

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

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**Form 10-Q**

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

For the quarterly period ended March 31, 2019

**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

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**MITEK SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**600 B Street, Suite 100  
San Diego, California**

(Address of Principal Executive Offices)

**87-0418827**

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

**92101**

(Zip Code)

**(619) 269-6800**

(Registrant's Telephone Number, Including Area Code)

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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. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

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

There were 39,847,328 shares of the registrant's common stock outstanding as of April 30, 2019.

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**MITEK SYSTEMS, INC.**  
**FORM 10-Q**  
**For The Quarterly Period Ended March 31, 2019**  
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**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS.**

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

	March 31, 2019 (Unaudited)	September 30, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 18,745	\$ 9,028
Short-term investments	5,861	8,448
Accounts receivable, net	11,862	16,821
Prepaid expenses	2,070	2,278
Other current assets	2,600	1,053
Total current assets	41,138	37,628
Property and equipment, net	4,604	4,665
Intangible assets, net	28,468	32,947
Goodwill	33,440	34,407
Deferred income tax assets, net	17,580	15,356
Other non-current assets	2,410	2,147
Total assets	\$ 127,640	\$ 127,150
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,117	3,573
Accrued payroll and related taxes	5,465	7,915
Deferred revenue, current portion	7,973	4,792
Acquisition-related contingent consideration	1,162	1,849
Other current liabilities	1,639	2,278
Total current liabilities	19,356	20,407
Deferred revenue, non-current portion	516	485
Deferred income tax liabilities	7,916	8,162
Other non-current liabilities	1,783	2,702
Total liabilities	29,571	31,756
Stockholders' equity:		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.001 par value, 60,000,000 shares authorized, 39,348,080 and 37,961,224 issued and outstanding, as of March 31, 2019 and September 30, 2018, respectively	39	38
Additional paid-in capital	124,613	116,944
Accumulated other comprehensive loss	(2,594)	(586)
Accumulated deficit	(23,989)	(21,002)
Total stockholders' equity	98,069	95,394
Total liabilities and stockholders' equity	\$ 127,640	\$ 127,150

See accompanying notes to consolidated financial statements.

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

(amounts in thousands except per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Revenue				
Software and hardware	\$ 10,585	\$ 8,773	\$ 20,580	\$ 15,979
Service and other	9,398	5,504	17,086	10,434
Total revenue	19,983	14,277	37,666	26,413
Operating costs and expenses				
Cost of revenue—software and hardware	907	485	1,752	1,204
Cost of revenue—service and other	2,084	1,232	4,117	2,130
Selling and marketing	6,752	5,348	13,960	10,123
Research and development	5,290	3,501	9,778	6,781
General and administrative	4,827	3,773	10,669	7,290
Acquisition-related costs and expenses	1,773	1,203	3,600	2,462
Total operating costs and expenses	21,633	15,542	43,876	29,990
Operating loss	(1,650)	(1,265)	(6,210)	(3,577)
Other income, net	140	204	154	394
Loss before income taxes	(1,510)	(1,061)	(6,056)	(3,183)
Income tax benefit (provision)	794	(99)	2,149	(3,713)
Net loss	\$ (716)	\$ (1,160)	\$ (3,907)	\$ (6,896)
Net loss per share—basic and diluted	\$ (0.02)	\$ (0.03)	\$ (0.10)	\$ (0.20)
Shares used in calculating net loss per share—basic and diluted	38,926	34,976	38,583	34,587
Other comprehensive loss				
Net loss	\$ (716)	\$ (1,160)	\$ (3,907)	\$ (6,896)
Foreign currency translation adjustment	(1,203)	403	(2,027)	592
Unrealized gain (loss) on investments	6	(12)	19	(71)
Other comprehensive loss	\$ (1,913)	\$ (769)	\$ (5,915)	\$ (6,375)

See accompanying notes to consolidated financial statements.

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

**Three Months Ended March 31, 2019**

	Common Stock Outstanding Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2018	38,639	\$ 39	\$ 120,199	\$ (23,273)	\$ (1,397)	\$ 95,568
Exercise of stock options	502	—	1,570	—	—	1,570
Settlement of restricted stock units	139	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	68	—	491	—	—	491
Stock-based compensation expense	—	—	2,353	—	—	2,353
Components of other comprehensive loss:						
Net loss	—	—	—	(716)	—	(716)
Currency translation adjustment	—	—	—	—	(1,203)	(1,203)
Change in unrealized gain (loss) on investments	—	—	—	—	6	6
Total other comprehensive loss						(1,913)
Balance, March 31, 2019	<u>39,348</u>	<u>\$ 39</u>	<u>\$ 124,613</u>	<u>\$ (23,989)</u>	<u>\$ (2,594)</u>	<u>\$ 98,069</u>

**Three Months Ended March 31, 2018**

	Common Stock Outstanding Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2017	34,903	\$ 35	\$ 87,020	\$ (14,931)	\$ 277	\$ 72,401
Exercise of stock options	9	—	31	—	—	31
Settlement of restricted stock units	147	—	—	—	—	—
Stock-based compensation expense	—	—	2,058	—	—	2,058
Components of other comprehensive loss:						
Net loss	—	—	—	(1,160)	—	(1,160)
Currency translation adjustment	—	—	—	—	403	403
Change in unrealized gain (loss) on investments	—	—	—	—	(12)	(12)
Total other comprehensive loss						(769)
Balance, March 31, 2018	<u>35,059</u>	<u>\$ 35</u>	<u>\$ 89,109</u>	<u>\$ (16,091)</u>	<u>\$ 668</u>	<u>\$ 73,721</u>

See accompanying notes to consolidated financial statements.

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

Six Months Ended March 31, 2019						
	Common Stock Outstanding Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, September 30, 2018	37,961	\$ 38	\$ 116,944	\$ (21,002)	\$ (586)	\$ 95,394
Exercise of stock options	637	—	2,156	—	—	2,156
Settlement of restricted stock units	682	1	(1)	—	—	—
Issuance of common stock under employee stock purchase plan	68	—	491	—	—	491
Stock-based compensation expense	—	—	5,023	—	—	5,023
Cumulative-effect adjustment from the adoption of ASU 2014-09	—	—	—	920	—	920
Components of other comprehensive loss:						
Net loss	—	—	—	(3,907)	—	(3,907)
Currency translation adjustment	—	—	—	—	(2,027)	(2,027)
Change in unrealized gain (loss) on investments	—	—	—	—	19	19
Total other comprehensive loss						(5,915)
Balance, March 31, 2019	<u>39,348</u>	<u>\$ 39</u>	<u>\$ 124,613</u>	<u>\$ (23,989)</u>	<u>\$ (2,594)</u>	<u>\$ 98,069</u>

Six Months Ended March 31, 2018						
	Common Stock Outstanding Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, September 30, 2017	33,724	\$ 34	\$ 78,677	\$ (17,450)	\$ 147	\$ 61,408
Exercise of stock options	73	—	166	—	—	166
Settlement of restricted stock units	596	—	—	—	—	—
Acquisition-related shares issued	666	1	5,609	—	—	5,610
Stock-based compensation expense	—	—	3,947	—	—	3,947
Amortization of earnout shares	—	—	710	—	—	710
Cumulative-effect adjustment from the adoption of ASU 2016-09	—	—	—	8,255	—	8,255
Components of other comprehensive loss:						
Net loss	—	—	—	(6,896)	—	(6,896)
Currency translation adjustment	—	—	—	—	592	592
Change in unrealized gain (loss) on investments	—	—	—	—	(71)	(71)
Total other comprehensive loss						(6,375)
Balance, March 31, 2018	<u>35,059</u>	<u>\$ 35</u>	<u>\$ 89,109</u>	<u>\$ (16,091)</u>	<u>\$ 668</u>	<u>\$ 73,721</u>

See accompanying notes to consolidated financial statements.

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

	Six Months Ended March 31,	
	2019	2018
Operating activities:		
Net loss	\$ (3,907)	\$ (6,896)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock-based compensation expense	5,023	3,947
Amortization of closing and earnout shares	—	355
Amortization of intangible assets	3,537	1,119
Depreciation and amortization	678	200
Amortization of investment premiums and other	(28)	(26)
Deferred taxes	(2,496)	4,417
Changes in assets and liabilities:		
Accounts receivable	4,825	949
Other assets	(493)	(1,951)
Accounts payable	(435)	(367)
Accrued payroll and related taxes	(2,505)	66
Deferred revenue	3,250	1,156
Other liabilities	(829)	838
Net cash provided by operating activities	<u>6,620</u>	<u>3,807</u>
Investing activities:		
Purchases of investments	(5,241)	(15,412)
Sales and maturities of investments	7,880	29,365
Acquisitions, net of cash acquired	—	(2,991)
Purchases of property and equipment	(694)	(1,742)
Net cash provided by investing activities	<u>1,945</u>	<u>9,220</u>
Financing activities:		
Proceeds from the issuance of equity plan common stock	2,647	166
Payment of acquisition-related contingent consideration	(1,029)	—
Principal payments on other borrowings	(250)	(249)
Net cash provided by (used in) financing activities	<u>1,368</u>	<u>(83)</u>
Foreign currency effect on cash and cash equivalents	(216)	5
Net increase in cash and cash equivalents	9,717	12,949
Cash and cash equivalents at beginning of period	9,028	12,289
Cash and cash equivalents at end of period	<u>\$ 18,745</u>	<u>\$ 25,238</u>
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	<u>\$ 296</u>	<u>\$ 85</u>
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized holding gain (loss) on available-for-sale investments	<u>\$ 19</u>	<u>\$ (71)</u>

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 Systems, Inc. ("Mitek" or the "Company") is a leading innovator of mobile capture and digital identity verification solutions. Mitek is a software development company with expertise in artificial intelligence and machine learning. The Company is currently serving more than 6,500 financial services organizations and leading marketplace and financial technology ("fintech") brands across the globe. The Company's solutions are embedded in native mobile apps and mobile optimized websites to facilitate better mobile user experiences, fraud detection and reduction, and compliant transactions.

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

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

The identification capture process provided by Mitek can also provide prefill of much of the data obtained from the identity document into an application, requiring far fewer key strokes, reducing keying errors, and improving both operational efficiency and the customer experience. Today, the financial services verticals (banks, credit unions, lenders, payments processors, card issuers, fintech companies, etc.) represent the greatest percentage of use of the Company's solutions, but marketplaces, sharing economy, telecommunications, healthcare, travel, and retail sectors are showing accelerated adoption. Similarly, websites that must verify the customer's age (or other consumer information) prior to selling goods can do so by verifying identity documents. Mitek uses machine learning to constantly improve the product performance of Mobile Verify™ and applies artificial intelligence to increase automation and speed of approvals of identification documents.

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

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

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

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

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

As of March 31, 2019, the Company has been granted 50 patents and it has an additional 20 patent applications pending.

## Summary of Significant Accounting Policies

### *Basis of Presentation*

The accompanying unaudited consolidated financial statements of the Company as of March 31, 2019 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. Certain reclassifications were made to previously reported amounts in the consolidated statements of cash flows to make them consistent with the current period presentation. You should read these financial statements and the accompanying notes in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2018, filed with the U.S. Securities and Exchange Commission on December 14, 2018.

Results for the three months ended March 31, 2019 are not necessarily indicative of results for any other interim period or for a full fiscal year.

### *Principles of Consolidation*

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

### *Foreign Currency*

The Company has foreign subsidiaries that operate and sell products and services in various countries and jurisdictions around the world. As a result, the Company is exposed to foreign currency exchange risks. For those subsidiaries whose functional currency is not the U.S. dollar, assets and liabilities are translated into U.S. dollars at the exchange rate in effect on the balance sheet date and revenues and expenses are translated into U.S. dollars using the average exchange rate over the period. Resulting currency translation adjustments are recorded in accumulated other comprehensive loss in the consolidated balance sheets. The Company recorded a net loss resulting from foreign exchange translation of \$1.2 million for the three months ended March 31, 2019 and a net gain resulting from foreign exchange translation of \$0.4 million for the three months ended March 31, 2018. The Company recorded a net loss resulting from foreign exchange translation of \$2.0 million for the six months ended March 31, 2019 and a net gain resulting from foreign exchange translation of \$0.6 million for the six months ended March 31, 2018.

### *Use of Estimates*

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

### *Revenue Recognition*

The Company recognizes revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, and its related amendments (collectively known as "ASC 606"). ASC 606 outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. The core principle, involving a five-step process, of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company generates revenue primarily from the delivery of licenses (to both on premise and transactional software as a service ("SaaS") products) and related services, as well as the delivery of hardware and professional services. Revenue is measured based on consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer which may be at a point in time or over time. See Note 2 of the consolidated financial statements for additional details.

### Net Loss Per Share

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

For the three and six months ended March 31, 2019 and 2018, the following potentially dilutive common shares were excluded from the calculation of net loss per share, as they would have been antidilutive (*amounts in thousands*):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Stock options	2,390	3,047	2,390	3,047
RSUs	2,682	2,670	2,682	2,670
ESPP common stock equivalents	65	—	65	—
Total potentially dilutive common shares outstanding	5,137	5,717	5,137	5,717

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Net loss	\$ (716)	\$ (1,160)	\$ (3,907)	\$ (6,896)
Weighted-average shares outstanding—basic	38,926	34,976	38,583	34,587
Common stock equivalents	—	—	—	—
Weighted-average shares outstanding—diluted	38,926	34,976	38,583	34,587
Net loss per share:				
Basic	\$ (0.02)	\$ (0.03)	\$ (0.10)	\$ (0.20)
Diluted	\$ (0.02)	\$ (0.03)	\$ (0.10)	\$ (0.20)

### Investments

Investments consist of corporate notes and bonds, commercial paper, and U.S. Treasury securities. The Company classifies investments as available-for-sale at the time of purchase and reevaluates such classification as of each balance sheet date. All investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive loss, a component of stockholders’ equity. The Company evaluates its investments to assess whether those with unrealized loss positions are other-than-temporarily impaired. Impairments are considered to be other-than-temporary if they are related to deterioration in credit risk or if it is likely that the Company will sell the securities before the recovery of its cost basis. Realized gains and losses and declines in value judged to be other-than-temporary are determined based on the specific identification method and are reported in other income, net in the consolidated statements of operations and other comprehensive loss. No other-than-temporary impairment charges were recognized in the three and six months ended March 31, 2019 and 2018.

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

### Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. Allowances for doubtful accounts are established based on various factors, including credit profiles of the Company’s customers, contractual terms and conditions, historical payments, and current economic trends. The Company reviews its allowances by assessing individual accounts receivable over a specific aging and amount. Accounts receivable are written off on a case-by-case basis, net of any amounts that may be collected. The Company had \$0.1 million of write-offs to the allowance for doubtful accounts in the three and six months ended March 31, 2019. The Company had no write-offs to the allowance for doubtful accounts for the three and six months ended March 31, 2018. The Company maintained an allowance for doubtful accounts of \$0.2 million and \$0.3 million as of March 31, 2019 and September 30, 2018, respectively.

### *Capitalized Software Development Costs*

Costs incurred for the development of software that will be sold, leased, or otherwise marketed are capitalized when technological feasibility has been established. Software development costs consist primarily of compensation of development personnel and related overhead incurred to develop new products and upgrade and enhance the Company's current products, as well as fees paid to outside consultants. Capitalization of software development costs ceases, and amortization of capitalized software development costs commences when the products are available for general release. The Company capitalized \$0.1 million of software development costs during the six months ended March 31, 2019. For the six months ended March 31, 2018, no software development costs were capitalized because the time period and costs incurred between technological feasibility and general release for all software product releases were not material or were not realizable. We had no amortization expense from capitalized software costs during the six months ended March 31, 2019 and 2018.

