

---

---

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

---

**Form 10-Q**

---

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

**For the quarterly period ended March 31, 2012**

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

**For the transition period from                    to                    .**

Commission File Number 001-35231

---

**MITEK SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

---

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**8911 Balboa Ave., Suite B**  
**San Diego, California**  
(Address of Principal Executive Offices)

**87-0418827**  
(I.R.S. Employer  
Identification No.)

**92123**  
(Zip Code)

**(858) 309-1700**  
(Registrant's Telephone Number, Including Area Code)

---

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

There were 25,552,827 shares of the registrant's common stock outstanding as of May 11, 2012.

---

---

[Table of Contents](#)

MITEK SYSTEMS, INC.

FORM 10-Q

For The Quarterly Period Ended March 31, 2012

INDEX

**PART I. FINANCIAL INFORMATION**

Item 1.	<a href="#">Financial Statements</a>	1
	<a href="#">Condensed Balance Sheets at March 31, 2012 (unaudited) and September 30, 2011</a>	1
	<a href="#">Condensed Statements of Operations (unaudited) for the Three and Six Months Ended March 31, 2012 and March 31, 2011</a>	2
	<a href="#">Condensed Statements of Cash Flows (unaudited) for the Six Months Ended March 31, 2012 and March 31, 2011</a>	3
	<a href="#">Notes to Condensed Financial Statements (unaudited)</a>	4
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	14
Item 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	20
Item 4.	<a href="#">Controls and Procedures</a>	20

**PART II. OTHER INFORMATION**

Item 1.	<a href="#">Legal Proceedings</a>	20
Item 1A.	<a href="#">Risk Factors</a>	21
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	21
Item 3.	<a href="#">Defaults Upon Senior Securities</a>	21
Item 4.	<a href="#">Mine Safety Disclosures</a>	21
Item 5.	<a href="#">Other Information</a>	22
Item 6.	<a href="#">Exhibits</a>	22
	<a href="#">Signatures</a>	23

**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS.**

**MITEK SYSTEMS, INC**  
**CONDENSED BALANCE SHEETS**

	March 31, 2012 (Unaudited)	September 30, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,221,904	\$ 5,655,716
Short-term investments	10,395,561	10,187,638
Accounts receivable, net	1,450,574	2,956,295
Other current assets	599,695	317,382
Total current assets	<u>18,667,734</u>	<u>19,117,031</u>
Long-term investments	818,777	417,230
Property and equipment, net	324,416	196,519
Other non-current assets	54,409	120,903
Total assets	<u>\$ 19,865,336</u>	<u>\$ 19,851,683</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 761,056	\$ 358,907
Accrued payroll and related taxes	508,589	496,009
Deferred revenue	1,546,749	873,230
Other current liabilities	37,666	45,185
Total current liabilities	<u>2,854,060</u>	<u>1,773,331</u>
Other non-current liabilities	72,217	23,061
Total liabilities	<u>2,926,277</u>	<u>1,796,392</u>
Stockholders' equity:		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.001 par value, 40,000,000 shares authorized, 25,512,030 and 24,144,366 issued and outstanding, respectively	25,512	24,144
Additional paid-in capital	35,353,830	33,660,397
Accumulated other comprehensive income (loss)	194	(9,855)
Accumulated deficit	<u>(18,440,477)</u>	<u>(15,619,395)</u>
Total stockholders' equity	<u>16,939,059</u>	<u>18,055,291</u>
Total liabilities and stockholders' equity	<u>\$ 19,865,336</u>	<u>\$ 19,851,683</u>

The accompanying notes form an integral part of these condensed financial statements.

**MITEK SYSTEMS, INC.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
<b>Revenue</b>				
Software	\$ 505,448	\$ 2,338,179	\$ 3,397,474	\$ 3,278,867
Maintenance and professional services	686,289	530,178	1,313,747	993,052
Total revenue	<u>1,191,737</u>	<u>2,868,357</u>	<u>4,711,221</u>	<u>4,271,919</u>
<b>Operating costs and expenses</b>				
Cost of revenue-software	109,528	113,856	257,187	206,246
Cost of revenue-maintenance and professional services	200,209	142,218	354,818	257,527
Selling and marketing	712,037	564,896	1,562,966	964,208
Research and development	1,730,679	642,982	2,909,785	1,232,319
General and administrative	1,299,953	834,193	2,463,182	1,457,437
Total costs and expenses	<u>4,052,406</u>	<u>2,298,145</u>	<u>7,547,938</u>	<u>4,117,737</u>
Operating income (loss)	(2,860,669)	570,212	(2,836,717)	154,182
<b>Other income (expense), net</b>				
Interest and other expense, net	(62,638)	(169)	(129,703)	(384,417)
Interest income	72,114	696	146,138	1,939
Total other income (expense), net	<u>9,476</u>	<u>527</u>	<u>16,435</u>	<u>(382,478)</u>
Income (loss) before income taxes	(2,851,193)	570,739	(2,820,282)	(228,296)
Benefit (provision) for income taxes	3,837	(800)	(800)	(2,492)
<b>Net income (loss)</b>	<u>\$ (2,847,356)</u>	<u>\$ 569,939</u>	<u>\$ (2,821,082)</u>	<u>\$ (230,788)</u>
Net income (loss) per share - basic	<u>\$ (0.11)</u>	<u>\$ 0.03</u>	<u>\$ (0.11)</u>	<u>\$ (0.01)</u>
Net income (loss) per share - diluted	<u>\$ (0.11)</u>	<u>\$ 0.02</u>	<u>\$ (0.11)</u>	<u>\$ (0.01)</u>
Shares used in calculating basic net income (loss) per share	<u>25,013,284</u>	<u>20,542,502</u>	<u>24,700,047</u>	<u>19,684,925</u>
Shares used in calculating diluted net income (loss) per share	<u>25,013,284</u>	<u>23,241,963</u>	<u>24,700,047</u>	<u>19,684,925</u>

The accompanying notes form an integral part of these condensed financial statements.

**MITEK SYSTEMS, INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	Six Months Ended March 31,	
	2012	2011
<b>Operating Activities</b>		
Net loss	\$(2,821,082)	\$ (230,788)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock-based compensation expense	1,152,884	529,584
Accretion and amortization on debt securities	124,440	—
Depreciation and amortization	123,117	82,841
Provision for bad debt	6,184	—
Non-cash interest expense on convertible debt	—	384,124
Amortization of capitalized debt issuance costs	—	53,945
Changes in assets and liabilities:		
Accounts receivable	1,499,537	(1,780,285)
Other assets	(284,398)	(175,751)
Accounts payable	402,149	287,241
Accrued payroll and related taxes	12,580	149,955
Deferred revenue	673,519	732,744
Other liabilities	(46,577)	71,123
Net cash provided by operating activities	<u>842,353</u>	<u>104,733</u>
<b>Investing Activities</b>		
Purchases of investments	(8,158,866)	—
Sales and maturities of investments	7,435,005	—
Purchases of property and equipment	(87,047)	(90,552)
Net cash used in investing activities	<u>(810,908)</u>	<u>(90,552)</u>
<b>Financing Activities</b>		
Proceeds from the issuance of common stock	—	750,000
Proceeds from exercise of stock options	541,917	130,082
Proceeds from line of credit	—	105,000
Principal payments on capital lease obligations	(7,174)	—
Net cash provided by financing activities	<u>534,743</u>	<u>985,082</u>
Net Increase in Cash and Cash Equivalents	566,188	999,263
Cash and Cash Equivalents at Beginning of Period	5,655,716	1,305,049
Cash and Cash Equivalents at End of Period	<u>\$ 6,221,904</u>	<u>\$ 2,304,312</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 3,122</u>	<u>\$ 250</u>
Cash paid for income taxes	<u>\$ 800</u>	<u>\$ 2,492</u>
<b>Non-Cash Financing and Investing Activities</b>		
Capital lease obligations	<u>\$ 95,388</u>	<u>\$ —</u>
Unrealized holding gain on available for sale investments	<u>\$ 10,049</u>	<u>\$ —</u>
Cashless exercise of option and warrants	<u>\$ 357</u>	<u>\$ 479</u>
Conversion of debt to common stock	<u>\$ —</u>	<u>\$ 1,063,926</u>

The accompanying notes form an integral part of these condensed financial statements.

