

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, 2021

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

For the transition period from _____ to _____.

Commission File Number 001-35231

MITEK SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

87-0418827

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

600 B Street, Suite 100

San Diego, California

(Address of principal executive offices)

92101

(Zip Code)

(619) 269-6800

(Registrant's telephone number, including area code)

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 43,053,605 shares of the registrant's common stock outstanding as of April 30, 2021.

MITEK SYSTEMS, INC.
FORM 10-Q
For The Quarterly Period Ended March 31, 2021
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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	March 31, 2021 (Unaudited)	September 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 53,935	\$ 19,986
Short-term investments	131,314	40,035
Accounts receivable, net	14,162	15,612
Contract assets	3,577	5,187
Prepaid expenses	2,143	1,338
Other current assets	2,059	1,968
Total current assets	207,190	84,126
Long-term investments	34,258	1,963
Property and equipment, net	3,502	3,610
Right-of-use assets	4,791	5,407
Intangible assets, net	16,044	19,289
Goodwill	35,728	35,669
Deferred income tax assets	13,963	13,484
Convertible senior notes hedge	34,719	—
Other non-current assets	5,606	5,606
Total assets	\$ 355,801	\$ 169,154
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,878	\$ 3,909
Accrued payroll and related taxes	7,586	8,882
Deferred revenue, current portion	11,353	7,973
Lease liabilities, current portion	1,755	1,819
Acquisition-related contingent consideration	—	753
Other current liabilities	994	1,020
Total current liabilities	24,566	24,356
Convertible senior notes	117,692	—
Embedded conversion derivative	34,719	—
Deferred revenue, non-current portion	585	1,597
Lease liabilities, non-current portion	4,636	5,327
Deferred income tax liabilities	4,673	4,649
Other non-current liabilities	1,201	982
Total liabilities	188,072	36,911
Stockholders' equity:		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized, zero issued and outstanding	—	—
Common stock, \$0.001 par value, 60,000,000 shares authorized, 43,052,478 and 41,779,853 issued and outstanding, as of March 31, 2021 and September 30, 2020, respectively	43	42
Additional paid-in capital	178,891	146,518
Accumulated other comprehensive loss	(397)	(323)
Accumulated deficit	(10,808)	(13,994)
Total stockholders' equity	167,729	132,243
Total liabilities and stockholders' equity	\$ 355,801	\$ 169,154

See accompanying notes to consolidated financial statements.

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

(amounts in thousands except per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Revenue				
Software and hardware	\$ 13,013	\$ 11,453	\$ 25,315	\$ 22,968
Services and other	15,760	11,739	29,433	22,291
Total revenue	<u>28,773</u>	<u>23,192</u>	<u>54,748</u>	<u>45,259</u>
Operating costs and expenses				
Cost of revenue—software and hardware	670	864	1,915	1,635
Cost of revenue—services and other	3,122	2,322	6,015	4,484
Selling and marketing(1)	8,530	6,686	15,915	13,334
Research and development(1)	6,691	5,581	12,855	10,873
General and administrative	5,718	5,210	10,776	10,498
Acquisition-related costs and expenses	1,659	1,579	3,352	3,187
Restructuring costs	—	(114)	—	(114)
Total operating costs and expenses	<u>26,390</u>	<u>22,128</u>	<u>50,828</u>	<u>43,897</u>
Operating income	2,383	1,064	3,920	1,362
Interest expense	1,319	—	1,319	—
Other income, net	372	32	468	335
Income before income taxes	1,436	1,096	3,069	1,697
Income tax benefit (provision)	(417)	(188)	117	(229)
Net income	<u>\$ 1,019</u>	<u>\$ 908</u>	<u>\$ 3,186</u>	<u>\$ 1,468</u>
Net income per share—basic	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.07</u>	<u>\$ 0.04</u>
Net income per share—diluted	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.07</u>	<u>\$ 0.03</u>
Shares used in calculating net income per share—basic	<u>43,138</u>	<u>41,022</u>	<u>42,835</u>	<u>40,817</u>
Shares used in calculating net income per share—diluted	<u>44,554</u>	<u>42,028</u>	<u>44,367</u>	<u>42,030</u>
Other comprehensive income (loss)				
Net income	\$ 1,019	\$ 908	\$ 3,186	\$ 1,468
Foreign currency translation adjustment	(2,648)	(1,064)	112	189
Unrealized gain (loss) on investments	(133)	56	(186)	58
Other comprehensive income (loss)	<u>\$ (1,762)</u>	<u>\$ (100)</u>	<u>\$ 3,112</u>	<u>\$ 1,715</u>