Costs related to software acquired, developed, or modified solely to meet our internal requirements, with no substantive plans to market such software at the time of development, are capitalized. Costs incurred during the preliminary planning and evaluation stage of the project and during post implementation operational stage are expensed as incurred. Costs incurred during the application development stage of the project are capitalized. The Company defines the design, configuration, and coding process as the application development stage. The Company capitalized \$0.1 million and \$0.3 million of costs related to computer software developed for internal use during the six months ended March 31, 2019 and 2018, respectively. The Company had \$0.2 million in amortization expense from internal use software during the six months ended March 31, 2019 and no amortization expense from internal use software during the six months ended March 31, 2018.

### *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 2018, management completed its annual goodwill impairment test and concluded that the Company's goodwill was not impaired. The Company's conclusion that goodwill was not impaired was based on a comparison of its net assets to its market capitalization.

Because the Company determines the fair value of its reporting unit based on its market capitalization, the Company's future reviews of goodwill for impairment may be impacted by changes in the price of the Company's common stock, par value \$0.001 per share ("Common Stock"). For example, a significant decline in the price of the Common Stock may cause the fair value of its goodwill to fall below its carrying value. Therefore, the Company cannot assure that when it completes its future reviews of goodwill for impairment a material impairment charge will not be recorded.

Intangible assets are amortized over their useful lives. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. The carrying amounts of these assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparing the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate. The carrying amount of such assets is reduced to fair value if the undiscounted cash flows used in the test for recoverability are less than the carrying amount of such assets.

### *Income Taxes*

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

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

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

### *Stock-Based Compensation*

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

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

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

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

### *Other Borrowings*

The Company has certain loan agreements with Spanish government agencies which were assumed when the Company acquired ICAR Vision Systems, S.L. ("ICAR"). These agreements have repayment periods of five to twelve years and bear no interest. As of March 31, 2019, \$0.5 million was outstanding under these agreements and \$0.1 million and \$0.4 million is recorded in other current liabilities and other non-current liabilities, respectively, in the consolidated balance sheets. As of September 30, 2018, \$0.8 million was outstanding under these agreements and \$0.3 million and \$0.5 million was recorded in other current liabilities and other non-current liabilities, respectively, in the consolidated balance sheets.

### *Guarantees*

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

### *Comprehensive Loss*

Comprehensive loss consists of net loss, unrealized gains and losses on available-for-sale securities, and foreign currency translation adjustments. Included on the consolidated balance sheets is accumulated other comprehensive loss of \$2.6 million and \$0.6 million at March 31, 2019 and September 30, 2018, respectively.

## Recently Adopted Accounting Pronouncements

In October 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (“ASU 2016-16”), which eliminates the current prohibition on immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory, with the intent of reducing complexity and diversity in practice. Under ASU 2016-16, entities must recognize the income tax consequences when the transfer occurs rather than deferring recognition. For public entities, ASU 2016-16 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017. Entities must apply the guidance on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company adopted ASU 2016-16 in the first quarter of 2019, and the adoption did not have a material impact on its consolidated financial statements.

In May 2014, the FASB issued guidance codified in ASC 606, to replace existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers. Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services for an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, ASC 606 requires expanded disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

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

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

## Change in Significant Accounting Policy

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

### *Contract Assets and Liabilities*

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

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

### *Contract Acquisition Costs*

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

*Impacts on Financial Statements*

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

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

The following tables summarize the impacts of ASC 606 adoption on the Company's consolidated financial statements as of and for the three and six months ended March 31, 2019 (*amounts in thousands except per share data*):

**Consolidated Statement of Operations**

	Impact of changes in accounting policies		
	As reported	Adjustments	Balances without adoption of ASC 606
<b>Three Months Ended March 31, 2019:</b>			
Revenue			
Software and hardware	\$ 10,585	\$ (581)	\$ 10,004
Service and other	9,398	—	9,398
Total revenue	19,983	(581)	19,402
Operating expenses			
Selling and marketing	\$ 6,752	\$ (1)	\$ 6,751

	Impact of changes in accounting policies		
	As reported	Adjustments	Balances without adoption of ASC 606
<b>Six Months Ended March 31, 2019:</b>			
Revenue			
Software and hardware	\$ 20,580	\$ (1,271)	\$ 19,309
Service and other	17,086	—	17,086
Total revenue	37,666	(1,271)	36,395
Operating expenses			
Selling and marketing	\$ 13,960	\$ 10	\$ 13,970

## Consolidated Balance Sheet

March 31, 2019:	Impact of changes in accounting policies		
	As reported	Adjustments	Balances without adoption of ASC 606
<b>Assets</b>			
Other current assets	\$ 2,600	\$ (1,012)	\$ 1,588
Deferred income tax asset	17,580	555	18,135
Other non-current assets	2,410	(10)	2,400
<b>Liabilities</b>			
Deferred revenue, current portion	7,973	1,210	9,183
Deferred revenue, non-current portion	516	—	516
<b>Equity</b>			
Accumulated deficit	\$ (23,989)	\$ (1,677)	\$ (25,666)

### Recently Issued Accounting Pronouncements

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

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

In February 2018, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (“ASU 2018-02”). Under previously existing GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in accumulated other comprehensive income are adjusted, certain tax effects become stranded in accumulated other comprehensive income. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The amendments in this ASU also require certain disclosures about stranded tax effects. The guidance is required for fiscal years beginning after December 15, 2018 (our fiscal year 2020), and interim periods within those fiscal years. Early adoption in any period is permitted. The Company does not expect the adoption of ASU 2018-02 to have a material impact on its consolidated financial statements.

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



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

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

No other new accounting pronouncement issued or effective during the three months ended March 31, 2019 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.

#### *Service and Other*

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

### **Significant Judgments in Application of the Guidance**

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

#### *Identification of Performance Obligations*

For contracts that contain multiple performance obligations, which include combinations of software licenses, maintenance, and services, the Company accounts for individual goods or services as a separate performance obligation if they are distinct. The good or service is distinct if the good or service 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.

#### *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*):

Major product category	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Deposits software and hardware	\$ 9,215	\$ 6,735	\$ 18,265	\$ 11,882
Deposits services and other	3,693	1,876	6,513	3,830
Deposits revenue	12,908	8,611	24,778	15,712
Identity verification software and hardware	1,370	2,038	2,315	4,097
Identity verification services and other	5,705	3,628	10,573	6,604
Identity verification revenue	7,075	5,666	12,888	10,701
Total revenue	19,983	14,277	37,666	26,413

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

### **Contract Balances**

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

	March 31, 2019	October 1, 2018
Contract assets, current	\$ 1,021	\$ 169
Contract assets, non-current	—	507
Contract liabilities, current	7,973	4,792
Contract liabilities, non-current	\$ 516	\$ 485

Contract assets, reported within other current and long-term assets in the consolidated balance sheet, primarily result from revenue being recognized when a license is delivered and payments are made over time. Contract liabilities primarily relate to advance consideration received from customers, deferred revenue, for which transfer of control occurs, and therefore revenue is recognized, as services are provided. Contract balances are reported in a net contract asset or liability position on a contract-by-contract basis at the end of each reporting period. The Company recognized \$3.6 million of revenue during the six months ended March 31, 2019 that was included in the contract liability balance at the beginning of the period.

### **Contract Costs**

The Company incurs incremental costs to obtain a contract, consisting primarily of sales commissions incurred only if a contract is obtained. Capitalized sales commissions included in other current and non-current assets on the consolidated balance sheets totaled \$1.4 million and \$1.0 million at March 31, 2019 and October 1, 2018, respectively.

Capitalized contract costs are amortized based on the transfer of goods or services to which the asset relates. The amortization period also considers expected customer lives and whether the asset relates to goods or services transferred under a specific anticipated contract. These costs are included in selling and marketing expenses in the consolidated statement of operations and totaled \$0.1 million and \$0.2 million during the three and six months ended March 31, 2019. There was no impairment loss recognized during the six months ended March 31, 2019 related to capitalized contract costs.

## **3. BUSINESS COMBINATIONS**

### *A2iA Group II, S.A.S.*

On May 23, 2018, the Company acquired all of the issued and outstanding shares of A2iA Group II, S.A.S. ("A2iA"), a simplified joint stock company formed under the laws of France, pursuant to a share purchase agreement, by and among the Company, each of the holders of outstanding shares of A2iA and Andera Partners, S.C.A., as representative of the sellers (the "A2iA Acquisition"). Upon completion of the A2iA Acquisition, A2iA became a direct wholly owned subsidiary of the Company. The A2iA Acquisition extends Mitek's global leadership position in both mobile check deposit and digital identity verification and combines the two market leaders in document recognition and processing.

As consideration for the A2iA Acquisition, the Company (i) made a cash payment of \$26.8 million, net of cash acquired; (ii) issued 2,514,588 shares, or \$21.9 million, of the Company's Common Stock; and (iii) incurred transaction related liabilities of \$0.2 million.

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

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

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

### *ICAR Vision Systems, S.L.*

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

As consideration for the ICAR Acquisition, the Company: (i) made a cash payment to Sellers of \$3.0 million, net of cash acquired and subject to adjustments for transaction expenses, escrow amounts, indebtedness, and working capital adjustments; and (ii) issued to Sellers of 584,291 shares, or \$5.6 million, of Common Stock. In addition to the foregoing, the Sellers could be entitled to additional cash consideration upon achievement of certain milestones as follows: (a) subject to achievement of the revenue target for the fourth quarter of calendar 2017, the Company will pay to Sellers up to \$1.5 million (the "Q4 Consideration"), which amount shall be deposited (as additional funds) into the escrow fund described below; and (b) subject to achievement of certain revenue and net income targets for ICAR for the twelve-month period ending on September 30, 2018,

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

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

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

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

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

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

	A2iA	ICAR	Total
Current assets	\$ 3,929	\$ 2,036	\$ 5,965
Property, plant, and equipment	307	83	390
Intangible assets	28,610	6,407	35,017
Goodwill	24,991	6,936	31,927
Other non-current assets	1,177	87	1,264
Current liabilities	(2,688)	(1,652)	(4,340)
Deferred income tax liabilities	(7,503)	(1,602)	(9,105)
Other non-current liabilities	(7)	(828)	(835)
Net assets acquired	<u>\$ 48,816</u>	<u>\$ 11,467</u>	<u>\$ 60,283</u>

The goodwill recognized is due to expected synergies and other factors and is not expected to be deductible for income tax purposes. The Company estimated the fair value of identifiable acquisition-related intangible assets with definite lives primarily based on discounted cash flow projections that will arise from these assets. The Company exercised significant judgment with regard to assumptions used in the determination of fair value such as with respect to discount rates and the determination of the estimated useful lives of the intangible assets. The following table summarizes the estimated fair values

and estimated useful lives of intangible assets with definite lives acquired during the year ended September 30, 2018 (*amounts shown in thousands, except for years*):

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

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

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

	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Pro forma revenue	\$ 20,192	\$ 19,653	\$ 39,089	\$ 36,974
Pro forma net loss	\$ (658)	\$ (1,086)	\$ (2,638)	\$ (7,061)

#### 4. INVESTMENTS

The following tables summarize investments by type of security as of March 31, 2019 and September 30, 2018, respectively (*amounts shown in thousands*):

<b>March 31, 2019:</b>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Market Value</u>
Available-for-sale securities:				
Corporate debt securities, short-term	\$ 5,862	\$ —	\$ (1)	\$ 5,861
Total	<u>\$ 5,862</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ 5,861</u>

<b>September 30, 2018:</b>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Market Value</u>
Available-for-sale securities:				
U.S. Treasury, short-term	\$ 3,693	\$ —	\$ (10)	\$ 3,683
Corporate debt securities, short-term	4,779	—	(14)	4,765
Total	<u>\$ 8,472</u>	<u>\$ —</u>	<u>\$ (24)</u>	<u>\$ 8,448</u>

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

The Company determines the appropriate designation of investments at the time of purchase and reevaluates such designation as of each balance sheet date. All of the Company's investments are designated as available-for-sale debt securities. As of March 31, 2019 and September 30, 2018, the Company's short-term investments have maturity dates of less than one year

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

Available-for-sale marketable securities are carried at fair value as determined by quoted market prices for identical or similar assets, with unrealized gains and losses, net of taxes, and reported as a separate component of stockholders' equity. Management reviews the fair value of the portfolio at least monthly and evaluates individual securities with fair value below amortized cost at the balance sheet date. For debt securities, in order to determine whether impairment is other-than-temporary, management must conclude whether the Company intends to sell the impaired security and whether it is more likely than not that the Company will be required to sell the security before recovering its amortized cost basis. If management intends to sell an impaired debt security or it is more likely than not that the Company will be required to sell the security prior to recovering its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. The amount of an other-than-temporary impairment on debt securities related to a credit loss, or securities that management intends to sell before recovery, is recognized in earnings. The amount of an other-than-temporary impairment on debt securities related to other factors is recorded consistent with changes in the fair value of all other available-for-sale securities as a component of stockholders' equity in other comprehensive income. No other-than-temporary impairment charges were recognized in the three and six months ended March 31, 2019 and 2018. There were no realized gains or losses from the sale of available-for-sale securities during the three and six months ended March 31, 2019. The Company recorded net realized losses from the sale of available-for-sale securities of \$24,000 in both the three and six months ended March 31, 2018.

#### *Fair Value Measurements and Disclosures*

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

- Level 1—Quoted prices in active markets for identical assets or liabilities;
- Level 2—Inputs other than Level 1 inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables represent the fair value hierarchy of the Company's investments and acquisition-related contingent consideration as of March 31, 2019 and September 30, 2018, respectively (*amounts shown in thousands*):

<b>March 31, 2019:</b>	<b>Balance</b>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets:</b>				
Short-term investments:				
Corporate debt securities				
Financial	\$ 349	\$ —	\$ 349	\$ —
Industrial	1,298	—	1,298	—
Commercial paper				
Financial	2,922	—	2,922	—
Industrial	1,292	—	1,292	—
Total assets at fair value	<u>\$ 5,861</u>	<u>\$ —</u>	<u>\$ 5,861</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Acquisition-related contingent consideration	1,162	—	—	1,162
Total liabilities at fair value	<u>\$ 1,162</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,162</u>

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

As of March 31, 2019, acquisition-related contingent consideration of \$1.2 million is recorded in other current liabilities 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 six months ended March 31, 2019 (*amounts shown in thousands*):

Balance at September 30, 2018	\$ 3,051
Payment of contingent consideration	(1,818)
Foreign currency effect on contingent consideration	(71)
<b>Balance at March 31, 2019</b>	<b>\$ 1,162</b>

## 5. GOODWILL AND INTANGIBLE ASSETS

### *Goodwill*

The Company had a goodwill balance of \$33.4 million at March 31, 2019, 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 six months ended March 31, 2019 (*amounts shown in thousands*):

Balance at September 30, 2018	\$ 34,407
A2iA purchase accounting adjustment	121
Foreign currency effect on goodwill	(1,088)
<b>Balance at March 31, 2019</b>	<b>\$ 33,440</b>

### *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 March 31, 2019 and September 30, 2018, respectively, are summarized as follows (*amounts shown in thousands, except for years*):

<b>March 31, 2019:</b>	<b>Weighted Average Amortization Period</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Completed technologies	6.4 years	\$ 20,341	\$ 5,202	\$ 15,139
Customer relationships	4.8 years	17,628	4,615	13,013
Trade names	4.5 years	618	302	316
<b>Total intangible assets</b>		<b>\$ 38,587</b>	<b>\$ 10,119</b>	<b>\$ 28,468</b>

**September 30, 2018:**

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

Amortization expense related to acquired intangible assets was \$1.8 million and \$0.6 million for the three months ended March 31, 2019 and 2018, respectively, and \$3.5 million and \$1.1 million for the six months ended March 31, 2019 and 2018, respectively, and is recorded within acquisition-related costs and expenses on the consolidated statements of operations and other comprehensive loss.

