital needs for at least the next eighteen 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, 2021.

**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, 2021.

There have been no 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, 2021.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

For a discussion of the Company's quantitative and qualitative disclosures about market risks, see the section titled Quantitative and Qualitative Disclosures About Market Risks in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021. Except as described below, there has been no material change in this information as of December 31, 2021.

*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, certificates of deposit, and asset-backed securities. 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, 2021, our marketable securities had remaining maturities between approximately one and 34 months and a fair market value of $194.0 million, representing 48% 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, Russia, and Spain that are exposed to fluctuations in the foreign currency exchange rate between the U.S. dollar, the Euro, the Ruble 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 income.

## 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, 2021.

### Remediation of Material Weakness in Internal Control Over Financial Reporting

As previously reported in our Form 10-K for the year ended September 30, 2021, we identified a material weakness in the operating effectiveness of our internal control over financial reporting as of September 30, 2021 due to certain control deficiencies related to the Company's precision of review regarding the initial valuation and subsequent remeasurement of the contingent consideration liability recognized as part of the consideration transferred in the ID R&D Acquisition. As the material weakness was due to a failure in the operation of the control, we enhanced the documentation of the control to include evidence of our review of the valuation provided by our third-party specialist. The evidence of our review included verifying that management provided inputs to the valuation agreed with source documentation, corroborating the accuracy of other inputs to the valuation, performing a recalculation of the valuation, and ensuring consistency with accounting principles generally accepted in the U.S. We have concluded that the material weakness has been remediated as of December 31, 2021. However, we will not be able to demonstrate that our controls are operating effectively until we and our independent registered public accounting firm conduct a year-end assessment of our internal control over financial reporting for the fiscal year ended September 30, 2022, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

**Changes in Internal Control over Financial Reporting**

Other than as set forth above, there has been no change in our internal control over financial reporting during the quarter ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

## PART II
## OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

For information regarding our legal proceedings, see Note 9 to the consolidated financial statements included in this Form 10-Q and Item 3—"Legal Proceedings" in the Form 10-K. In addition to the legal proceedings discussed in Note 9, the Company is subject to various claims and legal proceedings arising in the ordinary course of its business. 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.

### 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, 2021, 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** | 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. | (1) |
| 2.2** | 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. | (2) |
| 2.3 | Agreement and Plan of Merger, dated as of May 28, 2021, by and among Mitek Systems, Inc., Ibis Merger Sub, Inc., ID R&D, Inc. and Alexey Khitrov, solely in his capacity as representative of the equityholders of ID R&D, Inc. | (3) |
| 3.1 | Restated Certificate of Incorporation of Mitek Systems, Inc., as amended. | (4) |
| 3.2 | Second Amended and Restated Bylaws of Mitek Systems, Inc. | (5) |
| 3.3 | Certificate of Designation of Series B Junior Participating Preferred Stock. | (6) |
| 4.1 | Indenture, dated as of February 5, 2021, between Mitek Systems, Inc. and UMB Bank, National Association. | (7) |
| 10.1 | Mitek Systems, Inc. Annual Incentive Program Fiscal 2022 | (8) |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. | * |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. | * |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | * |
| 101.INS | Inline XBRL Instance Document. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document. | * |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Linkbase Document. | * |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. | * |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. | * |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. | * |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. | * |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101). | * |

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.

Incorporated by reference to the Company's Current Report on Form 8-K/A filed with the SEC on October 20, 2017.

Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on May 23, 2018.

Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on June 1, 2021.

Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on November 10, 2014.

Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on October 23, 2018.

Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on February 5, 2021.

Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on January 12, 2022.

## 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 3, 2022 | MITEK SYSTEMS, INC. |
| | By: /s/ Scipio Maximus Carnecchia |
| | Scipio Maximus Carnecchia<br>Chief Executive Officer<br>(Principal Executive Officer) |
| | By: /s/ Frank Teruel |
| | Frank Teruel<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) |

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

**Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Scipio Maximus Carnecchia, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mitek Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 3, 2022

/s/ Scipio Maximus Carnecchia

Scipio Maximus Carnecchia
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

**Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Frank Teruel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mitek Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 3, 2022

/s/ Frank Teruel

Frank Teruel
Chief Financial Officer
(Principal Financial and Accounting Officer)

**Exhibit 32.1**

**CERTIFICATIONS**
**PURSUANT TO SECTION 18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned, in his capacity as the principal executive officer or principal financial officer of Mitek Systems, Inc. (the “Company”), as the case may be, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. This Quarterly Report of the Company on Form 10-Q for the period ended December 31, 2021 (this “Quarterly Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in this Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| February 3, 2022 | /s/ Scipio Maximus Carnecchia |
| | Scipio Maximus Carnecchia<br>Chief Executive Officer<br>(Principal Executive Officer) |
| February 3, 2022 | /s/ Frank Teruel |
| | Frank Teruel<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) |

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission (“SEC”) or its staff upon request.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of this Quarterly Report), irrespective of any general incorporation language contained in such filing.