(1) March 31, 2020 consolidated statements of operations reflect reclassifications to conform to the current year presentation.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2021					
	Common Stock Outstanding Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2020	42,668	\$ 43	\$ 151,153	\$ (11,827)	\$ 2,384	\$ 141,753
Exercise of stock options	18	—	69	—	—	69
Settlement of restricted stock units	289	—	(1)	—	—	(1)
Issuance of common stock under employee stock purchase plan	77	—	793	—	—	793
Stock-based compensation expense	—	—	2,968	—	—	2,968
Sale of convertible senior notes warrants	—	—	23,909	—	—	23,909
Components of other comprehensive loss						
Net income	—	—	—	1,019	—	1,019
Currency translation adjustment	—	—	—	—	(2,648)	(2,648)
Change in unrealized gain (loss) on investments	—	—	—	—	(133)	(133)
Total other comprehensive loss						(1,762)
Balance, March 31, 2021	<u>43,052</u>	<u>\$ 43</u>	<u>\$ 178,891</u>	<u>\$ (10,808)</u>	<u>\$ (397)</u>	<u>\$ 167,729</u>

	Three Months Ended March 31, 2020					
	Common Stock Outstanding Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2019	40,865	\$ 41	\$ 134,535	\$ (20,246)	\$ (2,806)	\$ 111,524
Exercise of stock options	161	—	572	—	—	572
Settlement of restricted stock units	112	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	75	—	606	—	—	606
Stock-based compensation expense	—	—	2,308	—	—	2,308
Repurchases and retirements of common stock	(137)	—	—	(1,002)	—	(1,002)
Components of other comprehensive loss						
Net income	—	—	—	908	—	908
Currency translation adjustment	—	—	—	—	(1,064)	(1,064)
Change in unrealized gain (loss) on investments	—	—	—	—	56	56
Total other comprehensive loss						(100)
Balance, March 31, 2020	<u>41,076</u>	<u>\$ 41</u>	<u>\$ 138,021</u>	<u>\$ (20,340)</u>	<u>\$ (3,814)</u>	<u>\$ 113,908</u>

See accompanying notes to consolidated financial statements.

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

	Six Months Ended March 31, 2021					
	Common Stock Outstanding Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, September 30, 2020	41,780	\$ 42	\$ 146,518	\$ (13,994)	\$ (323)	\$ 132,243
Exercise of stock options	260	—	1,958	—	—	1,958
Settlement of restricted stock units	935	1	(1)	—	—	—
Issuance of common stock under employee stock purchase plan	77	—	792	—	—	792
Stock-based compensation expense	—	—	5,715	—	—	5,715
Sale of convertible senior notes warrants	—	—	23,909	—	—	23,909
Repurchases and retirements of common stock	—	—	—	—	—	—
Components of other comprehensive income						
Net income	—	—	—	3,186	—	3,186
Currency translation adjustment	—	—	—	—	112	112
Change in unrealized gain (loss) on investments	—	—	—	—	(186)	(186)
Total other comprehensive income						3,112
Balance, March 31, 2021	43,052	\$ 43	\$ 178,891	\$ (10,808)	\$ (397)	\$ 167,729

	Six Months Ended March 31, 2020					
	Common Stock Outstanding Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, September 30, 2019	40,367	\$ 40	\$ 132,160	\$ (20,806)	\$ (4,061)	\$ 107,333
Exercise of stock options	185	—	645	—	—	645
Settlement of restricted stock units	586	1	(1)	—	—	—
Issuance of common stock under employee stock purchase plan	75	—	606	—	—	606
Stock-based compensation expense	—	—	4,611	—	—	4,611
Repurchases and retirements of common stock	(137)	—	—	(1,002)	—	(1,002)
Components of other comprehensive income						
Net income	—	—	—	1,468	—	1,468
Currency translation adjustment	—	—	—	—	189	189
Change in unrealized gain (loss) on investments	—	—	—	—	58	58
Total other comprehensive income						1,715
Balance, March 31, 2020	41,076	\$ 41	\$ 138,021	\$ (20,340)	\$ (3,814)	\$ 113,908

See accompanying notes to consolidated financial statements.