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

	Estimated Future Amortization Expense
2019 (remaining six months)	\$ 3,502
2020	6,400
2021	6,134
2022	5,739
2023	3,766
2024	1,779
Thereafter	1,148
Total	<u>\$ 28,468</u>

**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 March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Cost of revenue	\$ 56	\$ 22	\$ 100	\$ 40
Selling and marketing	746	729	1,537	1,370
Research and development	567	449	1,001	816
General and administrative	984	858	2,385	1,721
Stock-based compensation expense included in expenses	<u>\$ 2,353</u>	<u>\$ 2,058</u>	<u>\$ 5,023</u>	<u>\$ 3,947</u>

The fair value calculations for stock-based compensation awards to employees for the six months ended March 31, 2019 and 2018 were based on the following assumptions:

	Six Months Ended March 31, 2019	Six Months Ended March 31, 2018
Risk-free interest rate	2.88% – 3.08%	2.04%
Expected life (years)	5.46	5.15
Expected volatility	57%	60%
Expected dividends	None	None

The expected life of options granted is derived using assumed exercise rates based on historical exercise patterns and vesting terms, and represents the period of time that options granted are expected to be outstanding. Expected stock price



volatility is based upon implied volatility and other factors, including historical volatility. After assessing all available information on either historical volatility, or implied volatility, or both, the Company concluded that a combination of both historical and implied volatility provides the best estimate of expected volatility.

As of March 31, 2019, the Company had \$21.7 million of unrecognized compensation expense related to outstanding stock options and RSUs expected to be recognized over a weighted-average period of approximately 2.7 years.

#### *2012 Incentive Plan*

In January 2012, the Company's board of directors (the "Board") adopted the Mitek Systems, Inc. 2012 Incentive Plan (the "2012 Plan") upon the recommendation of the compensation committee of the Board. On March 10, 2017, the Company's stockholders approved the amendment and restatement of the 2012 Plan. The total number of shares of Common Stock reserved for issuance under the 2012 Plan is 9,500,000 shares plus that number of shares of Common Stock that would otherwise return to the available pool of unissued shares reserved for awards under its 1999 Stock Option Plan, 2000 Stock Option Plan, 2002 Stock Option Plan, 2006 Stock Option Plan and 2010 Stock Option Plan (collectively, the "Prior Plans"). As of March 31, 2019, (i) stock options to purchase 1,676,413 shares of Common Stock, 2,220,193 RSUs and 1,728,569 Senior Executive Performance RSUs were outstanding under the 2012 Plan, and 676,415 shares of Common Stock were reserved for future grants under the 2012 Plan and (ii) stock options to purchase an aggregate of 541,527 shares of Common Stock were outstanding under the Prior Plans.

#### *Employee Stock Purchase Plan*

In January 2018, the Board adopted the ESPP. On March 7, 2018, the Company's stockholders approved the ESPP. The total number of shares of Common Stock reserved for issuance thereunder is 1,000,000 shares. As of March 31, 2019, (i) 128,342 shares were outstanding under the ESPP and (ii) 871,658 shares of Common Stock were reserved for future purchases under the ESPP. The Company commenced the initial offering period on April 2, 2018.

The ESPP enables eligible employees to purchase shares of Common Stock at a discount from the market price through payroll deductions, subject to limitations. Eligible employees may elect to participate in the ESPP only during an open enrollment period. The offering period immediately follows the open enrollment window, at which time ESPP contributions are withheld from the participant's regular paycheck. The ESPP provides for a 15% discount on the market value of the stock at the lower of the grant date price (first day of the offering period) and the purchase date price (last day of the offering period). The Company recognized \$0.1 million and \$0.2 million in stock-based compensation expense related to the ESPP in the three and six months ended March 31, 2019, respectively.

#### *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 March 31, 2019, (i) 366,870 RSUs were outstanding under the Director Plan and (ii) 391,701 shares of Common Stock were reserved for future grants under the Director Plan.

#### *Stock Options*

The following table summarizes stock option activity under the Company's equity plans during the six months ended March 31, 2019:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)
Outstanding at September 30, 2018	2,806,364	\$ 4.75	4.6
Granted	364,368	\$ 9.50	
Exercised	(637,051)	\$ 3.38	
Canceled	(143,562)	\$ 6.62	
Outstanding at March 31, 2019	2,390,119	\$ 5.73	5.3

The Company recognized \$0.2 million and \$0.3 million in stock-based compensation expense related to outstanding stock options in the three months ended March 31, 2019 and 2018, respectively. The Company recognized \$0.4 million and \$0.6 million in stock-based compensation expense related to outstanding stock options in the six months ended March 31, 2019

and 2018, respectively. As of March 31, 2019, the Company had \$2.1 million of unrecognized compensation expense related to outstanding stock options expected to be recognized over a weighted-average period of approximately 3.3 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 six months ended March 31, 2019 and 2018 was \$4.8 million and \$0.5 million, respectively. The per-share weighted-average fair value of options granted during the six months ended March 31, 2019 was \$9.50. The aggregate intrinsic value of options outstanding as of March 31, 2019 and September 30, 2018, was \$15.6 million and \$8.7 million, respectively.

#### *Restricted Stock Units*

The following table summarizes RSU activity under the Company's equity plans during the six months ended March 31, 2019:

	Number of Shares	Weighted-Average Fair Market Value Per Share
Outstanding at September 30, 2018	2,580,176	\$ 6.92
Granted	1,069,254	\$ 9.63
Settled	(682,214)	\$ 6.00
Canceled	(285,415)	\$ 6.97
Outstanding at March 31, 2019	<u>2,681,801</u>	<u>\$ 8.25</u>

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 \$1.6 million and \$1.4 million in stock-based compensation expense related to outstanding RSUs in the three months ended March 31, 2019 and 2018, respectively. The Company recognized \$3.7 million and \$2.6 million in stock-based compensation expense related to outstanding RSUs in the six months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, the Company had \$16.4 million of unrecognized compensation expense related to outstanding RSUs expected to be recognized over a weighted-average period of approximately 2.7 years.

#### *Senior Executive Performance RSUs*

There were 1,728,569 Senior Executive Performance RSUs outstanding as of March 31, 2019. The Company recognized \$0.3 million and \$0.4 million in stock-based compensation expense related to outstanding Senior Executive Performance RSUs in the three months ended March 31, 2019 and 2018, respectively. The Company recognized \$0.5 million and \$0.7 million in stock-based compensation expense related to outstanding Senior Executive Performance RSUs in the six months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, the Company had \$1.1 million of unrecognized compensation expense related to outstanding RSUs expected to be recognized over a weighted-average period of approximately 1.4 years.

#### *Performance Options*

On November 6, 2018, as an inducement grant pursuant to Nasdaq Listing Rule 5635(c)(4), the Company's Chief Executive Officer was granted performance options (the "Performance Options") to purchase up to 800,000 shares of the Common Stock at an exercise price of \$9.50 per share, the closing market price for a share of the Common Stock on the date of the grant. As long as he remains employed by the Company, such Performance Options shall vest upon the closing market price of the Common Stock achieving certain predetermined levels and his serving as the Chief Executive Officer of the Company for at least 3.0 years. In the event of a change of control of the Company, all of the unvested Performance Options will vest if the per share price payable to the stockholders of the Company in connection with the Change of Control is an amount reaching those certain predetermined levels required for the Performance Options to otherwise vest. The Company recognized \$0.2 million and \$0.3 million in stock-based compensation expense related to outstanding Performance Options in the three and six months ended March 31, 2019, respectively. As of March 31, 2019, the Company had \$2.1 million of unrecognized compensation expense related to outstanding Performance Options expected to be recognized over a weighted-average period of approximately 2.6 years.

### *Earnout Shares*

On June 17, 2015, the Company completed the acquisition of ID Checker NL B.V., a company incorporated under the laws of The Netherlands (“IDC NL”), and ID Checker, Inc., a California corporation and wholly owned subsidiary of IDC NL (“IDC Inc.” and together with IDC NL, “ID Checker”). In connection with the acquisition of ID Checker, the Company issued 137,306 shares of Common Stock (the “Earnout Shares”) to the Sellers for achievement by ID Checker of certain revenue targets for the nine-month period ended September 30, 2015. Additionally, 81,182 Earnout Shares were earned by the Sellers for achievement by ID Checker of certain revenue targets for the twelve-month period ended September 30, 2016. The Company estimated the fair value of the Earnout Shares using the Monte-Carlo simulation (using the Company’s valuation date stock price, the annual risk-free interest rate, expected volatility, the probability of reaching the performance targets and a 10-trading day average stock price). In November 2017, a contingency triggered the immediate vesting of all Earnout Shares, resulting in an acceleration of all stock-based compensation related to the earnout shares. Stock-based compensation expense related to the Earnout Shares is recorded within acquisition-related costs and expenses on the consolidated statements of operations and other comprehensive income (loss). The company did not recognize any stock-based compensation expense related to the Earnout Shares for the six months ended March 31, 2019. The Company recognized \$0.4 million in stock-based compensation expense related to the Earnout Shares for the six months ended March 31, 2018.

### *Rights Agreement*

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

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

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

The Rights will expire on the earlier of (i) the close of business on October 22, 2021, (ii) the time at which the Rights are redeemed, and (iii) the time at which the Rights are exchanged.

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.

## **7. INCOME TAXES**

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

For the six months ended March 31, 2019, the Company recorded an income tax benefit of \$2.1 million, which yielded an effective tax rate of 35%.

As the Company has a fiscal year ending September 30th, it is subject to transitional tax rate rules. Therefore, a blended rate of 22.5% was computed as effective for the current fiscal year. The difference between the U.S. federal statutory tax

rate and the Company's effective tax rate for the six months ended March 31, 2019 is primarily due to foreign taxes, state taxes, and the impact of federal and state research and development credits on its tax provision.

## 8. COMMITMENTS AND CONTINGENCIES

### *Claim Against ICAR*

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

ICAR responded to the claim on September 7, 2018 and the court process is ongoing, the scheduled date for the trial being April 2, 2020.

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

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

### *Other Legal Matters*

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

### *Facility Leases*

The Company's principal executive offices, as well as its research and development facility, are located in approximately 29,000 square feet of office space in San Diego, California and the term of the lease for the Company's offices continues through June 30, 2024. The average annual base rent under this lease is approximately \$1.0 million per year. In connection with this lease, the Company received tenant improvement allowances totaling \$1.0 million. These lease incentives are being amortized as a reduction of rent expense over the term of the lease. As of March 31, 2019, the unamortized balance of the lease incentives was \$0.7 million, of which \$0.1 million has been included in other current liabilities and \$0.6 million has been included in other non-current liabilities. The offices of A2iA are located in France and New York, New York and the terms of each lease continue through July 31, 2021 and September 30, 2019, respectively, with annual base rent of approximately €0.4 million (or approximately \$0.4 million) and approximately \$0.3 million per year, respectively. The offices of ID Checker are located in the Netherlands and the term of such lease continues through December 31, 2023 with annual base rent of approximately €0.2 million (or approximately \$0.2 million) per year. The Company has a sales office in London, UK. The term of this lease continues through May 31, 2020. The annual base rent under this lease is approximately £63,000 (or approximately \$82,000) per year. The offices of ICAR are located in Barcelona, Spain and the term of such lease continues through May 31, 2023 with annual base rent of approximately €0.1 million (or approximately \$0.1 million) per year. The Company believes its existing properties are in good condition and are sufficient and suitable for the conduct of its business.

### *Revolving Credit Facility*

On May 3, 2018, the Company and ID Checker, Inc. (together, the "Co-Borrowers") entered into a Loan and Security Agreement (the "Loan Agreement") with Silicon Valley Bank ("SVB"). Pursuant to the Loan Agreement, the Company arranged for a \$10.0 million secured revolving credit facility (the "Revolver") with a floating per annum interest rate equal to the greater of the Wall Street Journal prime rate, plus 0.25%, or 4.5%. The Co-Borrowers must maintain, at all times when any amounts are outstanding under the Revolver, either (i) minimum unrestricted cash at SVB and unused availability on the Revolver of at least \$15.0 million and (ii) Adjusted Quick Ratio of 1.75:1.00. In May 2019, the Company and SVB entered into an amendment of the Loan Agreement to extend the maturity of the Revolver to September 30, 2020. There were no borrowings outstanding under the Revolver as of March 31, 2019.

## 9. REVENUE AND VENDOR CONCENTRATIONS

### *Revenue Concentration*

For the three months ended March 31, 2019, the Company derived revenue of \$6.2 million from two customers, with such customers accounting for 17% and 14% of the Company's total revenue. For the three months ended March 31, 2018, the Company derived revenue of \$5.8 million from two customers, with such customers accounting for 24% and 17% of the Company's total revenue. For the six months ended March 31, 2019, the Company derived revenue of \$6.9 million from one customer, with such customer accounting for 18% of the Company's total revenue. For the six months ended March 31, 2018, the Company derived revenue of \$5.9 million from one customer, with such customer accounting for 22% 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 \$4.7 million and \$2.4 million at March 31, 2019 and 2018, 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 35% of the Company's total revenue for both the three and six months ended March 31, 2019. International sales accounted for approximately 23% and 26% of the Company's total revenue for the six months ended March 31, 2018, respectively.

### *Vendor Concentration*

The Company purchases its integrated software components from multiple third-party software providers at competitive prices. For the three and six months ended March 31, 2019 and 2018, the Company did not make purchases from any one vendor comprising 10% or more of the Company's total purchases. The Company has entered into contractual relationships with some of its vendors; however, the Company does not believe it is substantially dependent upon nor exposed to any significant concentration risk related to purchases from any of its vendors given the availability of alternative sources for its necessary integrated software components.

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

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

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

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

### Overview

Mitek is a leading innovator of mobile capture and digital identity verification solutions. We are a software development company with expertise in artificial intelligence and machine learning. We are currently serving more than 6,500 financial services organizations and leading marketplace and financial technology (“fintech”) brands across the globe. Our solutions are embedded in native mobile apps and mobile optimized websites to facilitate better mobile user experiences, fraud detection and reduction, and compliant transactions.

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

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

The identification capture process provided by Mitek can also provide prefill of much of the data obtained from the identity document into an application, requiring far fewer key strokes, reducing keying errors, and improving both operational efficiency and the customer experience. Today, the financial services verticals (banks, credit unions, lenders, payments processors, card issuers, fintech companies, etc.) represent the greatest percentage of use of our solutions, but there is accelerated adoption by marketplaces, sharing economy, telecommunications, healthcare, travel, and retail sectors. Similarly, websites that must verify the customer’s age (or other consumer information) prior to selling goods can do so by verifying identity documents. Mitek uses machine learning to constantly improve the product performance of Mobile Verify™ and applies artificial intelligence to increase automation and speed of approvals of identification documents.

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

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

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

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

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

### ***Second Quarter Fiscal 2019 Highlights***

- Revenues for the three months ended March 31, 2019 were \$20.0 million, an increase of 40% compared to revenues of \$14.3 million in the three months ended March 31, 2018.
- Net loss was \$0.7 million, or \$0.02 per share, during the three months ended March 31, 2019, compared to net loss of \$1.2 million, or \$0.03 per share, during the three months ended March 31, 2018.
- Cash provided by operating activities was \$6.6 million for the six months ended March 31, 2019, compared to \$3.8 million for the six months ended March 31, 2018.
- We added new patents to our portfolio during fiscal 2019 bringing our total number of issued patents to 50 as of March 31, 2019. In addition, we have 20 domestic and international patent applications pending as of March 31, 2019.

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

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

### ***Acquisition of ICAR Vision Systems, S.L.***

On October 16, 2017, Mitek Holding B.V., a company incorporated under the laws of The Netherlands and our wholly owned subsidiary ("Mitek Holding B.V."), acquired all of the issued and outstanding shares of ICAR Vision Systems, S.L., ("ICAR") (the "ICAR Acquisition") and each of its subsidiaries, pursuant to a Share Purchase Agreement (the "ICAR Purchase Agreement"), by and among, Mitek, Mitek Holding B.V., and each of the shareholders of ICAR (the "ICAR Sellers"). Upon completion of the ICAR Acquisition, ICAR became a direct wholly owned subsidiary of Mitek Holding B.V. and our indirect wholly owned subsidiary. Under the terms of the ICAR Purchase Agreement, Mitek Holding B.V. agreed to purchase all of the outstanding shares of ICAR for an aggregate purchase price of up to \$13.9 million, net of cash acquired. On closing, \$3.0 million was paid in cash, net of cash acquired and \$5.6 million in shares of Common Stock, or 584,291 shares, were issued to the ICAR Sellers. The ICAR Purchase Agreement also provides for additional payments of up to approximately \$5.3 million upon the achievement of certain financial milestones during fiscal 2018 and fiscal 2019. As a result of the achievement of earnout targets during fiscal 2018, the Company paid the ICAR Sellers \$1.5 million in April 2018 and \$1.8 million in January 2019.