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

*In this Quarterly Report on Form 10-Q (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.*

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

*Nature of Operations*

Mitek Systems, Inc. is primarily engaged in the development, sale, and service of its proprietary software solutions related to its mobile imaging solutions and intelligent character recognition software. The Company's technology is currently used by financial institutions to process checks and is used in other markets for specialized applications.

The Company's new mobile applications use its proprietary technology to capture and read data from photos of documents taken using camera-equipped smartphones and tablets. The Company has developed and deployed Mobile Deposit<sup>®</sup>, a software application that allows users to remotely deposit a check using their camera-equipped smartphone or tablet, Mobile Imaging Platform<sup>™</sup>, an application that allows users to capture, extract and route information contained in documents, including Mobile Photo Quoting<sup>™</sup>, an application that allows a user to request and receive an insurance quote using their camera-equipped smartphone, Mobile Receipt<sup>™</sup>, a receipt archival and expense report application and Mobile Phax<sup>®</sup>, a mobile document faxing application using the Company's proprietary technology. Other mobile applications under development include Mobile Photo Bill Pay<sup>™</sup>, a mobile bill paying application that allows users to pay their bills using their camera-equipped smartphone or tablet, Mobile Balance Transfer<sup>™</sup>, a credit card shopping application that allows a user to transfer an existing balance by capturing an image of their current statement and Mobile ACH Enrollment<sup>™</sup>, an application that enables consumers to enroll their checking accounts as funding sources for mobile payments by taking photos of blank checks with their camera-equipped smartphone or tablet.

*Basis of Presentation*

The accompanying unaudited condensed financial statements of the Company as of March 31, 2012 have been prepared in accordance with the instructions to Form 10-Q and Article 8 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"). We believe the footnotes and other disclosures made are adequate for a fair presentation of the results of the interim periods presented. The financial statements include all adjustments (solely of a normal recurring nature) which are, in the opinion of management, necessary to make the information presented not misleading. You should read these condensed financial statements and the accompanying notes in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, filed with the Securities and Exchange Commission (the "SEC") on December 15, 2011 (the "Form 10-K").

Results for the three and six months ended March 31, 2012 are not necessarily indicative of results for any other interim period or for a full year.

*Reclassifications*

Certain prior period amounts in our previously issued condensed financial statements have been reclassified to conform to the current period presentation. These reclassifications do not impact the reported net income (loss) for such prior periods and do not have a material impact on the overall presentation of the financial statements.

*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 and expenses and the related disclosure of contingent assets and liabilities. On an ongoing basis, management reviews its estimates based upon currently available information. Actual future results could differ materially from those estimates.

*Earnings (Loss) Per Share*

The Company calculates net income (loss) per share in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 260, *Earnings Per Share*. Basic net income (loss) per share is based on the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share also gives effect to all potentially dilutive securities outstanding during the period, such as convertible debt, options, warrants and restricted stock units, 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. As we reported a net loss for the three and six months ended March 31, 2012, 4,418,892 potentially dilutive securities outstanding were not included in the diluted net loss per share calculation because their inclusion would have been antidilutive. For the three and six months ended March 31, 2011, 145,000 and 5,612,661 potentially dilutive securities outstanding, respectively, were not included in the diluted net income (loss) per share calculation.

## [Table of Contents](#)

The computation of basic and diluted net income (loss) per share is as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Net income (loss)	<u>\$ (2,847,356)</u>	<u>\$ 569,939</u>	<u>\$ (2,821,082)</u>	<u>\$ (230,788)</u>
Weighted-average common shares outstanding - basic	<u>25,013,284</u>	<u>20,542,502</u>	<u>24,700,047</u>	<u>19,684,925</u>
Effect of dilutive common share equivalents	<u>—</u>	<u>2,699,461</u>	<u>—</u>	<u>—</u>
Weighted-average common shares and share equivalents outstanding - diluted	<u>25,013,284</u>	<u>23,241,963</u>	<u>24,700,047</u>	<u>19,684,925</u>
Net income (loss) per share - basic	<u>\$ (0.11)</u>	<u>\$ 0.03</u>	<u>\$ (0.11)</u>	<u>\$ (0.01)</u>
Net income (loss) per share - diluted	<u>\$ (0.11)</u>	<u>\$ 0.02</u>	<u>\$ (0.11)</u>	<u>\$ (0.01)</u>

### *Revenue Recognition*

Revenue from sales of software licenses sold through direct and indirect channels is recognized upon shipment of the related product, if the requirements of FASB ASC Topic 985-605, *Software Revenue Recognition* (“ASC 985-605”) are met, including evidence of an arrangement, delivery, fixed or determinable fee, collectability and vendor specific objective evidence (“VSOE”) of the fair value of the undelivered element. If the requirements of ASC 985-605 are not met at the date of shipment, revenue is not recognized until such elements are known or resolved. Revenue from customer support services, or maintenance revenue, includes post-contract support and the rights to unspecified upgrades and enhancements. VSOE of fair value for customer support services is determined by reference to the price the customer pays for such element when sold separately; that is, the renewal rate offered to customers. In those instances when objective and reliable evidence of fair value exists for the undelivered items but not for the delivered items, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items. Revenue from post-contract customer support is recognized ratably over the term of the contract. Revenue from professional services is recognized when such services are delivered to and accepted by the customer. When a software sales arrangement requires professional services related to significant production, modification or customization of software, or when a customer considers professional services essential to the functionality of the software product, revenue is recognized based on predetermined milestone objectives required to complete the project, as those milestone objectives are deemed to be substantive in relation to the work performed. Any expected losses on contracts in progress are recorded in the period in which the losses become probable and reasonably estimable.

### *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. The allowance for doubtful accounts reflects the Company’s best estimate for probable losses inherent in accounts receivable balances. Management determines the allowance based on known troubled accounts, historical experience and other currently available evidence. The allowance for doubtful accounts was \$27,528 and \$21,344 as of March 31, 2012 and September 30, 2011, respectively.

### *Capitalized Software Development Costs*

The Company evaluates its capitalized software development costs at each balance sheet date to determine if the unamortized balance related to any given product exceeds the estimated net realizable value of that product. Any such excess is written off through accelerated amortization in the quarter it is identified. Determining net realizable value, as defined by FASB ASC Topic 985-20, *Accounting for the Costs of Software to Be Sold, Leased or Otherwise Marketed* (“ASC 985-20”), requires making estimates and judgments in quantifying the appropriate amount to write off, if any. Actual amounts realized from the software products could differ from those estimates. Also, any future changes to the Company’s product portfolio could result in significant increases to its cost of license revenue as a result of the write-off of capitalized software development costs.

In accordance ASC 985-20, the Company amortizes capitalized software development costs using the straight-line method over the remaining economic life of the product, estimated to be three years. The Company recorded amortization of software development costs of \$34,289 in both the three months ended March 31, 2012 and 2011 and \$68,579 in both the six months ended March 31, 2012 and 2011. The Company records amortization of software development costs as “Cost of revenue-software” in the statements of operations.

## [Table of Contents](#)

### *Fair Value of Equity Instruments*

The valuation of certain items, including the valuation of warrants, the beneficial conversion feature related to convertible debt and the compensation expense related to stock options granted, involve significant estimates based on underlying assumptions made by management. The valuation of warrants and stock options is based upon a Black-Scholes valuation model, which involves estimates of stock volatility, expected life of the instruments and other assumptions.

### *Deferred Income Taxes*

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company maintains a valuation allowance against the deferred tax assets due to uncertainty regarding the future realization based on historical taxable income, projected future taxable income and the expected timing of the reversals of existing temporary differences. Until such time as the Company can demonstrate that it will no longer incur losses or if it is unable to generate sufficient future taxable income, it could be required to maintain the valuation allowance against its deferred tax assets.