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

	Six Months Ended March 31,	
	2021	2020
Operating activities:		
Net income (loss)	\$ 3,186	\$ 1,468
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation expense	5,715	4,611
Amortization of intangible assets	3,352	3,187
Depreciation and amortization	774	749
Amortization of investment premiums & other	315	(39)
Accretion and amortization on debt securities	1,147	—
Deferred taxes	(464)	474
Changes in assets and liabilities:		
Accounts receivable	1,444	1,240
Contract assets	2,177	(3,570)
Other assets	(1,474)	242
Accounts payable	(1,047)	(635)
Accrued payroll and related taxes	(1,305)	(849)
Deferred revenue	2,379	3,623
Restructuring accrual	—	(1,208)
Other liabilities	(138)	(924)
Net cash provided by operating activities	<u>16,061</u>	<u>8,369</u>
Investing activities:		
Purchases of investments	(147,524)	(19,113)
Sales and maturities of investments	23,441	11,700
Purchases of property and equipment	(660)	(422)
Net cash used in investing activities	<u>(124,743)</u>	<u>(7,835)</u>
Financing activities:		
Proceeds from the issuance of convertible senior notes	155,250	—
Payment for convertible senior notes issuance costs	(5,513)	—
Purchase of 2026 convertible senior notes hedge	(33,192)	—
Proceeds from issuance of convertible senior notes warrants	23,909	—
Proceeds from the issuance of equity plan common stock	2,751	1,251
Repurchases and retirements of common stock	—	(1,002)
Payment of acquisition-related contingent consideration	(782)	(478)
Proceeds from other borrowings	251	—
Principal payments on other borrowings	(39)	(96)
Net cash provided by (used in) financing activities	<u>142,635</u>	<u>(325)</u>
Foreign currency effect on cash and cash equivalents	(4)	(29)
Net increase in cash and cash equivalents	33,949	180
Cash and cash equivalents at beginning of period	19,986	16,748
Cash and cash equivalents at end of period	<u>\$ 53,935</u>	<u>\$ 16,928</u>
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	<u>\$ 373</u>	<u>\$ —</u>
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized holding gain (loss) on available for sale investments	<u>\$ (186)</u>	<u>\$ 58</u>

See accompanying notes to consolidated financial statements.

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Mitek Systems, Inc. (“Mitek” or the “Company”) is a leading innovator of mobile image capture and digital identity verification solutions. Mitek is a software development company with expertise in computer vision, artificial intelligence, and machine learning. The Company is currently serving more than 7,500 financial services organizations and leading marketplace and financial technology (“fintech”) brands across the globe. The Company’s solutions are embedded in native mobile apps and browsers to facilitate better online user experiences, fraud detection and reduction, and compliant transactions.

Mitek’s Mobile Deposit® solution is used today by millions of consumers in the United States (“U.S.”) and Canada for mobile check deposit. Mobile Deposit® enables individuals and businesses to remotely deposit checks using their camera-equipped smartphone or tablet. Mitek’s Mobile Deposit® solution is embedded within the financial institutions’ digital banking apps used by consumers and has now processed over five billion check deposits. Mitek began selling Mobile Deposit® in early 2008 and received its first patent for this product in August 2010. As of March 31, 2021, the Company has been granted 71 patents and it has an additional 17 patent applications pending.

Mitek’s Mobile Verify® verifies a user’s identity online enabling organizations to build safer digital communities. Scanning an identity document helps enable an enterprise to verify the identity of the person with whom they are conducting business, to comply with growing governmental Anti-Money Laundering and Know Your Customer regulatory requirements, and to improve the overall customer experience for digital onboarding. To be sure the person submitting the identity document is who they say they are, Mitek’s Mobile Verify Face Comparison provides an additional layer of online verification and compares the face on the submitted identity document with the live selfie photo of the user.