## Market Opportunities, Challenges & Risks

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

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

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

To sustain our growth in 2019 and beyond, we will continue to prioritize innovation in our identity verification solutions and leverage the breadth of our mobile check deposit solution at more than 6,500 financial institutions to increase adoption of our identification capture and verification solutions.

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

## Results of Operations

### Comparison of the Three Months Ended March 31, 2019 and 2018

The following table summarizes certain aspects of our results of operations for the three months ended March 31, 2019 and 2018 (*amounts in thousands, except percentages*):

	Three Months Ended March 31,					
			Percentage of Total Revenue		Increase (Decrease)	
	2019	2018	2019	2018	\$	%
Revenue						
Software and hardware	\$ 10,585	\$ 8,773	53 %	61 %	1,812	21 %
Service and other	9,398	5,504	47 %	39 %	3,894	71 %
Total revenue	\$ 19,983	\$ 14,277	100 %	100 %	5,706	40 %
Cost of revenue	2,991	1,717	15 %	12 %	1,274	74 %
Selling and marketing	6,752	5,348	34 %	37 %	1,404	26 %
Research and development	5,290	3,501	26 %	25 %	1,789	51 %
General and administrative	4,827	3,773	24 %	26 %	1,054	28 %
Acquisition-related costs and expenses	1,773	1,203	9 %	8 %	570	47 %
Other income, net	140	204	1 %	1 %	(64)	(31) %
Income tax benefit (provision)	794	(99)	4 %	(1) %	893	*

\* Not meaningful.

### Revenue

Total revenue increased \$5.7 million, or 40%, to \$20.0 million in the three months ended March 31, 2019 compared to \$14.3 million in the three months ended March 31, 2018. Software and hardware revenue increased \$1.8 million, or 21%, to \$10.6 million in the three months ended March 31, 2019 compared to \$8.8 million in the three months ended March 31, 2018 primarily due to the addition of A2iA as well as an increase in sales of our ICAR hardware and Mobile Deposit® software products. Service and other revenue increased \$3.9 million, or 71%, to \$9.4 million in the three months ended March 31, 2019 compared to \$5.5 million in the three months ended March 31, 2018 primarily due to strong growth in Mobile Verify™



transactional software as a service ("SaaS") revenue of \$2.0 million in the three months ended March 31, 2019 compared to the same period in 2018, as well as an increase in maintenance and professional services associated with A2iA and ICAR software sales.

#### *Cost of Revenue*

Cost of revenue includes personnel costs related to billable services and software support, direct costs associated with our hardware products, hosting costs, and the costs of royalties for third party products embedded in our products. Cost of revenue increased \$1.3 million, or 74%, to \$3.0 million in the three months ended March 31, 2019 compared to \$1.7 million in the three months ended March 31, 2018. As a percentage of revenue, cost of revenue increased to 15% in the three months ended March 31, 2019 from 12% in the three months ended March 31, 2018. The increase in cost of revenue is primarily due to an increase in variable personnel and hosting costs associated with a higher volume of Mobile Verify™ transactions processed during the three months ended March 31, 2019 compared to the same period in 2018 and an increase in costs associated with higher hardware sales, as well as additional labor costs associated with the delivery of A2iA maintenance.

#### *Selling and Marketing Expenses*

Selling and marketing expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with sales, marketing, and product management personnel. Selling and marketing expenses also include non-billable costs of professional services personnel, advertising expenses, product promotion costs, trade shows, and other brand awareness programs. Selling and marketing expenses increased \$1.4 million, or 26%, to \$6.8 million in the three months ended March 31, 2019 compared to \$5.3 million in the three months ended March 31, 2018. As a percentage of revenue, selling and marketing expenses decreased to 34% in the three months ended March 31, 2019 from 37% in the three months ended March 31, 2018. The increase in selling and marketing expense is primarily due to sales and marketing expenses associated with the A2iA Acquisition of \$1.0 million and higher personnel-related costs of \$0.4 million associated with our increased headcount in the three months ended March 31, 2019 compared to the same period in 2018.

#### *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 \$1.8 million, or 51%, to \$5.3 million in the three months ended March 31, 2019 compared to \$3.5 million in the three months ended March 31, 2018. As a percentage of revenue, research and development expenses increased to 26% in the three months ended March 31, 2019 from 25% in the three months ended March 31, 2018. The increase in research and development expenses is primarily due to research and development expenses associated with the A2iA Acquisition of \$1.3 million, as well as higher personnel-related costs of \$0.4 million and higher facility and overhead costs of \$0.1 million resulting from increased research and development personnel in the three months ended March 31, 2019 compared to the same period in 2018.

#### *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 \$1.1 million, or 28%, to \$4.8 million in the three months ended March 31, 2019 compared to \$3.8 million in the three months ended March 31, 2018. As a percentage of revenue, general and administrative expenses decreased to 24% in the three months ended March 31, 2019 from 26% in the three months ended March 31, 2018. The increase in general and administrative expenses is primarily due to general and administrative expenses associated with the A2iA Acquisition of \$0.6 million, higher personnel-related costs of \$0.4 million, and third party costs associated with our strategic process of \$0.2 million, partially offset by lower travel and entertainment costs of \$0.1 million during the three months ended March 31, 2019 compared to the same period in 2018.

#### *Acquisition-Related Costs and Expenses*

Acquisition-related costs and expenses include amortization of intangible assets, expenses recorded due to changes in the fair value of contingent consideration, stock-based compensation, and other costs associated with acquisitions. Acquisition-related costs and expenses increased \$0.6 million, or 47%, to \$1.8 million in the three months ended March 31, 2019 compared to \$1.2 million in the three months ended March 31, 2018. As a percentage of revenue, acquisition-related costs and expenses remained consistent at approximately 9% in each of the three months ended March 31, 2019 and 2018. The increase in acquisition-related costs and expenses is primarily due to an increase expense related to the amortization of intangible assets associated with the A2iA Acquisition of \$1.1 million, partially offset by a decrease in expense due to changes in the fair value of acquisition-related contingent consideration of \$0.5 million.

### Other Income, Net

Other income, net includes interest income net of amortization and net realized gains or losses on our marketable securities portfolio, foreign currency transactional gains or losses, and interest expense. Other income, net decreased \$0.1 million, to \$0.1 million in the three months ended March 31, 2019 compared to \$0.2 million in the three months ended March 31, 2018, primarily due to a decrease in interest income as a result of lower cash and investment balances.

### Income Tax Benefit (Provision)

Income tax benefit for the three months ended March 31, 2019 was \$0.8 million, compared to an income tax provision for the three months ended March 31, 2018 of \$0.1 million. The income tax benefit for the three months ended March 31, 2019 is primarily due to our net loss before income taxes for the three months ended March 31, 2019. The income tax provision for the three months ended March 31, 2018 was primarily due to federal tax expense.

### Comparison of the Six Months Ended March 31, 2019 and 2018

The following table summarizes certain aspects of our results of operations for the six months ended March 31, 2019 and 2018 (*amounts in thousands, except percentages*):

	Six Months Ended March 31,					
			Percentage of Total Revenue		Increase (Decrease)	
	2019	2018	2019	2018	\$	%
Revenue						
Software and hardware	\$ 20,580	\$ 15,979	55 %	60 %	4,601	29 %
Service and other	17,086	10,434	45 %	40 %	6,652	64 %
Total revenue	\$ 37,666	\$ 26,413	100 %	100 %	11,253	43 %
Cost of revenue	5,869	3,334	16 %	13 %	2,535	76 %
Selling and marketing	13,960	10,123	37 %	38 %	3,837	38 %
Research and development	9,778	6,781	26 %	26 %	2,997	44 %
General and administrative	10,669	7,290	28 %	28 %	3,379	46 %
Acquisition-related costs and expenses	3,600	2,462	10 %	9 %	1,138	46 %
Other income, net	154	394	— %	1 %	(240)	(61) %
Income tax provision (benefit)	2,149	(3,713)	6 %	(14) %	5,862	(158) %

### Revenue

Total revenue increased \$11.3 million or 43%, to \$37.7 million in the six months ended March 31, 2019 compared to \$26.4 million in the six months ended March 31, 2018. Software and hardware revenue increased \$4.6 million, or 29%, to \$20.6 million in the six months ended March 31, 2019 compared to \$16.0 million in the six months ended March 31, 2018 primarily due to the addition of A2iA as well as an increase in sales of our Mobile Deposit® software products. Service and other revenue increased \$6.7 million, or 64%, to \$17.1 million in the six months ended March 31, 2019 compared to \$10.4 million in the six months ended March 31, 2018 primarily due to strong growth in Mobile Verify™ transactional SaaS revenue of \$3.8 million in the six months ended March 31, 2019 compared to the same period in 2018, as well as an increase in maintenance and professional services associated with A2iA and ICAR software sales.

### Cost of Revenue

Cost of revenue includes personnel costs related to billable services and software support, direct costs associated with our hardware products, hosting costs, and the costs of royalties for third party products embedded in our products. Cost of revenue increased \$2.5 million, or 76%, to \$5.9 million in the six months ended March 31, 2019 compared to \$3.3 million in the six months ended March 31, 2018. As a percentage of revenue, cost of revenue increased to 16% in the six months ended March 31, 2019 from 13% in the six months ended March 31, 2018. The increase in cost of revenue is primarily due to an increase in variable personnel and hosting costs associated with a higher volume of Mobile Verify™ transactions processed during the six months ended March 31, 2019 compared to the same period in 2018 and an increase in costs associated with higher hardware sales, as well as additional labor costs associated with the delivery of A2iA maintenance.

### *Selling and Marketing Expenses*

Selling and marketing expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with sales, marketing, and product management personnel. Selling and marketing expenses also include non-billable costs of professional services personnel, advertising expenses, product promotion costs, trade shows, and other brand awareness programs. Selling and marketing expenses increased \$3.8 million, or 38%, to \$14.0 million in the six months ended March 31, 2019 compared to \$10.1 million in the six months ended March 31, 2018. As a percentage of revenue, selling and marketing expenses decreased to 37% in the six months ended March 31, 2019 from 38% in the six months ended March 31, 2018. The increase in selling and marketing expense is primarily due to sales and marketing expenses associated with the A2iA Acquisition of \$2.4 million, as well as higher personnel-related costs of \$0.9 million and higher facility and overhead costs of \$0.3 million associated with our increased headcount in the six months ended March 31, 2019 compared to the same period in 2018. Sales and marketing expense during six months ended March 31, 2019 also included executive transition costs of \$0.2 million.

### *Research and Development Expenses*

Research and development expenses include payroll, employee benefits, stock-based compensation, third party contractor expenses, and other headcount-related costs associated with software engineering and mobile capture science. Research and development expenses increased \$3.0 million, or 44%, to \$9.8 million in the six months ended March 31, 2019 compared to \$6.8 million in the six months ended March 31, 2018. As a percentage of revenue, research and development expenses remained consistent at 26% in each of the six months ended March 31, 2019 and 2018. The increase in research and development expenses is primarily due to research and development expenses associated with the A2iA Acquisition of \$2.1 million, as well as higher personnel-related costs of \$0.7 million and higher facility and overhead costs of \$0.2 million resulting from increased research and development personnel in the six months ended March 31, 2019 compared to the same period in 2018.

### *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 \$3.4 million, or 46%, to \$10.7 million in the six months ended March 31, 2019 compared to \$7.3 million in the six months ended March 31, 2018. As a percentage of revenue, general and administrative expenses remained consistent at 28% in each of the six months ended March 31, 2019 and 2018. The increase in general and administrative expenses is primarily due to general and administrative expenses associated with the A2iA Acquisition of \$1.3 million, higher personnel-related costs of \$1.2 million, third party costs associated with our strategic process of \$1.0 million, and executive transition costs of \$0.1 million, partially offset by lower travel and entertainment costs of \$0.1 million during the six months ended March 31, 2019 compared to the same period in 2018.

### *Acquisition-Related Costs and Expenses*

Acquisition-related costs and expenses include amortization of intangible assets, expenses recorded due to changes in the fair value of contingent consideration, stock-based compensation, and other costs associated with acquisitions. Acquisition-related costs and expenses increased \$1.1 million, or 46%, to \$3.6 million in the six months ended March 31, 2019 compared to \$2.5 million in the six months ended March 31, 2018. As a percentage of revenue, acquisition-related costs and expenses remained consistent at approximately 10% in each of the six months ended March 31, 2019 and 2018. The increase in acquisition-related costs and expenses is primarily due to an increase expense related to the amortization of intangible assets associated with the A2iA Acquisition and the ICAR Acquisition of \$2.4 million. These costs were partially offset by a decrease in expense due to changes in the fair value of acquisition-related contingent consideration of \$1.1 million and a decrease in legal and other integration costs associated of \$0.2 million during the six months ended March 31, 2019 as compared to the same period in 2018.

### *Other Income, Net*

Other income, net includes interest income net of amortization and net realized gains or losses on our marketable securities portfolio, foreign currency transactional gains or losses, and interest expense. Other income, net decreased \$0.2 million, to \$0.2 million in the six months ended March 31, 2019 compared to \$0.4 million in the six months ended March 31, 2018, primarily due to a decrease in interest income as a result of lower cash and investment balances.

### *Income Tax Benefit (Provision)*

Income tax benefit for the six months ended March 31, 2019 was \$2.1 million, compared to an income tax provision for the six months ended March 31, 2018 of \$3.7 million. The income tax benefit for the six months ended March 31, 2019 is

primarily due to our net loss before income taxes for the six months ended March 31, 2019. The income tax provision for the six months ended March 31, 2018 included a tax provision of \$4.4 million related to the enactment of the Tax Cuts and Jobs Act, partially offset by an income tax benefit related to our net loss before income taxes for the six months ended March 31, 2018.

## **Liquidity and Capital Resources**

On March 31, 2019, we had \$24.6 million in cash and cash equivalents and investments compared to \$17.5 million on September 30, 2018, an increase of \$7.1 million, or 41%. The increase in cash and cash equivalents and investments is primarily due to net cash provided by operating activities of \$6.6 million and net proceeds from the issuance of equity plan Common Stock of \$2.6 million, partially offset by a payment of acquisition-related contingent consideration of \$1.0 million, capital expenditures of \$0.7 million, and principal payments on other borrowings of \$0.3 million.

### *Cash Flows from Operating Activities*

Net cash provided by operating activities during the six months ended March 31, 2019 was \$6.6 million and resulted primarily from a net loss of \$3.9 million adjusted for non-cash charges of \$6.7 million as well as favorable changes in operating assets and liabilities of \$3.8 million. The primary non-cash adjustments to operating activities were stock-based compensation expense, amortization of intangible assets, and depreciation and amortization totaling \$5.0 million, \$3.5 million, and \$0.7 million, respectively, and were partially offset by a deferred tax benefit of \$2.5 million.

Net cash provided by operating activities during the six months ended March 31, 2018 was \$3.8 million and resulted primarily from net loss of \$6.9 million adjusted for non-cash charges of \$10.0 million as well as favorable changes in operating assets and liabilities of \$0.7 million. The primary non-cash adjustments to operating activities were deferred taxes, stock-based compensation expense, amortization of intangible assets, amortization of closing shares and earnout shares, and depreciation and amortization totaling \$4.4 million, \$3.9 million, \$1.1 million, \$0.4 million, and \$0.2 million, respectively.