### *Comprehensive (Loss) Income*

Comprehensive (loss) income consists of net (loss) income and unrealized gains and losses on available-for-sale securities. The following table summarizes the components of comprehensive (loss) income:

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	2012	2011
Net (loss) income	<u>\$(2,847,356)</u>	<u>\$569,939</u>	<u>\$(2,821,082)</u>	<u>\$(230,788)</u>
Other comprehensive income:				
Change in net unrealized gains/losses on marketable securities	5,118	—	10,049	—
Total comprehensive (loss) income	<u>\$(2,842,238)</u>	<u>\$569,939</u>	<u>\$(2,811,033)</u>	<u>\$(230,788)</u>

Accumulated other comprehensive income on the balance sheet at March 31, 2012 includes a net unrealized gain on the Company's available-for-sale securities totaling \$194, compared to a net unrealized loss of \$9,855 at September 30, 2011.

### *Recent Accounting Pronouncements*

In May 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurement (ASC Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements* ("ASU 2011-04") in GAAP and International Financial Reporting Standards ("IFRS"). Under ASU 2011-04, the guidance amends certain accounting and disclosure requirements related to fair value measurements to ensure that fair value has the same meaning in GAAP and in IFRS and that their respective fair value measurement and disclosure requirements are the same. ASU 2011-04 is effective for public entities during interim and annual periods beginning after December 15, 2011. Early adoption by public entities was not permitted. The adoption of this guidance did not have a material impact on the Company's financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"), which amended comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, entities must report comprehensive income either in a single continuous statement of comprehensive income, which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 is effective for public companies during interim and annual periods beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance did not have a material impact on the Company's financial statements.



## 2. INVESTMENTS

The following table summarizes investments by security type:

	Cost	As of March 31, 2012		Fair Market Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Available-for-sale securities:				
Corporate debt securities, short-term	\$10,395,194	\$ 2,884	\$ (2,517)	\$10,395,561
Corporate debt securities, long-term	818,950	—	(173)	818,777
Total	<u>\$11,214,144</u>	<u>\$ 2,884</u>	<u>\$ (2,690)</u>	<u>\$11,214,338</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. Realized gains or losses on the Company's investments were immaterial in the three and six months ended March 31, 2012. The Company did not hold any investments during the three and six months ended March 31, 2011.

The Company determines the appropriate designation of investments at the time of purchase and re-evaluates such designation as of each balance sheet date. All of the Company's investments were designated as available-for-sale debt securities in the three and six months ended March 31, 2012. As of March 31, 2012, the Company's short-term investments have original maturity dates of greater than 90 days and less than one year. The Company's long-term investments as of March 31, 2012 have original maturity dates between twelve and eighteen months.

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 tax, and reported as a separate component of stockholders' equity. Management reviews the fair value of the portfolio at least quarterly, and evaluates individual securities with fair value below amortized cost as of each 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 debt security and whether it is more likely than not that the Company will be required to sell the debt 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 debt 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 debt 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 (loss). No other-than-temporary impairment charges were recognized in the three and six months ended March 31, 2012.

### *Fair Value Measurements and Disclosures*

FASB ASC Topic 820, *Fair Value Measurements and Disclosures* ("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 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 carrying amount of cash equivalents, investments, accounts receivable, accounts payable and other current and non-current liabilities are considered representative of their respective fair values because of the short-term nature of those instruments.

## [Table of Contents](#)

The following table represents the fair value hierarchy for the Company's investments, measured at fair value on a recurring basis as of March 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate debt securities, short-term	\$ —	\$10,395,561	\$ —	\$10,395,561
Corporate debt securities, long-term	—	818,777	—	818,777
<b>Total</b>	<b>\$ —</b>	<b>\$11,214,338</b>	<b>\$ —</b>	<b>\$11,214,338</b>

### 3. DEBT

#### *Convertible Debt*

In December 2009, the Company entered into a securities purchase agreement with accredited investors pursuant to which the Company agreed to issue in exchange for aggregate consideration of approximately \$1,000,000, the following securities: (i) 5% senior secured convertible debentures in the principal amount of approximately \$1,000,000 and (ii) warrants to purchase an aggregate of 337,501 shares of the Company's common stock with an exercise price of \$0.91 per share. Each investor received a warrant to purchase that number of shares of the Company's common stock that equals 25% of the quotient obtained by dividing such investor's aggregate subscription amount by \$0.75. The transaction resulted in proceeds to the Company of approximately \$922,000, net of transaction costs and expenses.

In December 2010, the Company converted the then outstanding balance of the debentures of approximately \$1,064,000, including accrued interest of approximately \$51,000, into 1,418,573 shares of the Company's common stock at a conversion price of \$0.75 per share. In addition, the Company recognized as interest expense the remaining unamortized discount of approximately \$320,000 related to the beneficial conversion feature at the time of conversion in accordance with FASB ASC Topic 470-20, *Debt with Conversion and Other Options*.

Prior to the conversion, interest was payable in cash or stock at the rate of 5% per annum on each conversion date (as to the principal amount being converted), on each early redemption date (as to the principal amount being redeemed) and on the maturity date. The principal amount of the debentures, if not paid earlier, was due and payable on December 10, 2011. The Company had the right to redeem all or a portion of the debentures before maturity by payment in cash of the outstanding principal amount plus accrued and unpaid interest being redeemed. The Company agreed to honor any notices of conversion that it received from the holder before the date the Company paid off the debentures. The debentures were convertible into shares of the Company's common stock at any time at the discretion of the holder at a conversion price of \$0.75 per share, subject to adjustment for stock splits, stock dividends and the like. The Company had the right to force conversion of the debentures if (i) the closing price of its common stock exceeded 200% of the then-effective conversion price for 20 trading days out of a consecutive 30 trading day period or (ii) the average daily trading volume for its common stock exceeded 100,000 shares per trading day for 20 trading days out of a consecutive 30 trading day period and the closing price of its common stock exceeded 100% of the then-effective conversion price for 20 trading days out of a consecutive 30 trading day period. The debentures imposed certain covenants on the Company including restrictions against paying cash dividends or distributions on shares of its outstanding common stock. The debentures were secured by all of the Company's assets under the terms of a security agreement it entered into with the investors dated December 10, 2009.

In evaluating the accounting for the convertible debentures, the Company considered whether the conversion option related to the convertible debentures required bifurcation and separate accounting as a liability at fair value. Because the conversion option entitled the holder to convert to a fixed number of shares at a fixed price, the Company was not required to bifurcate the conversion option and the related debt host. Similarly, the warrant contract entitled the holder to convert to a fixed number of shares at a fixed price and was therefore recorded in stockholders' equity.

Of the gross proceeds, approximately \$786,000 was allocated to the debentures and approximately \$226,000 to the warrants. The value of the warrants was estimated using a Black-Scholes option valuation model. The amount allocated to the warrants was recorded as a discount on the debentures and was being amortized to interest expense over the term of the debentures. In addition, based on the conversion price of \$0.75 and the relative value of the debentures, a beneficial conversion feature of approximately \$402,000 was recorded as an additional discount on the debentures and was being amortized to interest expense in the accompanying statements of operations over the term of the debentures.

## [Table of Contents](#)

The fair value of the vested warrants was estimated on the grant date using the Black-Scholes option valuation model with the following assumptions:

Risk-free interest rate	2.19%
Expected term (in years)	5
Stock price volatility	207%
Expected dividend yield	0%

### *Credit Facility*

In January 2011, the Company entered into a loan and security agreement with its primary operating bank. The loan agreement permits the Company to borrow, repay, and re-borrow, from time to time until January 31, 2013, up to \$400,000 subject to the terms and conditions of the agreement. The Company's obligations under the loan agreement are secured by a security interest in its equipment and other personal property. Interest on the credit facility accrues at an annual rate equal to one percentage point above the Prime Rate, fixed on the date of each advance. Interest on the outstanding amount under the loan agreement is payable monthly. The loan agreement contains customary covenants for credit facilities of this type, including limitations on the disposition of assets, mergers and reorganizations. The Company is also obligated to meet certain financial covenants under the loan agreement, including minimum liquidity, with which the Company was in compliance as of March 31, 2012. The Company had no amounts outstanding under this credit facility as of March 31, 2012.