The combination of identity document capture and data extraction process enables the organization to prefill the end user’s application, with far fewer key strokes, thus reducing keying errors, and improving both operational efficiency and the customer experience. Today, the financial services verticals (banks, credit unions, lenders, payments processors, card issuers, fintech companies, etc.) represent the greatest percentage of use of our solutions, but there is accelerated adoption by marketplaces, sharing economy, and hospitality sectors. Mitek uses artificial intelligence and machine learning to constantly improve the product performance of Mobile Verify® such as speed and accuracy of approvals of identification documents. The core of Mitek’s user experience is driven by Mitek MiSnap™, the leading image capture technology, which is incorporated across the Company’s product lines. It provides a simple, intuitive, and superior user-experience, making digital transactions faster, more accurate, and easier for the consumer. Mobile Fill® automates application prefill of any form with user data by simply snapping a picture of the driver’s license or other similar user identity document.

CheckReader™ enables financial institutions to automatically extract data from a check image received across any deposit channel—branch, ATM, remote deposit capture, and mobile. Through the automatic recognition of all fields on checks, whether handwritten or machine print, CheckReader™ speeds the time to deposit for financial institutions and enables them to comply with check clearing regulations.

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

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company as of March 31, 2021 have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, they do not include all information and footnote disclosures required by accounting principles generally accepted in the U.S. (“GAAP”). The Company believes the footnotes and other disclosures made in the financial statements are adequate for a fair presentation of the results of the interim periods presented. The financial statements include all adjustments (solely of a normal recurring nature) which are, in the opinion of management, necessary to make the information presented not misleading. You should read these financial statements and the accompanying notes in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2020, filed with the U.S. Securities and Exchange Commission on December 7, 2020, as amended by Amendment No. 1 to the Annual Report on Form 10-K/A (the “Form 10-K”), filed with the SEC on December 11, 2020.

Results for the six months ended March 31, 2021 are not necessarily indicative of results for any other interim period or for a full fiscal year.

Principles of Consolidation

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

Foreign Currency

The Company has foreign subsidiaries that operate and sell products and services in various countries and jurisdictions around the world. As a result, the Company is exposed to foreign currency exchange risks. For those subsidiaries whose functional currency is not the U.S. dollar, assets and liabilities are translated into U.S. dollars at the exchange rate in effect on the balance sheet date and revenues and expenses are translated into U.S. dollars using the average exchange rate over the period. Resulting currency translation adjustments are recorded in accumulated other comprehensive loss in the consolidated balance sheets. The Company recorded a net loss resulting from foreign exchange translation of \$2.6 million for the three months ended March 31, 2021 and a net loss resulting from foreign exchange translation of \$1.1 million for the three months ended March 31, 2020. The Company recorded a net gain resulting from foreign exchange translation of \$0.1 million and \$0.2 million for the six months ended March 31, 2021 and 2020, respectively.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to prior year presentation to conform to the current year presentation. Prior to fiscal 2020, the Company had included its product management costs in selling and marketing expenses. Due to certain personnel and functional responsibility changes in this function, the Company has reclassified these costs to research and development expenses. To conform to the current period's presentation, prior year's financials have been reclassified accordingly. The Company has determined that this reclassification was not material to previously reported financial statements. Product management costs were \$0.8 million for the three months ended March 31, 2020. Product management costs were \$1.4 million for the six months ended March 31, 2020.

Revenue Recognition

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

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

Contract Assets and Liabilities

The Company recognizes revenue when control of the license is transferred to the customer. The Company records a contract asset when the revenue is recognized prior to the date payments become due. Contract assets that are expected to be paid within one year are recorded in current assets on the consolidated balance sheets. All other contract assets are recorded in other non-current assets in the consolidated balance sheet. Contract liabilities consist of deferred revenue. When the performance obligation is expected to be fulfilled within one year, the deferred revenue is recorded in current liabilities in the consolidated balance sheet. When the performance obligation is expected to be fulfilled beyond one year, the deferred revenue is recorded in non-current liabilities in the consolidated balance sheet. The Company reports net contract asset or liability positions on a contract-by-contract basis at the end of each reporting period.

Contract Costs

The Company incurs incremental costs to obtain a contract, consisting primarily of sales commissions incurred only if a contract is obtained. When the commission rate for a customer renewal is not commensurate with the commission rate for a new contract, the commission is capitalized if expected to be recovered. Such costs are capitalized and amortized using a portfolio approach consistent with the pattern of transfer of the good or service to which the asset relates. Contract costs are recorded in other current and non-current assets in the consolidated balance sheets.