### *Cash Flows from Investing Activities*

Net cash provided by investing activities was \$1.9 million during the six months ended March 31, 2019, which consisted primarily of net sales and maturities of investments of \$2.6 million, partially offset by capital expenditures of \$0.7 million.

Net cash provided by investing activities was \$9.2 million during the six months ended March 31, 2018, which consisted primarily of net sales and maturities of investments of \$14.0 million, partially offset by net cash paid in conjunction with the ICAR Acquisition of \$3.0 million and capital expenditures of \$1.7 million.

### *Cash Flows from Financing Activities*

Net cash provided by financing activities was \$1.4 million during the six months ended March 31, 2019, which consisted of net proceeds from the issuance of equity plan Common Stock of \$2.6 million, partially offset by a payment of acquisition-related contingent consideration of \$1.0 million and principal payments on other borrowings of \$0.3 million.

Net cash used in financing activities was \$0.1 million during the six months ended March 31, 2018, which consisted of principal payments on other borrowings, partially offset by net proceeds from the issuance of equity plan Common Stock.

### *Revolving Credit Facility*

On May 3, 2018, the Company and ID Checker, Inc. (together, the “Co-Borrowers”) entered into a Loan and Security Agreement (the “Loan Agreement”) with Silicon Valley Bank (“SVB”). Pursuant to the Loan Agreement, we arranged for a \$10.0 million secured revolving credit facility (the “Revolver”) with a floating per annum interest rate equal to the greater of the Wall Street Journal prime rate, plus 0.25%, or 4.5%. The Co-Borrowers must maintain, at all times when any amounts are outstanding under the Revolver, either (i) minimum unrestricted cash at SVB and unused availability on the Revolver of at least \$15.0 million and (ii) Adjusted Quick Ratio of 1.75:1.00. In May 2019, the Company and SVB entered into an amendment of the Loan Agreement to extend the maturity of the Revolver to September 30, 2020. There were no borrowings outstanding under the Revolver as of March 31, 2019.

### *Rights Agreement*

On October 23, 2018, we entered into the Section 382 Rights Agreement (the “Rights Agreement”) and issued a dividend of one preferred share purchase right (a “Right”) for each share of Common Stock payable on November 2, 2018 to the stockholders of record of such shares on that date. Each Right entitles the registered holder, under certain circumstances, to purchase from us one one-thousandth of a share of Series B Junior Preferred Stock, par value \$0.001 per share (the “Preferred

Shares”), of the Company, at a price of \$35.00 per one one-thousandth of a Preferred Share represented by a Right, subject to adjustment. The description and terms of the Rights are set forth in the Rights Agreement.

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

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

The Rights will expire on the earlier of (i) the close of business on October 22, 2021, (ii) the time at which the Rights are redeemed, and (iii) the time at which the Rights are exchanged.

#### *Other Liquidity Matters*

On March 31, 2019, we had investments of \$5.9 million, designated as available-for-sale debt securities, which consisted of commercial paper and corporate issuances, carried at fair value as determined by quoted market prices for identical or similar assets, with unrealized gains and losses, net of tax, and reported as a separate component of stockholders’ equity. All securities whose maturity or sale is expected within one year are classified as “current” on the consolidated balance sheets. All other securities are classified as “long-term” on the consolidated balance sheets. At March 31, 2019, we had \$5.9 million of our available-for-sale securities classified as current. At September 30, 2018, we had \$8.4 million of our available-for-sale securities classified as current.

We had working capital of \$21.8 million at March 31, 2019 compared to \$17.2 million at September 30, 2018.

Based on our current operating plan, we believe the current cash balance and cash expected to be generated from operations will be adequate to satisfy our working capital needs for the next twelve months from the date the financial statements are filed.

#### **Off Balance Sheet Arrangements**

The Company had no off balance sheet arrangements as of March 31, 2019.

#### **Changes in Critical Accounting Policies**

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

#### *Revenue Recognition*

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

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

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

#### *Interest Rates*

The primary objective of our investment activities is to preserve principal while at the same time maximizing after-tax yields without significantly increasing risk. To achieve this objective, we maintain our investment portfolio of cash equivalents and marketable securities in a variety of securities, including corporate debt securities, commercial paper and certificates of deposit. We have not used derivative financial instruments in our investment portfolio, and none of our investments are held for trading or speculative purposes. Short-term and long-term debt securities are generally classified as available-for-sale and consequently are recorded on the consolidated balance sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of estimated tax. As of March 31, 2019, our marketable securities had remaining maturities between approximately one and 7 months and a fair market value of \$5.9 million, representing 5% of our total assets.

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

#### *Foreign Currency Risk*

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

### ITEM 4. CONTROLS AND PROCEDURES

#### **Disclosure Controls and Procedures**

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. We recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2019.

#### **Changes in Internal Control over Financial Reporting**

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

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

As described throughout this Form 10-Q, on May 23, 2018, the Company acquired A2iA. While our financial statements for the three and six months ended March 31, 2019 include the results of A2iA, as permitted by the rules and regulations of the SEC, our management's assessment of our internal control over financial reporting did not include an evaluation of A2iA's internal control over financial reporting. Further, our management's conclusion regarding the effectiveness of our internal control over financial reporting as of March 31, 2019 does not extend to A2iA's internal control over financial reporting.

We are currently integrating policies, processes, technology, and operations for the combined company and will continue to evaluate our internal control over financial reporting as we develop and execute our integration plans. Until the companies are fully integrated, we will maintain the operational integrity of each company's legacy internal control over financial reporting. We expect to complete the implementation of internal control over financial reporting for A2iA during the third fiscal quarter of 2019.

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

*While we attempt to identify, manage, and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. The following risk factors and other information included in this Form 10-Q should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. If any of the following risks actually occur, our business, financial condition, results of operations, cash flows, projected results, and future prospects could be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you could lose all or part of your investment or interest. In addition to the risk factors noted below, Item 1A—“Risk Factors” in our Form 10-K describes some of the additional risks and uncertainties associated with our business, which we strongly encourage you to review.*

#### **Risks Associated With Our Business and Operations**

***We currently derive substantially all of our revenue from a few types of technologies. If these technologies and the related products do not achieve or continue to achieve market acceptance, our business, financial condition, and results of operations would be adversely affected.***

We currently derive substantially all of our revenue from license sales and services provided with our software products to customers incorporating our intelligent mobile imaging technology and software products. If we are unable to achieve or continue to achieve market acceptance of our core technologies or products incorporating such technologies, we will not generate significant revenue growth from the sale of our products.

Additionally, factors adversely affecting the pricing of or demand for our products and services, such as competition from other products or technologies, any decline in the demand for mobile image processing, negative publicity, or obsolescence of the software environments in which our products operate could adversely affect our business, financial condition, and results of operations.

***We cannot predict the impact that the decline of the use of checks, changes in consumer behavior facilitated by advances in technologies, and the development of check alternatives, or the plateau of the penetration of active mobile banking users may have on our business.***

Over the last few years, the use of checks has started to decline. Advances in technologies have enabled the development of check alternatives like Zelle and Venmo, which have caused certain changes in consumer behavior. As check alternatives become more widely accepted by consumers, the use of checks could continue to decline, which could have a negative effect on our business. In addition, as the mobile banking market matures, the growth of active mobile banking users is slowing, which may negatively impact our ability to grow our business.

***Claims that our products infringe upon the rights, or have otherwise utilized proprietary information, of third parties may give rise to costly litigation against us or our customers who we may be obligated to indemnify, and we could be prevented from selling those products, required to pay damages, and obligated to defend against litigation or indemnify our customers.***

In the past, third parties have brought claims against us and against our customers who use our products asserting that certain technologies incorporated into our products infringe on their intellectual property rights. Although we have resolved past claims against us that we have infringed on third party patents, there can be no assurance that we will not receive additional claims against us asserting that our products infringe on the intellectual property rights of third parties or that our products otherwise utilize such third parties' proprietary information.

On March 11, 2019, Lupercal, LLC (“Lupercal”) filed lawsuits against Citibank, N.A. (“Citibank”) and Plains Capital Bank (“Plains Capital”) in the Western District of Texas alleging infringement of one of Lupercal’s patents related to mobile deposits. We have received indemnification requests in connection with these lawsuits. Lupercal has also sent letters to other customers. While we do not currently believe we are obligated to indemnify Citibank, Plains Capital or any other customers in connection with the lawsuits or the letters sent by Lupercal, we could incur substantial costs if it is determined that we are required to indemnify Citibank, Plains Capital or any of our other customers against which Lupercal might bring suit. Given the potential for impact to our other customers and the industry, we are monitoring Lupercal’s actions.



In addition, third parties have, and may in the future, make claims against our customers asserting that such customers' use of our products infringe such third parties' intellectual property rights. On July 7, 2018, United Services Automobile Association ("USAA") filed a complaint 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 us to Wells Fargo through a partner), infringe four USAA owned patents related to mobile deposits ("First Lawsuit"). On August 17, 2018, USAA filed a second complaint ("Second Lawsuit") 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. Neither the First Lawsuit nor the Second Lawsuit names us as a defendant, nor has Wells Fargo or our partner sought indemnification from us related to the two lawsuits. However, given the potential impact such litigation could have on the use of our products by Wells Fargo, our other customers, as well as the industry as a whole, we are closely monitoring these lawsuits.

If our technology or products are found to infringe upon or otherwise utilize the intellectual property rights of third parties, we could incur substantial costs as we may have to:

- obtain licenses, which may not be available on commercially reasonable terms, if at all, and may be non-exclusive, thereby giving our competitors access to the same intellectual property licensed to us;
- expend significant resources to redesign our products or technology to avoid infringement;
- discontinue the use and sale of infringing products;
- pay substantial damages;
- incur substantial costs indemnifying our customers; or
- defend litigation or administrative proceedings which may be costly whether we are successful or not, and which could result in a substantial diversion of our management resources and limit our exclusive rights to the technology we have developed.

Furthermore, we may initiate claims or litigation against parties for infringement of our intellectual property rights or to establish the validity of our intellectual property rights. Litigation, either as plaintiff or defendant, could result in significant expense to us, whether or not such litigation is resolved in our favor. Even if we were to prevail, any litigation could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations.

***If the patents we own or license, or our other intellectual property rights, do not adequately protect our technologies, we may lose market share to our competitors and be unable to operate our business profitably.***

Our success depends significantly on our ability to protect our rights to the technologies used in our products, including Mobile Deposit®. We rely on trademark, trade secret, copyright, and patent law, as well as a combination of non-disclosure, confidentiality, and other contractual arrangements to protect our technology and rights. However, these legal protections afford only limited protection and may not adequately protect our rights or permit us to gain or maintain any competitive advantage.

In addition, we cannot be assured that any of our pending patent applications will result in the issuance of a patent. The Patent and Trademark Office ("PTO") may deny or require significant narrowing of claims in our pending patent applications, and patents issued as a result of the pending patent applications, if any, may not provide us with significant commercial protection or may not be issued in a form that is advantageous to us. We could also incur substantial costs in proceedings before the PTO. Our issued and licensed patents and those that may be issued or licensed in the future may expire or may be challenged, invalidated, or circumvented, which could limit our ability to stop competitors from marketing technologies related to ours. Additionally, upon expiration of our issued or licensed patents, we may lose some of our rights to exclude others from making, using, selling or importing products using the technology based on the expired patents.

We also must rely on contractual provisions with the third parties that license technology to us and that obligate these third parties to protect our rights in the technology licensed to us. There is no guarantee that these third parties would be successful in attempting to protect our rights in any such licensed technology. There is no assurance that competitors will not be able to design around our patents or other intellectual property or any intellectual property or technology licensed to us.

We also rely on unpatented proprietary technology. We cannot assure you that we can meaningfully protect all our rights in our unpatented proprietary technology or that others will not independently develop substantially equivalent proprietary technology or otherwise gain access to our unpatented proprietary technology. We seek to protect our know-how and other unpatented proprietary technology with confidentiality agreements and intellectual property assignment agreements with our employees, consultants, partners, and customers. However, such agreements may not be enforceable or may not provide meaningful protection for our proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements or in the event that our competitors discover or independently develop similar or identical designs or other proprietary information.

In addition, we rely on the use of registered and common law trademarks with respect to the brand names of some of our products. Common law trademarks provide less protection than registered trademarks. Loss of rights in our trademarks could adversely affect our business, financial condition, and results of operations.

Furthermore, the laws of foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S. If we cannot adequately protect our intellectual property rights in these foreign countries, our competitors may be able to compete more effectively against us, which could adversely affect our competitive position, as well as our business, financial condition, and results of operations.

***We face competition from several companies that may have greater resources than we do, which could result in price reductions, reduced margins, or loss of market share.***

We compete against numerous companies in the mobile imaging software market. Competition in this market may increase as a result of a number of factors, such as the entrance of new or larger competitors or alternative technologies. These competitors may have greater financial, technical, marketing and public relations resources, larger client bases, and greater brand or name recognition. These competitors could, among other things:

- announce new products or technologies that have the potential to replace our existing product offerings;
- force us to charge lower prices; or
- adversely affect our relationships with current clients.

We may be unable to compete successfully against our current and potential competitors and if we lose business to our competitors or are forced to lower our prices, our revenue, operating margins, and market share could decline.

***We must continue to engage in extensive research and development in order to remain competitive.***

Our ability to compete effectively with our mobile imaging software products depends upon our ability to meet changing market conditions and develop enhancements to our products on a timely basis in order to maintain our competitive advantage. The markets for products incorporating mobile imaging software technology and products are characterized by rapid advancements in technology and changes in user preferences. Our continued growth will ultimately depend upon our ability to develop additional technologies and attract strategic alliances for related or separate products. There can be no assurance that we will be successful in developing and marketing product enhancements and additional technologies, that we will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these products, or that our new products and product enhancements will adequately meet the requirements of the marketplace, will be of acceptable quality, or will achieve market acceptance.

***Defects or malfunctions in our products could hurt our reputation, sales and profitability.***

Our business and the level of customer acceptance of our products depend upon the continuous, effective and reliable operation of our products. Our products are extremely complex and are continually being modified and improved, and as such may contain undetected defects or errors when first introduced or as new versions are released. To the extent that defects or errors cause our products to malfunction and our customers' use of our products is interrupted, our reputation could suffer and our revenue could decline or be delayed while such defects are remedied. We may also be subject to liability for the defects and malfunctions of third party technology partners and others with whom our products and services are integrated. In addition, our products are typically intended for use in applications that are critical to a customer's business. As a result, we believe that our customers and potential customers have a greater sensitivity to product defects than the market for software products in general. There can be no assurance that, despite our testing, errors will not be found in new products or releases after commencement of commercial shipments, resulting in loss of revenues or delay in market acceptance, diversion of development resources, damage to our reputation, adverse litigation, or increased service and warranty costs, any of which would have a material adverse effect upon our business, operating results, and financial condition.

***Our historical order flow patterns, which we expect to continue, have caused forecasting difficulties for us. If we do not meet our forecasts or analysts' forecasts for us, the price of our common stock may decline.***

Historically, a significant portion of our sales have resulted from shipments during the last few weeks of the quarter from orders received in the final month of the applicable quarter. We do, however, base our expense levels, in significant part, on our expectations of future revenue. As a result, we expect our expense levels to be relatively fixed in the short term. Any concentration of sales at the end of the quarter may limit our ability to plan or adjust operating expenses. Therefore, if anticipated shipments in any quarter do not occur or are delayed, expenditure levels could be disproportionately high as a percentage of sales, and our operating results for that quarter would be adversely affected. As a result, we believe that period-to-period comparisons of our results of operations are not and will not necessarily be meaningful, and you should not rely upon them as an indication of future performance. If our operating results for a quarter are below the expectations of public market analysts and investors, it could have a material adverse effect on the price of our common stock.