## **4. STOCKHOLDERS' EQUITY**

### *2012 Incentive Plan*

In January 2012, the Company's board of directors adopted the Mitek Systems, Inc. 2012 Incentive Plan (the "2012 Plan"), upon the recommendation of the compensation committee of the board of directors. The total number of shares of the Company's common stock reserved for issuance under the 2012 Plan is 2,000,000 shares, plus that number of shares of the Company's common stock that would otherwise return to the available pool of unissued shares reserved for awards under certain of the Company's prior equity plans as a result of forfeiture, cancellation or expiration of awards previously granted under such plans.

The 2012 Plan authorizes the grant of stock options, stock appreciation rights, restricted stock, restricted stock units and cash awards. Stock options granted under the 2012 Plan may be either options intended to constitute incentive stock options or nonqualified stock options, in each case as determined by the compensation committee of the board of directors in accordance with the terms of the 2012 Plan. On February 22, 2012, the Company's stockholders approved the 2012 Plan.

### *Stock-Based Compensation Expense*

The following table summarizes stock-based compensation expense related to stock options and restricted stock unit awards, which was allocated as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Sales and marketing	\$ 111,178	\$ 58,871	\$ 180,741	\$ 103,146
Research and development	176,607	68,134	283,826	119,774
General and administrative	363,402	168,536	688,317	306,664
Stock-based compensation expense included in operating expenses	<u>\$651,187</u>	<u>\$295,541</u>	<u>\$1,152,884</u>	<u>\$529,584</u>

## [Table of Contents](#)

The fair value calculations for stock-based compensation awards to employees for the six month periods ended March 31, 2012 and 2011 were based on the following assumptions:

	2012	2011
Risk-free interest rate	0.35 - 1.06%	0.26% - 2.26%
Expected life (years)	4.69	5.48
Expected volatility	90%	193%
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, 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, 2012, approximately \$10,407,882 of total unrecognized compensation expense related to stock options and restricted stock unit awards issued to date is expected to be recognized over a weighted-average period of approximately 3.6 years.

The per share weighted-average fair value of options granted during the six months ended March 31, 2012 was \$7.20.

### *Common Stock*

In October 2010, the Company sold 500,000 shares of common stock at \$1.50 per share to accredited investors in a private placement, resulting in net proceeds of \$750,000.

In December 2010, the Company issued 1,418,573 shares of common stock upon the conversion of outstanding convertible debentures as discussed in greater detail in Note 3 to the financial statements included in this Form 10-Q.

In May 2011, the Company entered into a securities purchase agreement with certain accredited investors pursuant to which, the Company sold to the investors an aggregate of 2,857,143 shares of the Company's common stock at a purchase price of \$5.25 per share for aggregate gross proceeds of \$15,000,000. The Company paid cash compensation of approximately \$1,050,000 in placement agent fees and reimbursed \$25,000 of placement agent out-of-pocket expenses incurred in connection with the financing. In addition, the Company incurred legal fees of approximately \$80,000 in connection with the private placement, resulting in net proceeds of approximately \$13,845,000.

### *Stock Options*

The following table summarizes stock option activity under the Company's equity plans for the six months ended March 31, 2012:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in Years)
Outstanding, September 30, 2011	4,553,904	\$ 1.34	6.15
Granted	738,250	\$ 10.71	
Exercised	(1,363,367)	\$ 0.92	
Cancelled	(21,252)	\$ 5.12	
Outstanding, March 31, 2012	<u>3,907,535</u>	\$ 3.23	6.83

## [Table of Contents](#)

The following table summarizes significant ranges of outstanding and exercisable options as of March 31, 2012:

<u>Range of Exercise Prices</u>	<u>Number of Options Outstanding</u>	<u>Weighted Average Remaining Contractual Life (in Years)</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Exercisable Options</u>	<u>Weighted Average Exercise Price of Exercisable Options</u>	<u>Number of Unvested Options</u>
\$0.00 to \$ 0.70	692,582	6.19	\$ 0.25	686,742	\$ 0.25	5,840
\$0.79 to \$ 0.82	896,318	6.18	\$ 0.80	640,993	\$ 0.80	255,325
\$1.06 to \$ 2.32	760,000	3.23	\$ 1.23	634,992	\$ 1.17	125,008
\$2.60 to \$ 5.90	723,885	8.65	\$ 2.89	174,041	\$ 2.66	549,844
\$6.39 to \$ 12.37	834,750	9.74	\$ 10.45	35,376	\$ 10.02	799,374
	<u>3,907,535</u>	6.83	\$ 3.23	<u>2,172,144</u>	\$ 1.03	<u>1,735,391</u>

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 or exercisable. The total intrinsic value of options exercised during the six months ended March 31, 2012 was \$13,064,815. As of March 31, 2012, there were 3,907,535 options outstanding with a weighted-average remaining contractual term, weighted-average exercise price and aggregate intrinsic value of 6.83 years, \$3.23 and \$32,597,442, respectively. As of March 31, 2012, there were 2,172,144 options exercisable with a weighted-average remaining contractual term, weighted-average exercise price and aggregate intrinsic value of 5.06 years, \$1.03 and \$22,955,384, respectively.

### *Restricted Stock Units*

In January 2011, the Company's board of directors adopted, subject to stockholder approval, the Mitek Systems, Inc. Director Restricted Stock Unit Plan, as amended and restated (the "Director Plan"), reserving up to 1,000,000 shares of the Company's common stock for the issuance of restricted stock units to both employee and non-employee members of the Company's board of directors. On February 23, 2011, the Director Plan was approved by the Company's stockholders.

On March 15, 2011, the Company awarded an aggregate of 300,000 restricted stock units to certain of its directors at a fair value of \$5.12 per share. The restricted stock units vest in equal monthly installments over five years. To the extent a restricted stock unit becomes vested, and subject to satisfaction of any tax withholding obligations, each vested restricted stock unit will entitle its holder to receive one share of the Company's common stock, which will be settled and deemed issued and outstanding upon the earlier to occur of: (i) a change in control, (ii) a director's separation from service or (iii) the fifth anniversary of the award date. A holder of outstanding restricted stock units has none of the rights and privileges of a stockholder of the Company, including no right to vote or to receive dividends (if any) until such time the awards are settled in shares of the Company's common stock. There were 700,000 shares available for grant under the Director Plan as of March 31, 2012.

On February 22, 2012, the Company awarded an aggregate of 155,835 restricted stock units under the 2012 Plan to certain of its employees at a fair value of \$11.05 per share. The restricted stock units vest in equal annual installments over four years.

The cost of the restricted stock units is determined using the fair value of the Company's common stock on the award date, and the compensation expense is recognized ratably over the vesting period. The Company recognized approximately \$137,854 and \$214,715 in stock-based compensation expense related to the outstanding restricted stock units in the three and six months ended March 31, 2012, respectively. In the three and six months ended March 31, 2011, the Company recognized \$25,620 in stock-based compensation expense related to outstanding restricted stock units. As of March 31, 2012, the Company had approximately \$2,863,918 of unrecognized compensation expense related to outstanding restricted stock units expected to be recognized over a weighted-average period of approximately 4.0 years.

### *Warrants*

Historically, the Company has granted warrants to purchase its common stock to service providers and investors.

In connection with the issuance of shares of common stock to John H. Harland Company ("JHH Co.") in February and May of 2005, the Company issued warrants to purchase 321,428 shares of the Company's common stock at an exercise price of \$0.70 per share, subject to adjustment for stock splits, stock dividends and the like. In June 2011, JHH Co. exercised the warrants, which were due to expire between February and May of 2012. The warrants were exercised under the cashless exercise method, resulting in the issuance of 288,582 shares of the Company's common stock to the warrant holder and the cancellation of the remaining 32,846 shares in consideration of the issuance.

## [Table of Contents](#)

In connection with the issuance of convertible debentures in December 2009, the Company issued warrants to purchase an aggregate of 337,501 shares of the Company's common stock with an exercise price of \$0.91 per share, of which warrants to purchase 281,979 shares of the Company's common stock have been exercised and warrants to purchase 55,522 shares of the Company's common stock remain outstanding as of March 31, 2012, subject to adjustment for stock splits, stock dividends and the like. These warrants expire in December 2014 and are discussed in greater detail in Note 3 to the financial statements included in this Form 10-Q.