Net Income Per Share

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Stock options	556	279	634	302
RSUs	1,371	1,789	1,238	1,555
ESPP common stock equivalents	28	32	15	—
Performance options	267	—	200	—
Performance RSUs	156	—	127	—
Convertible senior notes	4,551	—	2,251	—
Warrants	4,551	—	2,251	—
Total potentially dilutive common shares outstanding	11,480	2,100	6,716	1,857

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Net income	\$ 1,019	\$ 908	\$ 3,186	\$ 1,468
Weighted-average shares outstanding—basic	43,138	41,022	42,835	40,817
Common stock equivalents	1,416	1,006	1,532	1,213
Weighted-average shares outstanding—diluted	44,554	42,028	44,367	42,030
Net income per share:				
Basic	\$ 0.02	\$ 0.02	\$ 0.07	\$ 0.04
Diluted	\$ 0.02	\$ 0.02	\$ 0.07	\$ 0.03

Investments

Investments consist of corporate notes and bonds, commercial paper, U.S. Treasury securities, and asset-backed securities. The Company classifies investments as available-for-sale at the time of purchase and reevaluates such classification as of each balance sheet date. All investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive loss, a component of stockholders’ equity. The Company evaluates its investments to assess whether those with unrealized loss positions are other-than-temporarily impaired. Impairments are considered to be other-than-temporary if they are related to deterioration in credit risk or if it is likely that the Company will sell the securities before the recovery of its cost basis. Realized gains and losses and declines in value judged to be other-than-temporary are determined based on the specific identification method and are reported in other income, net in the consolidated statements of operations and other comprehensive income (loss). No other-than-temporary impairment charges were recognized in the three and six months ended March 31, 2021 and 2020.

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

Convertible Senior Notes Hedge and Embedded Conversion Derivative

In February 2021, the Company issued \$155.3 million aggregate principal amount of 0.75% convertible notes due 2026 (the “2026 Notes”). Concurrently with the issuance of the 2026 Notes, the Company entered into privately-negotiated convertible senior note hedge (the “Notes Hedge”) and warrant transactions (the “Warrant Transactions”) which in combination are intended to reduce the potential dilution from the conversion of the 2026 Notes. The Company could not elect to issue the shares of common stock upon settlement of the 2026 Notes due to insufficient authorized share capital. As a result, the embedded conversion option (the “embedded conversion derivative”) is accounted for as a derivative liability and the Notes Hedge as a derivative asset with the resulting gain (or loss) was reported in other income, net, in the consolidated statement of operations to the extent the valuation changed from the date of issuance of the 2026 Notes. The Warrant Transactions were recorded in additional paid-in-capital in the consolidated balance sheet and are not remeasured as long as they continue to meet the conditions for equity classification. See Note 7. “Convertible Senior Notes” for additional information related to these transactions.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. Allowances for doubtful accounts are established based on various factors, including credit profiles of the Company’s customers, contractual terms and conditions, historical payments, and current economic trends. The Company reviews its allowances by assessing individual accounts receivable over a specific aging and amount. Accounts receivable are written off on a case-by-case basis, net of any amounts that may be collected. The Company had \$34,000 of write-offs to the allowance for doubtful accounts for the six months ended March 31, 2021 and no write-offs in the six months ended March 31, 2020. The Company maintained an allowance for doubtful accounts of \$0.2 million as of both March 31, 2021 and September 30, 2020.

Capitalized Software Development Costs

Costs incurred for the development of software that will be sold, leased, or otherwise marketed are capitalized when technological feasibility has been established. Software development costs consist primarily of compensation of development personnel and related overhead incurred to develop new products and upgrade and enhance the Company’s current products, as well as fees paid to outside consultants. Capitalization of software development costs ceases, and amortization of capitalized software development costs commences when the products are available for general release. For the six months ended March 31, 2021 and 2020, no software development costs were capitalized because the time period and costs incurred between technological feasibility and general release for all software product releases were not material or were not realizable. We had no amortization expense from capitalized software costs during the six months ended March 31, 2021 and 2020.

Costs related to software acquired, developed, or modified solely to meet our internal requirements, with no substantive plans to market such software at the time of development, are capitalized. Costs incurred during the preliminary planning and evaluation stage of the project and during the post-implementation operational stage are expensed as incurred. Costs incurred during the application development stage of the project are capitalized. The Company defines the design, configuration, and coding process as the application development stage. The Company capitalized \$0.4 million and \$0.1 million of costs related to computer software developed for internal use during the six months ended March 31, 2021 and 2020, respectively. The Company had \$0.2 million in amortization expense from internal use software during each of the six months ended March 31, 2021 and 2020.