***Entry into new lines of business, and our offering of new products and services, resulting from our acquisitions may result in exposure to new risks.***

New lines of business, products or services could have a significant impact on the effectiveness of our system of internal controls and could reduce our revenues and potentially generate losses. New products and services, or entrance into new markets, may require substantial time, resources and capital, and profitability targets may not be achieved. Entry into new markets entails inherent risks associated with our inexperience, which may result in costly decisions that could harm our profit and operating results. There are material inherent risks and uncertainties associated with offering new products and services, especially when new markets are not fully developed or when the laws and regulations regarding a new product are not mature. Factors outside of our control, such as developing laws and regulations, regulatory orders, competitive product offerings and changes in commercial and consumer demand for products or services may also materially impact the successful implementation of new products or services. Failure to manage these risks, or failure of any product or service offerings to be successful and profitable, could have a material adverse effect on our financial condition and results of operations.

***Adverse economic conditions or reduced spending on information technology solutions may adversely impact our revenue and profitability.***

Unpredictable and unstable changes in economic conditions, including a recession, inflation, increased government intervention, or other changes, may adversely affect our general business strategy. In particular an economic downturn affecting small and medium sized businesses could significantly affect our business as many of our existing and target customers are in the small and medium sized business sector and these businesses are more likely to be significantly affected by economic downturns than larger, more established businesses. Additionally, these customers often have limited discretionary funds, which they may choose to spend on items other than our products and services, causing our revenue to decline.

***We may need to raise additional capital to fund continuing operations and an inability to raise the necessary capital or the inability to do so on acceptable terms could threaten the success of our business.***

We currently anticipate that our available capital resources and operating cash flows will be sufficient to meet our expected working capital and capital expenditure requirements for at least the next 12 months. However, such resources may not be sufficient to fund the long-term growth of our business. If we determine that it is necessary to raise additional funds, we may choose to do so through public or private equity or debt financings, a bank line of credit, strategic collaborations, licensing or other arrangements. We cannot be sure that any additional funding, if needed, will be available on terms favorable to us if at all. Furthermore, any additional equity or equity-related financing may be dilutive to our stockholders, new equity securities may have rights, preferences or privileges senior to those of existing holders of our shares of common stock, and debt or equity financing, if available, may subject us to restrictive covenants and significant interest costs. If we obtain funding through a strategic collaboration or licensing arrangement, we may be required to relinquish our rights to certain of our technologies, products or marketing territories. If we are unable to obtain the financing necessary to support our operations, we may be required to defer, reduce or eliminate certain planned expenditures or significantly curtail our operations.

***We expect to incur additional expenses related to the integration of ICAR Vision Systems, S.L. and A2iA Group II, S.A.S.***

We expect to incur additional expenses in connection with the integration of the business, policies, procedures, operations, technologies, and systems of ICAR Vision Systems, S.L., a company incorporated under the laws of Spain (“ICAR”), and A2iA Group II, S.A.S., a simplified joint stock company formed under the laws of France (“A2iA”). There are a large number of systems and functions that are being integrated into our larger organization, including, but not limited to, management information, accounting and finance, billing, payroll and benefits, and regulatory compliance. In addition, acquisitions of foreign entities, such as ICAR and A2iA, are particularly challenging because their prior practices may not meet the requirements of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) and/or accounting principles generally accepted in the U.S. (“GAAP”). While we have assumed that a certain level of expenses would be incurred to integrate these businesses, there are a number of factors beyond our control that could affect the total amount or the timing of all of the expected integration expenses. Moreover, many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time.

***We may be unable to successfully integrate our business with the respective businesses of ICAR and A2iA and realize the anticipated benefits of the acquisitions.***

Our management will be required to devote significant attention and resources to integrating our business practices and operations with that of ICAR and A2iA. In particular, the acquisitions of ICAR and A2iA involve the combination of two companies that previously operated as independent companies in different countries. Potential difficulties we may encounter as part of the integration process include, but are not limited to, the following:

- complexities associated with managing our business and the respective businesses of ICAR and A2iA following the completion of the acquisition, including the challenge of integrating complex systems, technology, networks, and other assets of each of the companies in a seamless manner that minimizes any adverse impact on customers, suppliers, employees, and other constituencies;
- integrating the workforces of the companies while maintaining focus on providing consistent, high quality customer service; and
- potential unknown liabilities and unforeseen increased expenses or delays associated with the acquisitions, including costs to integrate the companies that may exceed anticipated costs.

Any of the potential difficulties listed above could adversely affect our ability to maintain relationships with customers, suppliers, employees, and other constituencies or our ability to achieve the anticipated benefits of the acquisitions or otherwise adversely affect our business and financial results.

***Our actual financial and operating results following the acquisitions of ICAR and A2iA could differ materially from any expectations or guidance provided by us concerning our future financial and operating results.***

The combined company resulting from the acquisitions of ICAR and A2iA may not perform as we or the market expects. Expectations regarding each of ICAR's and A2iA's impact on our financial and operating results are subject to numerous assumptions, including assumptions derived from our diligence efforts concerning the status of and prospects for the businesses of ICAR and A2iA, respectively, and assumptions relating to the near-term prospects for our industry generally and the market for the products of ICAR and A2iA in particular. Additional assumptions that we have made relate to numerous matters, including, without limitation, the following:

- projections of future revenues;
- anticipated financial performance of products and products currently in development;
- our expected capital structure after the acquisitions, including after the distribution of any earnout-shares that may (under certain circumstances) become payable to the former shareholders of ICAR;
- our ability to maintain, develop and deepen relationships with the respective customers of ICAR and A2iA; and
- other financial and strategic risks of the acquisitions.

We cannot provide any assurances with respect to the accuracy of our assumptions, including our assumptions with respect to future revenues or revenue growth rates, if any, of ICAR or A2iA. Risks and uncertainties that could cause our actual results to differ materially from currently anticipated results include, but are not limited to, risks relating to our ability to realize incremental revenues from the acquisitions in the amounts that we currently anticipate; risks relating to the willingness of customers and other partners of ICAR or A2iA to continue to conduct business with the combined company; and numerous risks and uncertainties that affect our industry generally and the markets for our products and those of each of ICAR and A2iA. Any failure to realize the financial benefits we currently anticipate from the acquisitions would have a material adverse impact on our future operating results and financial condition and could materially and adversely affect the trading price or trading volume of our common stock.

***Our annual and quarterly results have fluctuated greatly in the past and will likely continue to do so, which may cause substantial fluctuations in our common stock price.***

Our annual and quarterly operating results have in the past and may in the future fluctuate significantly depending on factors including the timing of customer projects and purchase orders, new product announcements and releases by us and other companies, gain or loss of significant customers, price discounting of our products, the timing of expenditures, customer product delivery requirements, the availability and cost of components or labor, and economic conditions, both generally and in the information technology market. Revenues related to our licenses for mobile imaging software products are required to be recognized upon satisfaction of all applicable revenue recognition criteria. The recognition of future revenues from these licenses is dependent on a number of factors, including, but not limited to, the terms 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. Any unfavorable change in these or other factors could have a material adverse effect on our operating results for a particular quarter or year, which may cause downward pressure on our common stock price.

In our three and six months ended March 31, 2019 and fiscal years 2018, 2017, and 2016, sales of licenses to our channel partners have comprised a significant part of our revenue. This is attributable to the timing of the purchase or renewal 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 expect quarterly and annual fluctuations to continue for the foreseeable future. These fluctuations may result in volatility in our results of operations, have an adverse effect on the market price of our common stock, or both.

***We face risks related to the storage of our customers' and their end users' confidential and proprietary information. Our products may not provide absolute security. We may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents.***

Our products are designed to maintain the confidentiality and security of our customers' and their end users' confidential and proprietary information that is stored on our systems, which may include sensitive financial data and personally identifiable information about consumers. However, any accidental or willful security breaches or other unauthorized access to this data could expose us to liability for the loss of such information, time-consuming and expensive litigation, and other possible liabilities as well as negative publicity.

We devote significant resources to addressing security vulnerabilities in our products, systems and processes, however our maintenance and regular upgrades of our products, systems and processes, which are designed to protect the security of our products and the confidentiality, integrity and availability of information belonging to us and our clients, may not provide absolute security. Techniques used to obtain unauthorized access or to sabotage systems change frequently, are increasingly sophisticated, and generally are difficult to recognize and react to. We may be unable to anticipate these techniques or implement adequate preventative or reactionary measures.

A successful penetration or circumvention of the security of our products could cause serious negative consequences, including significant disruption of our operations, misappropriation of our confidential information or that of our clients, or damage to our systems or those of our clients and counterparties, and could result in violations of applicable privacy and other laws, financial loss to us or to our clients, loss of confidence in our security measures, client dissatisfaction, significant litigation exposure, and harm to our reputation, all of which could have a material adverse effect on us.

If an actual or perceived breach of security occurs, client perception of the effectiveness of our security measures could be harmed and could result in the loss of clients. Actual or anticipated attacks and risks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third party experts and consultants.

***If we are unable to retain and recruit qualified personnel, or if any of our key executives or key employees discontinues his or her employment with us, it may have a material adverse effect on our business.***

We are highly dependent on the key members of our management team and other key technical personnel. If we were to lose the services of one or more of our key personnel, or if we fail to attract and retain additional qualified personnel, it could materially and adversely affect our business. Furthermore, recruiting and retaining qualified highly skilled engineers involved in the ongoing developments required to refine our technologies and introduce future products is critical to our success. We may be unable to attract, assimilate, and retain qualified personnel on acceptable terms given the competition within the high technology industry. We do not have any employment agreements providing for a specific term of employment with any member of our senior management. We do not maintain "key man" insurance policies on any of our officers or employees. We have granted and plan to grant restricted stock units or other forms of equity awards as a method of attracting and retaining employees, motivating performance and aligning the interests of employees with those of our stockholders. As of March 31, 2019, we had 676,415 shares of common stock available for issuance pursuant to future grants of equity awards under our existing equity compensation plans, which may limit our ability to provide equity incentive awards to existing and future employees. If we are unable to adopt, implement and maintain equity compensation arrangements that provide sufficient incentives, we may be unable to retain our existing employees and attract additional qualified candidates. If we are unable to retain our existing employees, including qualified technical personnel, and attract additional qualified candidates, our business and results of operations could be adversely affected.

***Legislation and governmental regulations enacted in the U.S. and other countries that apply to us or to our customers may require us to change our current products and services and/or result in additional expenses, which could adversely affect our business and results of operations.***

Legislation and governmental regulations including changes in legislation and governmental regulations impacting financial institutions, insurance companies, and mobile device companies, affect how our business is conducted. Globally, legislation and governmental regulations also influence our current and prospective customers' activities, as well as their expectations and needs in relation to our products and services. Compliance with these laws and regulations may be onerous and expensive, and may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance. Any such increase in costs as a result of changes in these laws and regulations or in their interpretation could individually or in the

aggregate make our products and services less attractive to our customers, delay the introduction of new products in one or more regions, cause us to change or limit our business practices or affect our financial condition and operating results.

***Due to our operations in non-U.S. markets, we are subject to certain risks that could adversely affect our business, results of operations or financial condition.***

We generate revenue in markets outside of the U.S. The risks inherent in global operations include:

- lack of familiarity with, and unexpected changes in, foreign laws and legal standards, including employment laws and privacy laws, which may vary widely across the countries in which we sell our products;
- increased expense to comply with U.S. laws that apply to foreign corporations, including the Foreign Corrupt Practices Act (the “FCPA”);
- compliance with, and potentially adverse tax consequences of, foreign tax regimes;
- fluctuations in currency exchange rates, currency exchange controls, price controls, and limitations on repatriation of earnings;
- local economic conditions;
- increased expense related to localization of products and development of foreign language marketing and sales materials;
- longer accounts receivable payment cycles and difficulty in collecting accounts receivable in foreign countries;
- increased financial accounting and reporting burdens and complexities;
- restrictive employment regulations;
- difficulties and increased expense in implementing corporate policies and controls;
- international intellectual property laws, which may be more restrictive or may offer lower levels of protection than U.S. law;
- compliance with differing and changing local laws and regulations in multiple international locations, including regional data privacy laws, as well as compliance with U.S. laws and regulations where applicable in these international locations; and
- limitations on our ability to enforce legal rights and remedies.

If we are unable to successfully manage these and other risks associated with managing and expanding our international business, the risks could have a material adverse effect on our business, results of operations, or financial condition. Further, operating in international markets requires significant management attention and financial resources. Due to the additional uncertainties and risks of doing business in foreign jurisdictions, international acquisitions tend to entail risks and require additional oversight and management attention that are typically not attendant to acquisitions made within the U.S. We cannot be certain that the investment and additional resources required to establish, acquire or integrate operations in other countries will produce desired levels of revenue or profitability.

***Our international operations may increase our exposure to potential liability under anti-corruption, trade protection, tax, and other laws and regulations.***

The FCPA and other anti-corruption laws and regulations (“Anti-Corruption Laws”) prohibit corrupt payments by our employees, vendors, or agents. From time to time, we may receive inquiries from authorities in the U.S. and elsewhere about our business activities outside of the U.S. and our compliance with Anti-Corruption Laws. While we have implemented policies, training, and internal controls designed to reduce the risk of corrupt payments, our employees, vendors, or agents may violate our policies. Our acquisitions of ID Checker, ICAR, and A2iA may significantly increase our exposure to potential liability under Anti-Corruption Laws. ID Checker, ICAR, and A2iA were not historically subject to the FCPA, Sarbanes-Oxley, or other laws, to which we are subject, and we may become subject to liability if in the past, ID Checker’s, ICAR’s, and A2iA’s operations did not comply with such laws.

Our failure to comply with Anti-Corruption Laws could result in significant fines and penalties, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business, and damage to our reputation. Operations outside of the U.S. may be affected by changes in trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment.

The European Union (“EU”) and the U.S. entered into a new framework (known as the “Privacy Shield”) in July 2016 to provide a mechanism for companies to transfer data from EU member states to the U.S. The Privacy Shield and other data transfer mechanisms are subject to legal challenge, which generates uncertainty about the legal basis for data transfers to the

U.S. or interruption of such transfers. In the event a court blocks transfers to or from a particular jurisdiction on the basis that transfer mechanisms are not legally adequate, this could cause operational interruptions, liabilities and reputational harm. These and other requirements could increase the cost of compliance for us and our customers, restrict our and our customers' ability to store and process data, negatively impact our ability to offer our solutions in certain locations and limit our customers' ability to deploy our solutions globally. These consequences may be more significant in countries with legislation that requires data to remain localized "in country," as this could require us or our customers to establish data storage in other jurisdictions or apply local operational processes that are difficult and costly to integrate with global processes.

If we fail to comply with such laws and regulations, we may be subject to significant fines, penalties or liabilities for noncompliance, thereby harming our business. For example, in 2016, the EU adopted the General Data Protection Regulation ("GDPR"), which establishes new requirements regarding the handling of personal data and which became effective in May 2018. Non-compliance with the GDPR may result in monetary penalties of up to 4% of worldwide revenue.

Due to our international operations, we are subject to certain foreign tax regulations. Such regulations may not be clear, not consistently applied, and subject to sudden change, particularly with regard to international transfer pricing. Our earnings could be reduced by the uncertain and changing nature of such tax regulations.

***Fluctuations in foreign currency exchange and interest rates could adversely affect our results of operations.***

Our business is generally conducted in U.S. dollars. However, we earn revenues, pay expenses, own assets and incur liabilities in countries using currencies other than the U.S. dollar. Because our consolidated financial statements are presented in U.S. dollars, we must translate revenues and expenses into U.S. dollars at the average exchange rate during each reporting period, as well as assets and liabilities into U.S. dollars at exchange rates in effect at the end of each reporting period. The costs of operating in The Netherlands, Spain, France, and other European markets are subject to the effects of exchange fluctuations of the Euro and British pound sterling against the U.S. dollar. Therefore, increases or decreases in the value of the U.S. dollar against other major currencies will affect our net revenues, operating income, and the value of balance sheet items denoted in foreign currencies, and can adversely affect our operating results.