The following table summarizes warrant activity in the six months ended March 31, 2012:

	Number of warrants	Weighted-average exercise price
Outstanding and exercisable at September 30, 2011	132,189	\$ 0.91
Issued	—	
Exercised	(76,667)	\$ 0.91
Expired	—	
Outstanding and exercisable at March 31, 2012	<u>55,522</u>	\$ 0.91

## 5. INCOME TAXES

The Company's deferred tax assets are primarily comprised of federal and state net operating loss carryforwards. Such carryforwards began to expire in the fiscal year ended September 30, 2011. The Company's ability to use its net operating loss carryforwards may be substantially limited due to ownership change limitations that may occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended ("Section 382"), as well as similar state law provisions. These potential ownership changes may limit the amount of net operating loss carryforwards that can be utilized annually to offset future taxable income. The Company carries a deferred tax valuation allowance equal to 100% of the net deferred tax assets. In recording this allowance, management has considered a number of factors, particularly the Company's recent history of sustained operating losses. Management has concluded that a valuation allowance is required for 100% of the net deferred tax assets as it is more likely than not that the deferred tax assets will not be realized. There can be no assurance that the Company will ever realize the benefit of any or all of the federal and state net operating loss carryforwards or the credit carryforwards, either due to ongoing operating losses or due to ownership changes, which limit the usefulness of the net operating loss or credit carryforwards. Any net operating loss or credit carryforwards that will expire prior to utilization or are determined to be limited due to Section 382 will be removed from deferred tax assets with a corresponding reduction to the valuation allowance. Due to the existence of the valuation allowance, it is not expected that any expiration or limitation of net operating loss or credit carryforwards will have an impact on the results of operations or financial position of the Company.

The Company recognizes the impact of an uncertain income tax position on its income tax return at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. The Company's policy is to classify interest and penalties related to income tax matters as income tax expense. The Company had no accrual for interest or penalties as of March 31, 2012 or March 31, 2011, and has not recognized interest and/or penalties in the statements of operations for the six months ended March 31, 2012.

The Company is subject to taxation in the U.S. and in various state jurisdictions. Generally, all of the Company's tax returns are subject to examination by U.S. federal tax and state tax authorities due to the Company's net operating loss carryforwards.

## 6. COMMITMENTS AND CONTINGENCIES

### *Legal Matters*

On March 29, 2012, United Services Automobile Association ("USAA") filed a complaint in the U.S. District Court for the Western District of Texas San Antonio Division against the Company seeking, among other things, a declaratory judgment that USAA does not infringe certain patents of the Company relating to Mobile Deposit and that such patents are not enforceable against USAA. In addition, USAA alleges that it disclosed confidential information to the Company and that the Company used such information in a patent application. USAA seeks damages and injunctive relief. The Company has moved to dismiss USAA's complaint.

On April 12, 2012, the Company filed a lawsuit against USAA in the U.S. District Court for the District of Delaware. The Company alleges that USAA infringes five of the Company's patents relating to image capture on mobile devices, that USAA breached the parties' license agreement by using the Company's products beyond the scope of the agreed-upon license terms and that USAA breached the parties' license agreement by disclosing confidential pricing and other confidential information for a Company legacy product installation in the lawsuit USAA filed in Texas.

## [Table of Contents](#)

The Company believes that USAA's claims are without merit and intends to vigorously defend against these claims and pursue its claims against USAA. Management of the Company does not believe that USAA's claims or any other legal proceedings or claims will have, individually or in the aggregate, a material adverse effect on the Company's business, financial condition, operating results, cash flows or liquidity.

### *Facility Lease*

The Company's principal executive offices, as well as its research and development facility, are located in an office building in San Diego, California that the Company leases under a non-cancelable operating lease. The lease costs are expensed on a straight-line basis over the lease term. The term of the lease on this facility commenced in December 2005 and expires in December 2012. In February 2009, the lease was amended to allow the Company to defer the payment of 50% of the basic rent due for the months of February through September 2009. The Company repaid the deferred rent with interest at an annual rate of 6% in equal monthly installments between October 2009 and March 2010. In addition, in connection with the February 2009 amendment, the Company waived its right to exercise an early termination option. In September 2009, the lease was further amended to reduce the amount of office space subject to the lease by 1,722 square feet from 15,927 square feet to 14,205 square feet, which reduced the Company's basic rent proportionately starting in December 2009. In February 2012, the lease was further amended to increase the amount of office space subject to the lease by 9,807 square feet to 24,012 square feet, which increased the Company's basic monthly rent proportionately starting in April 2012 to approximately \$36,000.

### *Capital Lease*

In October 2011, the Company purchased equipment under a capital lease totaling \$95,388. At March 31, 2012, assets held under capital leases had a net book value of \$87,439, net of accumulated amortization of \$7,949. The Company did not purchase equipment under capital leases during the six months ended March 31, 2011.

## **7. REVENUE AND VENDOR CONCENTRATIONS**

### *Revenue Concentration*

Revenue from customers that generated revenues in excess of 10% of the Company's total revenue was approximately \$302,000 and \$1,430,000 and totaled approximately 25% and 50% of total revenue for the three months ended March 31, 2012 and 2011, respectively. For the six months ended March 31, 2012 and 2011, the Company recorded revenue from customers that generated revenues in excess of 10% of the Company's total revenue of approximately \$2,806,000 and \$2,016,000 for a total of approximately 60% and 47% of total revenue, respectively. The corresponding accounts receivable balances were approximately \$1,003,000 and \$1,400,000 at March 31, 2012 and 2011, respectively.

The Company's revenue is derived primarily from the sale 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.

For the six months ended March 31, 2012, the Company recorded 21% of its revenues from a direct customer and 16%, 13% and 10% of its revenues from three different channel partners. For the six months ended March 31, 2011, the Company recorded 34% and 14% of its revenues from two different channel partners. 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 our 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.

International sales accounted for approximately 10% and 4% of the Company's total revenue for the three and six months ended March 31, 2012, respectively. During the three and six months ended March 31, 2011, international sales accounted for approximately 3% and 18%, respectively, of the Company's total revenue. The Company sells its products in U.S. currency only.

### *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, 2012, the Company did not make purchases from any one vendor comprising 10% or more of the Company's total purchases. For the three months ended March 31, 2011, the Company made purchases from one vendor that comprised approximately 11% of total purchases. The Company did not make purchases from any one vendor comprising 10% or more of the Company's total purchases for the six months ended March 31, 2011. The Company does not believe it is substantially dependent upon nor exposed to any significant concentration risk related to purchases from any single vendor, given the availability of alternative sources from which the Company may purchase necessary integrated software components.

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

*This Form 10-Q, contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or 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" 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 identified below, and those discussed in the section titled "Risk Factors" included elsewhere in this Form 10-Q and in our other SEC filings, including 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.*

### Overview

Mitek Systems, Inc. is engaged in the development, sale and service of its proprietary software solutions related to mobile imaging solutions and intelligent character recognition software.

We have historically provided financial institutions with advanced imaging and analytics software to authenticate and extract data from imaged checks and other documents. Currently, we are applying our patented technology in image correction and intelligent data extraction to enter the market for mobile financial and business applications. Our technology for extracting data from any photo taken using camera-equipped smartphones and tablets enables the development of consumer friendly applications that use the camera as a keyboard to enter data and complete transactions. Users take a picture of the document and our products do the rest—correcting image distortion, extracting relevant data, routing images to their desired location and processing transactions through users' financial institutions.