Goodwill and Purchased Intangible Assets

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

The Company’s goodwill is considered to be impaired if management determines that the carrying value of the reporting unit to which the goodwill has been assigned exceeds management’s estimate of its fair value. Based on the guidance provided by ASC 350 and ASC Topic 280, *Segment Reporting*, management has determined that the Company operates in one segment and consists of one reporting unit given the similarities in economic characteristics between its operations and the common nature of its products, services and customers. Because the Company has only one reporting unit, and because the Company is publicly traded, the Company determines the fair value of the reporting unit based on its market capitalization as it believes this represents the best evidence of fair value. In the fourth quarter of fiscal 2020, management completed its annual goodwill impairment test and concluded that the Company’s goodwill was not impaired. The Company’s conclusion that goodwill was not impaired was based on a comparison of its net assets to its market capitalization.

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

Intangible assets are amortized over their useful lives. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. The carrying amounts of these assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparing the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate. The carrying amount of such assets is reduced to fair value if the undiscounted cash flows used in the test for recoverability are less than the carrying amount of such assets. No impairment charge related to the impairment of intangible assets was recorded during the six months ended March 31, 2021 and 2020.

Other Borrowings

The Company has certain loan agreements with Spanish government agencies which were assumed when the Company acquired ICAR Vision Systems, S.L. ("ICAR"). These agreements have repayment periods of five to twelve years and bear no interest. As of March 31, 2021, \$0.9 million was outstanding under these agreements and \$0.1 million and \$0.8 million is recorded in other current liabilities and other non-current liabilities, respectively, in the consolidated balance sheets. As of September 30, 2020, \$0.7 million, was outstanding under these agreements and approximately \$0.1 million and \$0.6 million is recorded in other current liabilities and other non-current liabilities, respectively, in the consolidated balance sheets.

Guarantees

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

Income Taxes

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

Management evaluates the available evidence about future taxable income and other possible sources of realization of deferred tax assets. The valuation allowance reduces deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized. See Note 6 of the consolidated financial statements for additional details.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to income tax matters in income tax expense. See Note 6 of the consolidated financial statements for additional details.

Stock-Based Compensation

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

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

The Company estimates the fair value of stock options and ESPP shares using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee

exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the expected life of the grant effective as of the date of the grant. The expected volatility is based on the historical volatility of the Company's stock price. These factors could change in the future, affecting the determination of stock-based compensation expense in future periods.

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

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income, unrealized gains and losses on available-for-sale securities, and foreign currency translation adjustments. Included on the consolidated balance sheets is accumulated other comprehensive loss of \$0.4 million and \$0.3 million at March 31, 2021 and September 30, 2020, respectively.

Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (ASC 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"), which requires hosting arrangements that are service contracts to follow the guidance for internal-use software to determine which implementation costs can be capitalized. The Company adopted ASU 2018-15 in the first quarter of fiscal 2021, and the adoption did not have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"), to eliminate, add, and modify certain disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The Company adopted ASU 2018-13 in the first quarter of fiscal 2021, and the adoption did not have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"), which eliminates Step 2 of the goodwill impairment test that had required a hypothetical purchase price allocation. Rather, entities should apply the same impairment assessment to all reporting units and recognize an impairment loss for the amount by which a reporting unit's carrying amount exceeds its fair value, without exceeding the total amount of goodwill allocated to that reporting unit. Entities will continue to have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The Company adopted ASU 2017-04 in the first quarter of fiscal 2021, and the adoption did not have a material impact on its consolidated financial statements.

Change in Significant Accounting Policy

Except for the accounting policy for *Convertible Senior Notes Hedge and Embedded Conversion Derivative*, established in connection with the issuance of the 2026 Notes, there have been no significant changes to the Company's significant accounting policies in Note 2. "Summary of Significant Accounting Policies," of the notes to consolidated financial statements included in Item 8 of the Company's Form 10-K.