***Compliance with changing regulations concerning corporate governance and public disclosure may result in additional expenses.***

Our business is subject to laws, rules, regulations, and standards relating to corporate governance and public disclosure, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), Sarbanes-Oxley, and various other new regulations promulgated by the SEC and rules promulgated by the national securities exchanges.

The Dodd-Frank Act, enacted in July 2010, expands federal regulation of corporate governance matters and imposes requirements on publicly-held companies, including us, to, among other things, provide stockholders with a periodic advisory vote on executive compensation and also adds compensation committee reforms and enhanced pay-for-performance disclosures. While some provisions of the Dodd-Frank Act were effective upon enactment, others will be implemented upon the SEC's adoption of related rules and regulations. The scope and timing of the adoption of such rules and regulations is uncertain and accordingly, the cost of compliance with the Dodd-Frank Act is also uncertain. In addition, Sarbanes-Oxley specifically requires, among other things, that we maintain effective internal control over financial reporting and disclosure of controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of Sarbanes-Oxley Act ("Section 404"), and our independent registered public accounting firm is required to attest to our internal control over financial reporting. Our testing, or the subsequent testing by our independent registered public accounting firm may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expenses and expend significant management efforts. We currently have limited internal audit capabilities and will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

These and other new or changed laws, rules, regulations and standards are, or will be, subject to varying interpretations in many cases due to their lack of specificity. As a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Our efforts to comply with evolving laws, regulations and standards are likely to continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. Further, compliance with new and existing laws, rules, regulations and standards may make it more difficult and expensive for us to maintain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain

coverage. Members of our board of directors (the “Board”) and our principal executive officer and principal financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified directors and executive officers, which could harm our business. We continually evaluate and monitor regulatory developments and cannot estimate the timing or magnitude of additional costs we may incur as a result.

***We have a history of losses and we may not be able to maintain profitability in the future.***

Our operations resulted in a net loss of \$11.8 million, \$5.3 million, and \$7.3 million for the years ended September 30, 2018, 2014, and 2013, respectively and a loss of \$0.7 million and \$3.9 million for the three and six months ended March 31, 2019, respectively. Although we generated net income for the years ended September 30, 2017, 2016, and 2015, we may experience future net losses which may limit our ability to fund our operations and we may not generate income from operations in the future. We have a history of losses and may continue to incur significant losses for the foreseeable future. As of March 31, 2019, September 30, 2018, and September 30, 2017, we had an accumulated deficit of \$24.0 million, \$21.0 million, and \$17.5 million, respectively. Our future profitability depends upon many factors, including several that are beyond our control. These factors include, without limitation:

- changes in the demand for our products and services;
- loss of key customers or contracts;
- the introduction of competitive software;
- the failure to gain market acceptance of our new and existing products;
- the failure to successfully and cost effectively develop, introduce and market new products, services and product enhancements in a timely manner; and
- the timing of recognition of revenue.

In addition, we incur significant legal, accounting, and other expenses related to being a public company. As a result of these expenditures, we will have to generate and sustain increased revenue to achieve and maintain future profitability.

***Our ability to utilize our net operating loss and tax credit carryforwards may be limited, which could result in our payment of income taxes earlier than if we were able to fully utilize our net operating loss and tax credit carryforwards.***

Federal and state tax laws impose restrictions on the utilization of net operating loss (“NOL”) and tax credit carryforwards in the event of an “ownership change” as defined by Section 382. Generally, an “ownership change” occurs if the percentage of the value of the stock that is owned by one or more direct or indirect “five percent shareholders” increases by more than 50% over their lowest ownership percentage at any time during the applicable testing period (typically, three years). Under Section 382, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change NOL and tax credit carryforwards and other pre-change tax attributes to offset its post-change income may be limited. While no ownership change has resulted in annual limitations, future changes in our stock ownership, which may be outside of our control, may trigger an “ownership change.” In addition, future equity offerings or acquisitions that have equity as a component of the purchase price could result in an “ownership change.” If an “ownership change” occurs in the future, utilization of the NOL carryforwards or other tax attributes may be limited, which could potentially result in increased future tax liability to us. We have adopted a Section 382 Rights Agreement, discussed below, to protect our utilization of the NOLs.

#### **Risks Related to Investing in Our Common Stock**

***From time-to-time our Board explores and considers strategic alternatives, including financings, strategic alliances, acquisitions, or the possible sale of the Company. Our Board may not be able to identify or complete any suitable strategic alternatives, and announcements regarding any such strategic alternatives could have an impact on our operations or stock price.***

In December 2018, after receiving unsolicited expressions of interest from multiple parties, we announced that we retained Evercore Group L.L.C. and Paul Hastings LLP, our financial advisor and outside legal advisor, respectively, to assist the Board and our management team in exploring and reviewing strategic alternatives. On May 1, 2019, we announced that we concluded this process. This process did not result in an offer to purchase the Company on terms and conditions that were acceptable to the Board, given the Board’s view of the value of the Company and its assets and the Board’s belief that we, can ultimately create more value for our stockholders by continuing to execute our current business strategy.

Our announcement on May 1, 2019 and other announcements related to strategic alternatives may result in a perception that there is uncertainty about the future of our business and operations, regardless of the actual circumstances. Such perceptions may negatively affect our business, disrupt our operations and divert the attention of our Board, management, and employees, all of which could materially and adversely affect our business and operations. In addition, our stock price may



experience periods of increased volatility as a result of such perceptions and speculation about the future of our business and operations.

While we have concluded the process started in December 2018, it is possible that a strategic transaction may arise in the future. We currently have no agreements or commitments to engage in any specific strategic transactions, and we cannot assure you that any future explorations of various strategic alternatives will result in any specific action or transaction. If we determine to engage in a strategic transaction, we cannot predict the impact that such strategic transaction might have on our operations or stock price. We do not intend to provide updates or make further comments regarding the evaluation of strategic alternatives, unless otherwise required by law.

***Concentration of ownership among our current and former directors and executive officers may limit our other stockholder's ability to influence significant corporate decisions.***

As noted in our 2019 annual proxy statement, filed January 28, 2019 our current and former directors and executive officers as a group beneficially owned approximately 8.2% of our outstanding common stock. Subject to any fiduciary duties owed to our other stockholders under Delaware General Corporation Law (the "DGCL"), these stockholders may be able to exercise significant influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, and will have some control over our management and policies. Some of these persons may have interests that are different from yours. For example, these stockholders may support proposals and actions with which you may disagree. The concentration of ownership could delay or prevent a change in control of the Company or otherwise discourage a potential acquirer from attempting to obtain control of the Company, which in turn could reduce the price of our stock. In addition, these stockholders could use their voting influence to maintain our existing management and directors in office, delay or prevent changes in control of the Company, or support or reject other management and board proposals that are subject to stockholder approval, such as amendments to our employee stock plans and approvals of significant financing transactions.

***Future sales of our common stock by our insiders may cause our stock price to decline.***

A significant portion of our outstanding shares are held by our current and former directors and executive officers. Resales of a substantial number of shares of our stock by these stockholders, announcements of the proposed resale of substantial amounts of our stock, or the perception that substantial resales may be made by such stockholders could adversely impact the market price of our stock. Some of our directors and executive officers have in the past and may in the future enter into Rule 10b5-1 trading plans pursuant to which they may sell shares of our stock from time to time in the future. Actual or potential sales by these individuals, including those under a pre-arranged Rule 10b5-1 trading plan, regardless of the actual circumstances, could be interpreted by the market as an indication that the insider has lost confidence in our stock and adversely impact the market price of our stock.

We have registered and expect to continue to register shares reserved under our equity plans under a registration statement on Form S-8. All shares issued pursuant to a registration statement on Form S-8 can be freely sold in the public market upon issuance, subject to restrictions on our affiliates under Rule 144 of the Securities Act. If a large number of these shares are sold in the public market, the sales could adversely impact the trading price of our stock.

***Future sales of our common stock could cause the market price of our common stock to decline.***

We cannot predict the effect, if any, that market sales of shares of our common stock or the availability of shares of our common stock for sale will have on the market price of our common stock prevailing from time to time. We currently have an effective universal shelf registration statement on file with the SEC, providing for the potential issuance of shares of our common stock and other securities. Sales of substantial amounts of shares of our common stock or other securities in the public market, or the perception that those sales could occur, may cause the market price of our common stock to decline. In addition, any such decline may make it more difficult for you to sell shares of our common stock at prices you may deem acceptable.

***A potential proxy contest for the election of directors at our annual meeting could result in potential operational disruption, divert our resources, and could potentially result in adverse consequences under certain of our agreements.***

Our investors may launch a proxy contest to nominate director candidates for election to the Board at our annual meeting of stockholders. A proxy contest would require us to incur significant legal fees and proxy solicitation expenses and could result in potential operational disruption, including that the investor-nominated directors (if elected) may have a business agenda for the Company that is different than the strategic and operational plans of the existing Board, which agenda may adversely affect our stockholders. Further, any perceived uncertainties as to our future direction and control could result in the loss of potential business opportunities and may make it more difficult to attract and retain qualified personnel and business partners, any of which could adversely affect our business and operating results and create increased volatility in our stock price.

Further, a change in a majority of the Board may, under certain circumstances, result in a change of control under certain employment agreements we have with our executive management and our 2002 Stock Option Plan, 2006 Stock Option Plan,

2010 Stock Option Plan, Amended and Restated 2012 Incentive Plan, Director Restricted Stock Unit Plan, and any equity based awards issued thereunder. Pursuant to the agreements and awards, certain payments and vesting provisions may be triggered following a change of control, conditioned upon a qualifying termination that occurs within 12 months of any such change of control.

***Our corporate documents and the DGCL contain provisions that could discourage, delay, or prevent a change in control of our company, prevent attempts to replace or remove current management, and reduce the market price of our stock.***

Provisions in our restated certificate of incorporation and second amended and restated bylaws may discourage, delay, or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our restated certificate of incorporation authorizes our Board to issue up to one million shares of “blank check” preferred stock, sixty thousand of which are reserved in connection with the Section 382 Rights Agreement, discussed below. As a result, without further stockholder approval, the Board has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, preferred stockholders could make it more difficult for a third party to acquire us. We are also subject to the anti-takeover provisions of the DGCL. Under these provisions, if anyone becomes an “interested stockholder,” we may not enter into a “business combination” with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change in control of us. An “interested stockholder” is, generally, a stockholder who owns 15% or more of our outstanding voting stock or an affiliate of ours who has owned 15% or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in the DGCL.

***Our restated certificate of incorporation and second amended and restated bylaws provide for indemnification of officers and directors at our expense and limits their liability, which may result in a major cost to us and hurt the interests of our stockholders because corporate resources may be expended for the benefit of officers and/or directors.***

Pursuant to our restated certificate of incorporation and second amended and restated bylaws and as authorized under applicable Delaware law, our directors and officers are not liable for monetary damages for breaches of fiduciary duties, except for liability (i) for any breach of the director’s duty of loyalty to the Company or its stockholders; (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (iii) under Section 174 of the DGCL; or (iv) for any transaction from which the director derived an improper personal benefit.

We have entered into a separate indemnification agreement (the “Indemnification Agreement”) with each of our directors. Under the Indemnification Agreement, each director is entitled to be indemnified against all expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by or on behalf of such director in connection with any claims, proceedings or other actions brought against such director as a result of the director’s service to us, provided that the director: (i) acted in good faith; (ii) reasonably believed the action was in our best interest; and (iii) in criminal proceedings, reasonably believed the conduct was not unlawful. Additionally, the Indemnification Agreement entitles each director to contribution of expenses from us in any proceeding in which we are jointly liable with such director, but for which indemnification is not otherwise available. The Indemnification Agreement also entitles each director to advancement of expenses incurred by such director in connection with any claim, proceeding or other action in advance of the final adjudication of any such claim, proceeding or other action, provided the director agrees to reimburse us for all such advances if it shall ultimately be determined that the director is not entitled to indemnification.

The foregoing limitations of liability and provisions for expenses may result in a major cost to us and hurt the interests of our stockholders because corporate resources may be expended for the benefit of officers and/or directors.

***The Company has entered into a Section 382 Rights Agreement, and if the holders of rights become entitled to exercise their rights under such agreement, and do exercise such rights, it could materially adversely affect the price of our common stock.***

We entered into a Rights Agreement on October 23, 2018, with Computershare Trust Company, N.A., a federally chartered trust company, as Rights Agent (the “Rights Agreement”). The Rights Agreement is intended to discourage acquisitions of our common stock which could result in a cumulative “ownership change” of more than 50% within a rolling three-year period, thereby preserving our current ability to utilize net operating loss carryforwards to offset future income tax obligations, which would become subject to limitations if we were to experience an “ownership change,” as defined under Section 382 of the Internal Revenue Code of 1986, as amended. While this Rights Agreement is intended to preserve our current ability to utilize net operating loss carryforwards, it effectively deters current and future purchasers from accumulating more than 4.9% of our common stock, which could delay or discourage takeover attempts that our stockholders may consider favorable. In addition, if the share purchase rights under the Rights Agreement are exercised, additional shares of our common stock will be issued, which could materially and adversely affect the market price of our common stock. Moreover, sales in the public market of any shares of our common stock issued upon such exercise, or the perception that such sales may occur, could also adversely affect the market price of our common stock. These issuances would also cause our per share net income, if any, to decrease in future periods.

***The market price of our common stock has been volatile and your investment in our stock could suffer a decline in value.***

The market price of our common stock has experienced significant price and volume fluctuations. For example, during the period between our fiscal year ended September 30, 2018 and our quarterly period ended March 31, 2019, the closing price of our common stock ranged from \$6.52 to \$12.53. In addition, the stock market has from time to time experienced significant price and volume fluctuations that have particularly affected the market prices for the common stock of technology companies and that have often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. You may not be able to resell your shares at or above the price you paid for them due to fluctuations in the market price of our stock caused by changes in our operating performance or prospects and other factors.

Some specific factors, in addition to the other risk factors identified above, that may have a significant effect on the price of our stock, many of which we cannot control, include but are not limited to:

- our announcements or our competitors' announcements of technological innovations;
- quarterly variations in operating results;
- changes in our product pricing policies or those of our competitors;
- claims of infringement of intellectual property rights or other litigation;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in our growth rate or our competitors' growth rates;
- developments regarding our patents or proprietary rights or those of our competitors;
- our inability to raise additional capital as needed;
- changes in financial markets or general economic conditions;
- sales of stock by us or members of our management team or Board; and
- changes in stock market analyst recommendations or earnings estimates regarding our stock, other comparable companies or our industry generally.

***Because we do not intend to pay dividends, our stockholders will benefit from an investment in our common stock only if our stock price appreciates in value.***

We have never declared or paid a dividend on our common stock. We currently intend to retain our future earnings, if any, for use in the operation and expansion of our business and do not expect to pay any dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend entirely upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which it was purchased.

**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 March 31, 2019, 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

### *Revolving Credit Facility*

On May 2, 2019, Mitek Systems, Inc. (the “Company”) and ID Checker, Inc. (together, the “Co-Borrowers”) entered into a First Amendment to that certain Loan and Security Agreement (the “Loan Agreement”), dated May 3, 2018, between the Co-Borrowers and Silicon Valley Bank (“SVB”), for the purpose of extending the maturity of the \$10.0 million secured revolving credit facility (the “Revolver”) to September 30, 2020.

The Amendment contains representations and warranties customary for transactions of this type. The representations, warranties, and other terms contained in the Amendment were made only for the purposes of such agreement and as of specified dates, were solely for the benefit of the parties to such agreements and may be subject to limitations agreed upon by the contracting parties. Such representations, warranties and other agreements should not be and may not be relied on by any other party.

The above description is qualified in its entirety by the terms and conditions of the Amendment, a copy of which is filed herewith as Exhibit 10.1.