We have developed and deployed Mobile Deposit<sup>®</sup>, a software application that allows users to remotely deposit a check using their camera-equipped smartphone or tablet, Mobile Imaging Platform<sup>™</sup>, an application that allows users to capture, extract and route information contained in documents, including Mobile Photo Quoting<sup>™</sup>, an application that allows a user to request and receive an insurance quote using their camera-equipped smartphone, Mobile Receipt<sup>™</sup>, a receipt archival and expense report application and Mobile Phax<sup>®</sup>, a mobile document faxing application using our proprietary technology. As of March 31, 2012, 315 financial institutions, including 8 of the top 10 banks, have signed agreements to deploy Mobile Deposit<sup>®</sup>, 87 of whom have completed implementation of and launched Mobile Deposit<sup>®</sup> to their customers. As of May 11, 2012, the number of financial institutions that have signed agreements to deploy Mobile Deposit<sup>®</sup> increased to 333 and 109 of those have completed implementation of and launched the product. Other mobile applications under development include Mobile Photo Bill Pay<sup>™</sup>, a mobile bill paying application that allows users to pay their bills using their camera-equipped smartphone or tablet, Mobile Balance Transfer<sup>™</sup>, a credit card shopping application that allows a user to transfer an existing balance by capturing an image of their current statement and Mobile ACH Enrollment<sup>™</sup>, an application that enables consumers to enroll their checking accounts as funding sources for mobile payments by taking photos of blank checks with their camera-equipped smartphone or tablet. Our mobile applications support all major smartphone operating systems, including the iPhone<sup>®</sup>, Android<sup>®</sup> and BlackBerry<sup>®</sup>.

We market and sell our mobile solutions through channel partners or directly to enterprise customers and end-users that typically purchase term licenses based on the number of transactions or subscribers that use our mobile applications. Our mobile solutions are often embedded in other mobile banking or enterprise applications developed by banks or their partners and marketed



## [Table of Contents](#)

under their own proprietary brands. During the past year, we began developing new solutions for the insurance market and leveraged our platform to create custom mobile imaging solutions. All of our mobile imaging solutions use our proprietary technology to capture and read data from photos of documents taken using camera-equipped smartphones or tablets.

### **Market Opportunities, Challenges and Risks**

The increase in the acceptance of mobile banking by financial institutions and their customers has helped drive our recent growth. In the past year, we experienced a significant increase in the number of financial institutions that have integrated and launched our mobile applications, particularly our Mobile Deposit® application, as part of their offering of mobile banking choices for their customers. We believe that financial institutions see our patented solutions as a way to provide an enhanced retail customer experience in mobile banking.

To sustain our growth in 2012 and beyond, we must continue to offer mobile applications that address a growing market for mobile banking and mobile imaging solutions sold into other vertical markets. Factors adversely affecting the pricing of or demand for our mobile applications, such as 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.

The implementation cycles for our software and services by our channel partners and customers can be lengthy, often a minimum of three to six months and sometimes longer for larger customers and require significant investments. For example, as of March 31, 2012, we executed agreements indirectly through channel partners or directly with customers covering 315 Mobile Deposit® customers, 87 of whom have completed implementation and launched Mobile Deposit® to their customers. If implementation of our products by our channel partners and customers is delayed or otherwise not completed, our business, financial condition and results of operations may be adversely affected.

We derive revenue predominately from the sale of licenses to use the products covered by our patented technologies, such as our Mobile Deposit® application, and to a lesser extent by providing maintenance and professional services for the products we offer. The revenue we derive from the sale of licenses to use the products covered by our patented technologies is primarily derived from the sale to our channel partners of licenses to sell the applications we offer. Revenues related to most of our licenses for mobile products are required to be recognized up front upon satisfaction of all applicable revenue recognition criteria. The recognition of future revenues from these licenses is dependent upon a number of factors, including the timing of implementation of our products by our channel partners and customers and the timing of any re-orders of additional licenses and/or license renewals by our channel partners and customers.

During the last few quarters, sales of licenses to one or two channel partners have comprised a significant part of our revenue each quarter. This is attributable to the timing of when a particular channel partner renews or purchases a license from us and does not represent a dependence on any 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-user that purchased from the channel partner we lost. However, in that case, we or other channel partners must establish a relationship with the end-user, which could take time to develop, if it develops at all.

We have numerous competitors in the mobile payments industry, many of which have greater financial, technical, marketing and other resources than we do. However, we believe our patented imaging and analytics technology, our growing portfolio of products for the financial services industry and our position as a pure play mobile-payments company provides us with a competitive advantage. To remain competitive, we must be able to continue to offer products that are attractive to the ultimate end-user and that are secure, accurate and convenient. We intend to continue to further strengthen our portfolio of products through research and development to help us remain competitive. We may have difficulty meeting changing market conditions and developing enhancements to our software applications on a timely basis in order to maintain our competitive advantage. Our continued growth will ultimately depend upon our ability to develop additional applications and attract strategic alliances to sell such technologies.

### **Results of Operations**

#### **Comparison of the Three Months Ended March 31, 2012 and 2011**

##### *Revenue*

Total revenue decreased \$1,676,620, or 58%, to \$1,191,737 for the three months ended March 31, 2012 compared to \$2,868,357 for the three months ended March 31, 2011. The decrease is primarily due to a decrease in sales of software licenses of \$1,832,731, or 78%, to \$505,448 for the three months ended March 31, 2012 compared to \$2,338,179 for the three months ended March 31, 2011. The decrease in software license sales was driven primarily by a decrease in sales of our Mobile Deposit® product. Sales of maintenance and professional services increased \$156,111, or 29%, to \$686,289 for the three months ended March 31, 2012 compared to \$530,178 for the three months ended March 31, 2011 primarily due to an increase in maintenance contracts.

## [Table of Contents](#)

### *Cost of Revenue*

Cost of revenue includes the costs of royalties for third party products embedded in our products, personnel costs related to software support and billable professional services engagements, amortization of capitalized software development costs, cost of reproduction of compact discs and other media devices, and shipping costs. Cost of revenue increased \$53,663, or 21%, to \$309,737 for the three months ended March 31, 2012 compared to \$256,074 for the three months ended March 31, 2011. The increase is primarily due to an increase in personnel costs related to software support due to additional headcount and increased professional services activity on billable engagements. As a percentage of revenue, cost of revenue increased to 26% for the three months ended March 31, 2012 compared to 9% for the three months ended March 31, 2011, primarily due to the decrease revenue.

### *Selling and Marketing Expenses*

Selling and marketing expenses include payroll, employee benefits and other headcount-related costs associated with sales and marketing personnel and advertising, promotions, trade shows, seminars and other programs. Selling and marketing expenses increased \$147,141, or 26%, to \$712,037 for the three months ended March 31, 2012 compared to \$564,896 for the three months ended March 31, 2011. The increase is primarily due to increased personnel-related costs, including stock-based and other incentive compensation expense, totaling approximately \$85,000 related to an increase in headcount associated with the growth of our business, as well as higher travel and outside services expenses totaling approximately \$45,000. As a percentage of revenue, selling and marketing expenses increased to 60% for the three months ended March 31, 2012 compared to 20% for the three months ended March 31, 2011.

### *Research and Development Expenses*

Research and development expenses include payroll, employee benefits, third-party consultant expenses and other headcount-related costs associated with software engineering, research and development and product development and support. These costs are incurred to develop new products and to maintain and enhance existing products. We retain what we believe to be sufficient staff to sustain our existing product lines, including development of new, more feature-rich versions of our existing product, as we determine the marketplace demands. We also employ research personnel, whose efforts are instrumental in ensuring product paths from current technologies to anticipated future generations of products within our area of business.

Research and development expenses increased \$1,087,697, or 169%, to \$1,730,679 for the three months ended March 31, 2012 compared to \$642,982 for the three months ended March 31, 2011. The increase is primarily due to increased personnel-related costs, including stock-based and other incentive compensation expense, totaling approximately \$838,000 related to an increase in headcount associated with the growth of our business. As a percentage of revenue, research and development expenses increased to 145% for the three months ended March 31, 2012 compared to 22% for the three months ended March 31, 2011.

### *General and Administrative Expenses*

General and administrative expenses include payroll, employee benefits and other headcount-related costs associated with finance, facilities, legal, accounting and other administrative fees. General and administrative expenses increased \$465,760, or 56%, to \$1,299,953 for the three months ended March 31, 2012 compared to \$834,193 for the three months ended March 31, 2011. The increase is primarily due to increased personnel-related costs, including stock-based and other incentive compensation expenses, totaling approximately \$381,000 related to an increase in headcount associated with the growth of our business. As a percentage of revenue, general and administrative expenses increased to 109% for the three months ended March 31, 2012 compared to 29% for the three months ended March 31, 2011.