Recently Issued Accounting Pronouncements

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2020-06—Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)—Accounting For Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06"). ASU 2020-06 simplifies accounting for convertible instruments by removing major separation models required under current GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features through equity. Without an initial allocation of proceeds to the conversion option, the debt will likely have a lower discount, thereby resulting in less noncash interest expense through accretion. ASU 2020-06 removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for such exception. ASU 2020-06 also simplifies the diluted net income per share calculation in certain areas. ASU 2020-06 is effective for annual and interim periods beginning after December 15, 2021, and early adoption is permitted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. This update permits the use of either the modified retrospective or fully retrospective method of transition. The Company is currently evaluating the impacts of ASU 2020-06 and plans to early adopt ASU 2020-06 for its fiscal year beginning October 1, 2021.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain

exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. The Company is currently in the process of evaluating the potential impact of adoption of this updated authoritative guidance on the consolidated financial statements.

No other new accounting pronouncement issued or effective during the six months ended March 31, 2021 had, or is expected to have, a material impact on the Company's consolidated financial statements.

2. REVENUE RECOGNITION

Nature of Goods and Services

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

Software and Hardware

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

Services and Other

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

Significant Judgments in Application of the Guidance

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

Identification of Performance Obligations

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

Determination of Transaction Price

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring products or services to the customer. The Company includes any fixed charges within its contracts as part of the total transaction price. To the extent that variable consideration is not constrained, the Company includes an estimate of the variable amount, as appropriate, within the total transaction price and updates its assumptions over the duration of the contract. As a practical expedient, the Company does not adjust the transaction price for the effects of a significant financing component if, at contract inception, the period between customer payment and the transfer of goods or services is expected to be one year or less.

Assessment of Estimates of Variable Consideration

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

Allocation of Transaction Price

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

Disaggregation of Revenue

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

Major product category	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Deposits software and hardware	\$ 12,134	\$ 10,317	\$ 22,888	\$ 20,600
Deposits services and other	5,063	4,305	9,924	8,673
Deposits revenue	17,197	14,622	32,812	29,273
Identity verification software and hardware	879	1,136	2,427	2,368
Identity verification services and other	10,697	7,434	19,509	13,618
Identity verification revenue	11,576	8,570	21,936	15,986
Total revenue	\$ 28,773	\$ 23,192	\$ 54,748	\$ 45,259

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

Contract Balances

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

	March 31, 2021	September 30, 2020
Contract assets, current	\$ 3,577	\$ 5,187
Contract assets, non-current	3,900	4,468
Contract liabilities (deferred revenue), current	11,353	7,973
Contract liabilities (deferred revenue), non-current	585	1,597

Contract assets, reported within current assets and other long-term assets in the consolidated balance sheets, primarily result from revenue being recognized when a license is delivered and payments are made over time. Contract liabilities primarily relate to advance consideration received from customers (deferred revenue), for which transfer of control occurs, and therefore revenue is recognized as services are provided. Contract balances are reported in a net contract asset or liability position on a contract-by-contract basis at the end of each reporting period. The Company recognized \$7.9 million and \$4.8 million of revenue during the six months ended March 31, 2021 and 2020, respectively, which was included in the contract liability balance at the beginning of each such period.

Contract Costs

Contract costs included in other current and non-current assets on the consolidated balance sheets totaled \$2.2 million and \$1.5 million as of March 31, 2021 and September 30, 2020, respectively. Contract costs are amortized based on the transfer of goods or services to which the asset relates. The amortization period also considers expected customer lives and whether the asset relates to goods or services transferred under a specific anticipated contract. These costs are included in selling and marketing expenses in the consolidated statement of operations and other comprehensive income (loss) and totaled \$0.3 million and \$0.2 million during the three months ended March 31, 2021 and 2020, respectively, and \$0.5 million and \$0.4 million during the six months ended March 31, 2021.

and 2020, respectively. There were no impairment losses recognized during both the six months ended March 31, 2021 and 2020 related to capitalized contract costs.