## ITEM 6. EXHIBITS

Exhibit No.	Description	Incorporated by Reference from Document
2.1**	<a href="#">Share Purchase Agreement, dated May 26, 2015, by and among Mitek Systems, Inc., ID Checker NL B.V., ID Checker Holding B.V., Stichting Administratiekantoor OPID, Pierre L.M. deBoer, and Michael Hagen.</a>	(1)
2.2**	<a href="#">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.</a>	(2)
2.3**	<a href="#">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.</a>	(3)
3.1	<a href="#">Restated Certificate of Incorporation of Mitek Systems, Inc., as amended.</a>	(4)
3.2	<a href="#">Second Amended and Restated Bylaws of Mitek Systems, Inc.</a>	(5)
3.3	<a href="#">Certificate of Designation of Series B Junior Participating Preferred Stock.</a>	(6)
4.1	<a href="#">Section 328 Rights Agreement, dated October 23, 2018, between Mitek Systems, Inc. and Computershare Trust Company, N.A., as Rights Agent.</a>	(6)
4.2	<a href="#">Amendment No. 1 to the Section 328 Rights Agreement, dated February 28, 2019, between Mitek Systems, Inc. and Computershare Trust Company, N.A., as rights agent.</a>	(7)
10.1	<a href="#">First Amendment to Loan and Security Agreement, by and between Mitek Systems, Inc. and Silicon Valley Bank.</a>	*
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</a>	*
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</a>	*
32.1	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>	*
101	Financial statements from the Quarterly Report on Form 10-Q of Mitek Systems, Inc. for the quarter ended March 31, 2019, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Other Comprehensive Loss, (iii) the Consolidated Statement of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, (v) the Notes to Consolidated Financial Statements.	*

\* Filed herewith.

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

1. Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on June 17, 2015.
2. Incorporated by reference to the Company's Current Report on Form 8-K/A filed with the SEC on October 20, 2017.
3. Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on May 23, 2018.
4. Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.
5. Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on November 10, 2014.
6. Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on October 23, 2018.
7. Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on February 28, 2019.

## 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.

May 7, 2019

MITEK SYSTEMS, INC.

By: /s/ Scipio Maximus Carnecchia

Scipio Maximus Carnecchia  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Jeffrey C. Davison

Jeffrey C. Davison  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**FIRST AMENDMENT  
TO  
LOAN AND SECURITY AGREEMENT**

This First Amendment to Loan and Security Agreement (this “**Amendment**”) is entered into as of May 2, 2019, by and among **SILICON VALLEY BANK**, a California corporation (“**Bank**”), **MITEK SYSTEMS, INC.**, a Delaware corporation (“**Parent**”), and **IDCHECKER, INC.**, a California corporation (together with Parent, each a “**Co-Borrower**” and collectively, “**Co-Borrowers**”).

**Recitals**

**A.** Bank and Co-Borrowers have entered into that certain Loan and Security Agreement dated as of May 3, 2018 (as the same may from time to time be amended, modified, supplemented or restated, the “**Loan Agreement**”). Bank has extended credit to Co-Borrowers for the purposes permitted in the Loan Agreement.

**B.** Co-Borrowers have requested that Bank amend the Loan Agreement to extend the Revolving Line Maturity Date.

**C.** Bank has agreed to so amend the Loan Agreement, but only to the extent, in accordance with the terms, subject to the conditions and in reliance upon the representations and warranties set forth below.

**Agreement**

**Now, Therefore**, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

**1. Definitions.** Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.

**2. Amendment to Loan Agreement.**

**2.1 Section 13 (Definitions).** The following term and its respective definition hereby is amended and restated in its entirety in Section 13.1 of the Loan Agreement to read as follows:

“**Revolving Line Maturity Date**” is September 30, 2020.

**3. Limitation of Amendment.**

**3.1** This Amendment is effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

**3.2** This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in

the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

**4. Representations and Warranties.** Each Co-Borrower represents and warrants to Bank as follows:

**4.1** (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b) no Event of Default has occurred and is continuing;

**4.2** Co-Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement;

**4.3** The organizational documents of Co-Borrower delivered to Bank on the Effective Date remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

**4.4** The execution and delivery by Co-Borrower of this Amendment and the performance by Co-Borrower of its obligations under the Loan Agreement have been duly authorized by all necessary action on the part of Co-Borrower;

**4.5** The execution and delivery by Co-Borrower of this Amendment and the performance by Co-Borrower of its obligations under the Loan Agreement do not and will not contravene (a) any law or regulation binding on or affecting Co-Borrower, (b) any contractual restriction with a Person binding on Co-Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Co-Borrower, or (d) the organizational documents of Co-Borrower;

**4.6** The execution and delivery by Co-Borrower of this Amendment and the performance by Co-Borrower of its obligations under the Loan Agreement do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on either Co-Borrower, except as already has been obtained or made; and

**4.7** This Amendment has been duly executed and delivered by Co-Borrower and is the binding obligation of Co-Borrower, enforceable against Co-Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

**5. Prior Agreement.** The Loan Documents are hereby ratified and reaffirmed and shall remain in full force and effect. This Amendment is not a novation and the terms and conditions of this Amendment shall be in addition to and supplemental to all terms and conditions set forth in the Loan Documents. In the event of any conflict or inconsistency between this Amendment and the terms of such documents, the terms of this Amendment shall be controlling, but such document shall not otherwise be affected or the rights therein impaired.

**6.** Each Co-Borrower hereby represents and warrants to Bank, and Bank is relying thereon, as follows:



(a) Except as expressly stated in this Amendment, neither Bank nor any agent, employee or representative of Bank has made any statement or representation to Co-Borrower regarding any fact relied upon by Co-Borrower in entering into this Amendment.

(b) Co-Borrower has made such investigation of the facts pertaining to this Amendment and all of the matters appertaining thereto, as it deems necessary.

(c) The terms of this Amendment are contractual and not a mere recital.

(d) This Amendment has been carefully read by Co-Borrower, the contents hereof are known and understood by Co-Borrower, and this Amendment is signed freely, and without duress, by Co-Borrower.

**7. Ratification of Perfection Certificate.** Each Co-Borrower hereby ratifies, confirms and reaffirms, all and singular, the terms and disclosures contained in a certain Perfection Certificate dated on or prior to the Effective Date and acknowledges, confirms and agrees that the disclosures and information such Co-Borrower provided to Bank in such Perfection Certificate have not changed, as of the date hereof.

**8. Integration.** This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Amendment and the Loan Documents merge into this Amendment and the Loan Documents.

**9. Counterparts.** This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

**10. Conditions to Effectiveness.** This Amendment shall be deemed effective upon (a) the due execution and delivery to Bank of (i) this Amendment by each party hereto, and (ii) an updated Corporate Borrowing Certificate from each Co-Borrower in the form attached hereto, and (b) Co-Borrowers' payment of (i) an amendment fee in an amount equal to Thirty-Five Thousand Dollars (\$35,000), and (ii) all Bank Expenses due and owing as of the date hereof, which, in either case, may be debited from any of Co-Borrowers' accounts at Bank.

**11. Miscellaneous.**

**11.1** This Amendment shall constitute a Loan Document under the Loan Agreement; the failure to comply with the covenants contained herein shall constitute an Event of Default under the Loan Agreement; and all obligations included in this Amendment (including, without limitation, all obligations for the payment of principal, interest, fees, and other amounts and expenses) shall constitute obligations under the Loan Agreement and secured by the Collateral.

**11.2** Each provision of this Amendment is severable from every other provision in determining the enforceability of any provision.

**12. Governing Law.** This Amendment and the rights and obligations of the parties hereto shall be governed by and construed in accordance with the laws of the State of California.

*[Balance of Page Intentionally Left Blank]*

**In Witness Whereof**, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

**CO-BORROWERS:**

**MITEK SYSTEMS, INC.**

By /s/ Jeffrey C. Davison  
Name: Jeffrey C. Davison  
Title: Chief Financial Officer

**IDCHECKER, INC.**

By /s/ Jeffrey C. Davison  
Name: Jeffrey C. Davison  
Title: Chief Financial Officer

**BANK:**

**SILICON VALLEY BANK**

By /s/ Kadie Sobel  
Name: Kadie Sobel  
Title: Director



CORPORATE BORROWING CERTIFICATE

Co-Borrower: MITEK SYSTEMS, INC., a California corporation Date: May 2, 2019
Bank: SILICON VALLEY BANK

I hereby certify as follows, as of the date set forth above:

- 1. I am the Secretary, Assistant Secretary or other officer of Co-Borrower . My title is as set forth below.
2. Co-Borrower's exact legal name is set forth above. Co-Borrower is a corporation existing under the laws of the State of Delaware.
3. Attached hereto are true, correct and complete copies of Co-Borrower's Certificate of Incorporation (including amendments), as filed with the Secretary of State of the state in which Co-Borrower is incorporated as set forth above. Such Certificate of Incorporation have not been amended, annulled, rescinded, revoked or supplemented, and remain in full force and effect as of the date hereof.
4. The following resolutions were duly and validly adopted by Co-Borrower's Board of Directors at a duly held meeting of such directors (or pursuant to a unanimous written consent or other authorized corporate action). Such resolutions are in full force and effect as of the date hereof and have not been in any way modified, repealed, rescinded, amended or revoked, and Silicon Valley Bank ("Bank") may rely on them until Bank receives written notice of revocation from Co-Borrower.

Resolved, that any one of the following officers or employees of Co-Borrower, whose names, titles and signatures are below, may act on behalf of Co-Borrower:

Table with 4 columns: Name, Title, Signature, Authorized to Add or Remove Signatories. Rows include Scipio M. Carnecchia, Jeffrey C. Davison, and Trevor Renfield.

**Resolved Further**, that **any one** of the persons designated above with a checked box beside his or her name may, from time to time, add or remove any individuals to and from the above list of persons authorized to act on behalf of Co-Borrower.

**Resolved Further**, that such individuals may, on behalf of Co-Borrower:

**Borrow Money.** Borrow money from Bank.

**Execute Loan Documents.** Execute any loan documents Bank requires.

**Grant Security.** Grant Bank a security interest in any of Co-Borrower's assets.

**Negotiate Items.** Negotiate or discount all drafts, trade acceptances, promissory notes, or other indebtedness in which Co-Borrower has an interest and receive cash or otherwise use the proceeds.

**Apply for Letters of Credit.** Apply for letters of credit from Bank.

**Enter Derivative Transactions.** Execute spot or forward foreign exchange contracts, interest rate swap agreements, or other derivative transactions.

**Issue Warrants.** Issue warrants for Co-Borrower's capital stock.

**Further Acts.** Designate other individuals to request advances, pay fees and costs and execute other documents or agreements (including documents or agreement that waive Co-Borrower's right to a jury trial) they believe to be necessary to effect these resolutions.

**Resolved Further**, that all acts authorized by the above resolutions and any prior acts relating thereto are ratified.

5. The persons listed above are Co-Borrower's officers or employees with their titles and signatures shown next to their names.

**MITEK SYSTEMS, INC.**

By: /s/ Scipio M. Carnecchia

Name: Scipio M. Carnecchia

Title: Chief Executive Officer

*\*\*\* If the Secretary, Assistant Secretary or other certifying officer executing above is designated by the resolutions set forth in paragraph 4 as one of the authorized signing officers, this Certificate must also be signed by a second authorized officer or director of Co-Borrower.*

I, Jason Gray the General Counsel of Co-Borrower, hereby certify as to paragraphs 1 through 5 above, as of the date set forth above.

By: /s/ Jason Gray

Name: Jason Gray

Title: General Counsel

## CORPORATE BORROWING CERTIFICATE

**Co-Borrower:** IDCHECKER, INC., a California corporation **Date:** May 2, 2019

**Bank:** SILICON VALLEY BANK

I hereby certify as follows, as of the date set forth above:

1. I am the Secretary, Assistant Secretary or other officer of Co-Borrower. My title is as set forth below.
2. Co-Borrower's exact legal name is set forth above. Co-Borrower is a corporation existing under the laws of the State of California.
3. Attached hereto are true, correct and complete copies of Co-Borrower's Articles of Incorporation (including amendments), as filed with the Secretary of State of the state in which Co-Borrower is incorporated as set forth above. Such Articles of Incorporation have not been amended, annulled, rescinded, revoked or supplemented, and remain in full force and effect as of the date hereof.
4. The following resolutions were duly and validly adopted by Co-Borrower's Board of Directors at a duly held meeting of such directors (or pursuant to a unanimous written consent or other authorized corporate action). Such resolutions are in full force and effect as of the date hereof and have not been in any way modified, repealed, rescinded, amended or revoked, and Silicon Valley Bank ("Bank") may rely on them until Bank receives written notice of revocation from Co-Borrower.

**Resolved**, that **any one** of the following officers or employees of Co-Borrower, whose names, titles and signatures are below, may act on behalf of Co-Borrower:

<u>Name</u>	<u>Title</u>	<u>Signature</u>	<u>Authorized to Add or Remove Signatories</u>
Scipio M. Carnecchia	Chief Executive Officer	/s/ Scipio M. Carnecchia	<input checked="" type="checkbox"/>
Jeffrey C. Davison	Chief Financial Officer	/s/ Jeffrey C. Davison	<input checked="" type="checkbox"/>
Trevor Renfield	VP, Corporate Controller	/s/ Trevor Renfield	<input checked="" type="checkbox"/>
			<input type="checkbox"/>

**Resolved Further**, that **any one** of the persons designated above with a checked box beside his or her name may, from time to time, add or remove any individuals to and from the above list of persons authorized to act on behalf of Co-Borrower.

**Resolved Further**, that such individuals may, on behalf of Co-Borrower:

**Borrow Money.** Borrow money from Bank.

**Execute Loan Documents.** Execute any loan documents Bank requires.

**Grant Security.** Grant Bank a security interest in any of Co-Borrower's assets.

**Negotiate Items.** Negotiate or discount all drafts, trade acceptances, promissory notes, or other indebtedness in which Co-Borrower has an interest and receive cash or otherwise use the proceeds.

**Apply for Letters of Credit.** Apply for letters of credit from Bank.

**Enter Derivative Transactions.** Execute spot or forward foreign exchange contracts, interest rate swap agreements, or other derivative transactions.

**Issue Warrants.** Issue warrants for Co-Borrower's capital stock.

**Further Acts.** Designate other individuals to request advances, pay fees and costs and execute other documents or agreements (including documents or agreement that waive Co-Borrower's right to a jury trial) they believe to be necessary to effect these resolutions.

**Resolved Further**, that all acts authorized by the above resolutions and any prior acts relating thereto are ratified.

5. The persons listed above are Co-Borrower's officers or employees with their titles and signatures shown next to their names.

**IDCHECKER, INC.**

By: /s/ Scipio M. Carnecchia

Name: Scipio M. Carnecchia

Title: Chief Executive Officer

*\*\*\* If the Secretary, Assistant Secretary or other certifying officer executing above is designated by the resolutions set forth in paragraph 4 as one of the authorized signing officers, this Certificate must also be signed by a second authorized officer or director of Co-Borrower.*

I, Jason Gray the General Counsel of Co-Borrower, hereby certify as to paragraphs 1 through 5 above, as of the date set forth above.

By: /s/ Jason Gray

Name: Jason Gray

Title: General Counsel

**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.

May 7, 2019

/s/ Scipio Maximus Carnecchia

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Scipio Maximus Carnecchia  
Chief Executive Officer  
(Principal Executive Officer)

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

I, Jeffrey C. Davison, 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.

May 7, 2019

/s/ Jeffrey C. Davison  
\_\_\_\_\_  
Jeffrey C. Davison  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



**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 and principal financial officer of Mitek Systems, Inc. (the "Company"), as the case may be, hereby certifies, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), that, to the best of his knowledge:

- 1 This Quarterly Report on Form 10-Q for the period ended March 31, 2019 (this "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; 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 for the period covered by this Quarterly Report.

May 7, 2019

/s/ Scipio Maximus Carnecchia

\_\_\_\_\_  
Scipio Maximus Carnecchia  
Chief Executive Officer  
(Principal Executive Officer)

May 7, 2019

/s/ Jeffrey C. Davison

\_\_\_\_\_  
Jeffrey C. Davison  
Chief Financial Officer  
(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.