### *Other Income (Expense), Net*

Interest and other expense, net was \$62,638 for the three months ended March 31, 2012 compared to \$169 for the three months ended March 31, 2011, an increase of \$62,469 primarily due to an increase in amortization expense related to investment returns. Interest income was \$72,114 for the three months ended March 31, 2012 compared to \$696 for the three months ended March 31, 2011, an increase of \$71,418 due to higher cash balances and related investment returns for the three months ended March 31, 2012.

## **Comparison of the Six Months Ended March 31, 2012 and 2011**

### *Revenue*

Total revenue increased \$439,302, or 10%, to \$4,711,221 for the six months ended March 31, 2012 compared to \$4,271,919 for the six months ended March 31, 2011. Sales of software licenses increased \$118,607 or 4% to \$3,397,474 in the current six-month

## [Table of Contents](#)

period, compared to \$3,278,867 in the same period of last fiscal year. Sales of maintenance and professional services increased \$320,695, or 32%, to \$1,313,747 for the six months ended March 31, 2012 compared to \$993,052 for the six months ended March 31, 2011 primarily due to an increase in maintenance contracts and other professional services.

### *Cost of Revenue*

Cost of revenue increased \$148,232, or 32%, to \$612,005 for the six months ended March 31, 2012 compared to \$463,773 for the six months ended March 31, 2011. The increase is primarily due to an increase in personnel costs related to software support due to additional headcount and increased professional services activity on billable engagements. As a percentage of revenue, cost of revenue increased to 13% for the six months ended March 31, 2012 compared to 11% for the six months ended March 31, 2011 primarily due to a decrease in revenue in the three-month period ended March 31, 2012.

### *Selling and Marketing Expenses*

Selling and marketing expenses increased \$598,758, or 62%, to \$1,562,966 for the six months ended March 31, 2012 compared to \$964,208 for the six months ended March 31, 2011. The increase is primarily due to increased personnel-related costs, including stock-based and other incentive compensation expense, totaling approximately \$357,000 related to an increase in headcount associated with the growth of our business, as well as higher marketing program expenses totaling approximately \$118,000. As a percentage of revenue, selling and marketing expenses increased to 33% for the six months ended March 31, 2012 compared to 23% for the six months ended March 31, 2011.

### *Research and Development Expenses*

Research and development expenses increased \$1,677,466, or 136%, to \$2,909,785 for the six months ended March 31, 2012 compared to \$1,232,319 for the six months ended March 31, 2011. The increase is primarily due to increased personnel-related costs, including stock-based and other incentive compensation expense, totaling approximately \$1,312,000 related to an increase in headcount associated with the growth of our business. As a percentage of revenue, research and development expenses increased to 62% for the six months ended March 31, 2012 compared to 29% for the six months ended March 31, 2011.

### *General and Administrative Expenses*

General and administrative expenses increased \$1,005,745, or 69%, to \$2,463,182 for the six months ended March 31, 2012 compared to \$1,457,437 for the six months ended March 31, 2011. The increase is primarily due to increased personnel-related costs, including stock-based and other incentive compensation expenses, totaling approximately \$649,000 related to an increase in headcount associated with the growth of our business, as well as higher legal fees totaling approximately \$202,000. As a percentage of revenue, general and administrative expenses increased to 52% for the six months ended March 31, 2012 compared to 34% for the six months ended March 31, 2011.

### *Other Income (Expense), Net*

Interest and other expense, net was \$129,703 for the six months ended March 31, 2012 compared to \$384,417 for the six months ended March 31, 2011, a decrease of \$254,714, or 66%. During the six months ended March 31, 2011, we incurred expenses associated with the accretion of the discount on the convertible debentures issued in December 2009 and accrued interest on the principal amount of those convertible debentures, including the remaining unamortized discount of approximately \$320,000 related to the beneficial conversion feature at the time of the conversion of the debentures in December 2010, which expenses were not present in the six months ended March 31, 2012. This decrease was partially offset by an increase in amortization expense related to investment returns in the six months ended March 31, 2012. Interest income was \$146,138 for the six months ended March 31, 2012 compared to \$1,939 for the six months ended March 31, 2011, an increase of \$144,199 due to higher cash balances and related investment returns for the six months ended March 31, 2012.

## **Liquidity and Capital Resources**

On March 31, 2012, we had \$17,436,242 in cash and cash equivalents and short-term and long-term investments compared to \$16,260,584 on September 30, 2011, an increase of \$1,175,658. The increase in cash and cash equivalents and short-term and long-term investments was primarily due to an increase in cash provided by operating activities.

### *Net cash provided by operating activities*

Net cash provided by operating activities during the six months ended March 31, 2012 was \$842,353. Cash provided by operating activities increased due to non-cash adjustments to operating activities for stock-based compensation expense, accretion and amortization on debt securities, and depreciation and amortization totaling \$1,152,884, \$124,440, and \$123,117, respectively. Cash provided by operating activities also increased due to a decrease in accounts receivable of \$1,499,537, an increase in deferred revenue of \$673,519 and an increase in accounts payable of \$402,149, all associated with the growth of our business.

## [Table of Contents](#)

### *Net cash used in investing activities*

Net cash used in investing activities was \$810,908 during the six months ended March 31, 2012, which consisted of \$8,158,866 related to the purchase of investments, partially offset by sales and maturities of investments of \$7,435,005, and \$87,047 related to the purchase of property and equipment.

### *Net cash provided by financing activities*

Net cash provided by financing activities was \$534,743 during the six months ended March 31, 2012, which included net proceeds of \$541,917 from the exercise of stock options partially offset by principal payments on capital lease obligations of \$7,174.

### *Credit Facility*

In January 2011, we entered into a loan and security agreement with our primary operating bank. The loan agreement permits us to borrow, repay and re-borrow, from time to time until January 31, 2013, up to \$400,000 subject to the terms and conditions of the agreement. Our obligations under the loan agreement are secured by a security interest in our equipment and other personal property. Interest on the credit facility accrues at an annual rate equal to one percentage point above the Prime Rate, fixed on the date of each advance. Interest on the outstanding amount under the loan agreement is payable monthly. The loan agreement contains customary covenants for credit facilities of this type, including limitations on the disposition of assets, mergers and reorganizations. We are also obligated to meet certain financial covenants under the loan agreement, including minimum liquidity, for which we were in compliance as of March 31, 2012. We had no amounts outstanding under this credit facility as of March 31, 2012.

### *Other Liquidity Matters*

On March 31, 2012, we had investments of \$11,214,338, designated as available-for-sale marketable 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 balance sheet. All other securities are classified as "long-term" on the balance sheet. At March 31, 2012, we had \$10,395,561 of our available-for-sale securities classified as current and \$818,777 classified as long-term. At September 30, 2011, we had \$10,187,638 of our available-for-sale securities classified as current and \$417,230 classified as long-term.

We had working capital of \$15,813,674 at March 31, 2012 compared to \$17,343,700 at September 30, 2011.

Based on our current operating plan, we believe the current cash and cash equivalents, short-term investments and cash expected to be generated from operations will be adequate to satisfy our working capital needs for the next 12 months.

## **Critical Accounting Policies**

Our financial statements and accompanying notes are prepared in accordance with GAAP. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, stockholders' equity, revenue, expenses and related disclosure of contingent assets and liabilities. Management regularly evaluates its estimates and assumptions. These estimates and assumptions are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, and form the basis for making management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. Actual results could vary from those estimates under different assumptions or conditions. Our critical accounting policies include revenue recognition, allowance for accounts receivable, investments, fair value of equity instruments, accounting for income taxes and capitalized software development costs.

### *Revenue Recognition*

We enter into contractual arrangements with integrators, resellers and end-users that may include licensing of our software products, product support and maintenance services, consulting services, or various combinations thereof, including the sale of such products or services separately. Our accounting policies regarding the recognition of revenue for these contractual arrangements is fully described in Note 1 to our financial statements included in this Form 10-Q.

We consider many factors when applying GAAP to revenue recognition. These factors include, but are not limited to, whether:

- Persuasive evidence of an arrangement exists;
- Delivery of the product or performance of the service has occurred;

## Table of Contents

- The fees are fixed or determinable;
- Collection of the contractual fee is probable; and
- Vendor-specific objective evidence of the fair value of undelivered elements or other appropriate method of revenue allocation exists.

Each of the relevant factors is analyzed to determine its impact, individually and collectively with other factors, on the revenue to be recognized for any particular contract with a customer. Management is required to make judgments regarding the significance of each factor in applying the revenue recognition standards, as well as whether or not each factor complies with such standards. Any misjudgment or error by management in its evaluation of the factors and the application of the standards, especially with respect to complex or new types of transactions, could have a material adverse effect on our future revenues and operating results.

### *Accounts Receivable*

We constantly monitor collections from our customers and maintain a provision for estimated credit losses that is based on historical experience and on specific customer collection issues. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Since our revenue recognition policy requires customers to be deemed creditworthy, our accounts receivable are based on customers whose payment is reasonably assured. Our accounts receivable are derived from sales to a wide variety of customers. We do not believe a change in liquidity of any one customer or our inability to collect from any one customer would have a material adverse impact on our financial position.

### *Investments*

We determine the fair value of our assets and liabilities based on 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 maximize the use of observable inputs and minimize the use of unobservable inputs. We use 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 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.

In using this fair value hierarchy, management may be required to make assumptions about pricing by market participants and assumptions about risk, specifically when using unobservable inputs to determine fair value. These assumptions are judgmental in nature and may significantly affect our results of operations.

### *Fair Value of Equity Instruments*

The valuation of certain items, including valuation of warrants, the beneficial conversion feature related to convertible debt and compensation expense related to stock options granted, involve significant estimates based on underlying assumptions made by management. The valuation of warrants and stock options are based upon a Black-Scholes valuation model, which involve estimates of stock volatility, expected life of the instruments and other assumptions.

### *Deferred Income Taxes*

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We maintain a valuation allowance against the deferred tax asset due to uncertainty regarding the future realization based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. Until such time as we can demonstrate that we will no longer incur losses or if we are unable to generate sufficient future taxable income, we could be required to maintain the valuation allowance against our deferred tax assets.

### *Capitalized Software Development Costs*

Research and development costs are charged to expense as incurred. However, the costs incurred for the development of computer software that will be sold, leased, or otherwise marketed are capitalized when technological feasibility has been established. These capitalized costs are subject to an ongoing assessment of recoverability based on anticipated future revenues and changes in hardware and software technologies. Costs that are capitalized include direct labor and related overhead. No such costs were capitalized during the three and six months ended March 31, 2012 and 2011, respectively.

Amortization of capitalized software development costs begins when product sales commence. Amortization is provided on a straight-line method over periods not exceeding three years. Unamortized capitalized software development costs determined to be in excess of net realizable values of the product are expensed immediately.

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

As a smaller reporting company, as defined by Section 10(f)(1) of Regulation S-K, we are not required to provide the information set forth in this Item.

**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) under the 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. 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, 2012.

**Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during the quarter ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II  
OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

On March 29, 2012, USAA filed a complaint in the U.S. District Court for the Western District of Texas San Antonio Division against us seeking, among other things, a declaratory judgment that USAA does not infringe certain of our patents relating to Mobile Deposit, and that such patents are not enforceable against USAA. In addition, USAA alleges that it disclosed confidential information to us and that we used such information in a patent application. USAA seeks damages and injunctive relief. We have moved to dismiss USAA's complaint.

On April 12, 2012, we filed a lawsuit against USAA in the U.S. District Court for the District of Delaware. We allege that USAA infringes five of our patents relating to image capture on mobile devices, that USAA breached the parties' license agreement by using our products beyond the scope of the agreed-upon license terms and that USAA breached the parties' license agreement by disclosing confidential pricing and other confidential information for our legacy product installation in the lawsuit USAA filed in Texas.

We believe that USAA's claims are without merit and intend to vigorously defend against these claims and pursue our claims against USAA. We do not believe that USAA's claims or any other legal proceedings or claims will have, individually or in the aggregate, a material adverse effect on our business, financial condition, operating results, cash flows or liquidity.

**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.

## [Table of Contents](#)

Before you decide to invest or maintain an interest in our common stock, you should consider carefully the risks described in Item 1A of the Form 10-K and the risk described below, which has been updated since the filing of the Form 10-K, together with the other information contained in this Form 10-Q. Other than as set forth below, there have been no material changes from the risk factors previously disclosed in the Form 10-K. If any risks described in our filings with the SEC come to fruition, 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.

***Claims that we infringe upon the rights of third parties may give rise to costly and lengthy litigation, and we could be prevented from selling products, forced to pay damages, and forced to defend against litigation.***

Currently, and in the past, third parties have asserted claims that certain technologies incorporated into our products infringe their patent rights. Although we have resolved past claims, there is currently a claim of infringement pending against us by USAA and there can be no assurance that we will not receive notices in the future from other parties asserting that our products infringe, or may infringe, on their intellectual property rights. If our technology and products are found to infringe upon the proprietary rights of USAA or any other parties, we could incur substantial costs and 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; and
- defend litigation or administrative proceedings which may be costly whether we win or lose, and which could result in a substantial diversion of our valuable management resources.

Furthermore, we may, as we have with USAA, initiate claims or litigation against parties for infringement of our proprietary rights or to establish the validity of our proprietary 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. Furthermore, as a result of a patent infringement suit brought against us or our channel partners or licensees, we or our channel partners or licensees may be forced to stop or delay developing, manufacturing or selling technologies or potential products that are claimed to infringe on a third party's intellectual property rights unless that party grants us or our channel partners or licensees rights to use its intellectual property. Ultimately, we may be unable to develop some of our technologies or potential products or may have to discontinue development of a product candidate or cease some of our business operations as a result of patent infringement claims, which could severely harm our business.

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

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES.**

None.

### **ITEM 5. OTHER INFORMATION.**

None.

## Table of Contents

### ITEM 6. EXHIBITS.

<u>Exhibit No.</u>	<u>Description</u>	<u>Incorporated by Reference from Document</u>
3.1	Restated Certificate of Incorporation of Mitek Systems, Inc.	(1)
3.2	Amended and Restated Bylaws of Mitek Systems, Inc.	(2)
4.1	Form of debenture issued on December 10, 2009.	(3)
4.2	Form of warrant issued on December 10, 2009.	(3)
10.1	Mitek Systems, Inc. 2012 Incentive Plan and the forms of agreement related thereto.	(4)
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.	*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.	*
32.1	Certification Chief Executive Officer and Chief Financial Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
101**	Financial statements from the Quarterly Report on Form 10-Q of Mitek Systems, Inc. for the quarter ended March 31, 2012, formatted in XBRL: (i) the Condensed Balance Sheets, (ii) the Condensed Statements of Operations, (iii) the Condensed Statements of Cash Flows, (iv) the Notes to the Condensed Financial Statements.	*

\* Filed herewith.

\*\* Pursuant to Rule 406T of Regulation S-T, this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

- (1) Incorporated by reference to the Company's Registration Statement on Form S-3 (File No. 333-177965) filed with the SEC on November 14, 2011.
- (2) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1987.
- (3) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on December 16, 2009.
- (4) Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 333-179942) filed with the SEC on March 7, 2012.





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

I, James B. DeBello, 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 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, 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 cause 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.

Date: May 15, 2012

/s/ James B. DeBello

\_\_\_\_\_  
James B. DeBello, 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, Russell C. Clark, 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 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, 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 cause 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.

Date: May 15, 2012

/s/ Russell C. Clark

\_\_\_\_\_  
Russell C. Clark, 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, 2012 (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.

Date: May 15, 2012

/s/ James B. DeBello

\_\_\_\_\_  
James B. DeBello  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 15, 2012

/s/ Russell C. Clark

\_\_\_\_\_  
Russell C. Clark  
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.