3. INVESTMENTS

The following tables summarize investments by type of security as of March 31, 2021 and September 30, 2020, respectively (*amounts shown in thousands*):

March 31, 2021:	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-sale securities:				
U.S. Treasury, short-term	\$ 7,735	\$ 3	\$ —	\$ 7,738
Asset-backed securities, short-term	5,616	6	(1)	5,621
Corporate debt securities, short-term	118,004	10	(59)	117,955
U.S. Treasury, long-term	6,532	2	(1)	6,533
Asset-backed securities, long-term	959	—	(1)	958
Corporate debt securities, long-term	26,804	1	(38)	26,767
Total	\$ 165,650	\$ 22	\$ (100)	\$ 165,572

September 30, 2020:	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-sale securities:				
U.S. Treasury, short-term	\$ 10,245	\$ 38	\$ —	\$ 10,283
Asset-backed securities, short-term	4,723	36	—	4,759
Corporate debt securities, short-term	24,956	37	—	24,993
Corporate debt securities, long-term	1,966	—	(3)	1,963
Total	\$ 41,890	\$ 111	\$ (3)	\$ 41,998

The cost of securities sold is based on the specific identification method. Amortization of premiums, accretion of discounts, interest, dividend income and realized gains and losses are included in other income, net in the consolidated statements of operations and other comprehensive income (loss).

The Company determines the appropriate designation of investments at the time of purchase and reevaluates such designation as of each balance sheet date. All of the Company's investments are designated as available-for-sale debt securities. As of March 31, 2021 and September 30, 2020, the Company's short-term investments have maturity dates of less than one year from the balance sheet date and the Company's long-term investments have maturity dates of greater than one year from the balance sheet date.

Available-for-sale marketable securities are carried at fair value as determined by quoted market prices for identical or similar assets, with unrealized gains and losses, net of taxes, and reported as a separate component of stockholders' equity. Management reviews the fair value of the portfolio at least monthly and evaluates individual securities with fair value below amortized cost at the balance sheet date. For debt securities, in order to determine whether impairment is other-than-temporary, management must conclude whether the Company intends to sell the impaired security and whether it is more likely than not that the Company will be required to sell the security before recovering its amortized cost basis. If management intends to sell an impaired debt security or it is more likely than not that the Company will be required to sell the security prior to recovering its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. The amount of an other-than-temporary impairment on debt securities related to a credit loss, or securities that management intends to sell before recovery, is recognized in earnings. The amount of an other-than-temporary impairment on debt securities related to other factors is recorded consistent with changes in the fair value of all other available-for-sale securities as a component of stockholders' equity in other comprehensive income. No other-than-temporary impairment charges were recognized in the three and six months ended March 31, 2021 and 2020. There were no realized gains or losses from the sale of available-for-sale securities during the three and six months ended March 31, 2021 and 2020.

Fair Value Measurements and Disclosures

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

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

The following tables represent the fair value hierarchy of the Company’s investments, convertible senior notes hedge, acquisition-related contingent consideration, and embedded conversion derivative as of March 31, 2021 and September 30, 2020, respectively (*amounts shown in thousands*):

March 31, 2021:	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments:				
U.S. Treasury	\$ 7,738	\$ 7,738	\$ —	\$ —
Asset-backed securities	5,621	—	5,621	—
Corporate debt securities	52,354	—	52,354	—
Commercial paper	65,601	—	65,601	—
Total short-term investments at fair value	131,314	7,738	123,576	—
Long-term investments:				
U.S. Treasury	6,533	6,533	—	—
Foreign government and agency securities	2,929	—	2,929	—
Asset-backed securities	958	—	958	—
Corporate debt securities	23,838	—	23,838	—
Total long-term investments at fair value	34,258	6,533	27,725	—
Convertible senior notes hedge	34,719	—	34,719	—
Total assets at fair value	\$ 200,291	\$ 14,271	\$ 186,020	\$ —
Liabilities:				
Embedded conversion derivative	34,719	—	34,719	—
Total liabilities at fair value	\$ 34,719	\$ —	\$ 34,719	\$ —

September 30, 2020:	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments:				
U.S. Treasury	\$ 10,283	\$ 10,283	\$ —	\$ —
Asset-backed securities, short-term	4,759	—	4,759	—
Corporate debt securities	9,619	—	9,619	—
Commercial paper	15,374	—	15,374	—
Total short-term investments at fair value	<u>40,035</u>	<u>10,283</u>	<u>29,752</u>	<u>—</u>
Long-term investments:				
U.S. Treasury	—	—	—	—
Corporate debt securities	1,963	—	1,963	—
Total long-term investments at fair value	<u>1,963</u>	<u>—</u>	<u>1,963</u>	<u>—</u>
Total assets at fair value	<u>\$ 41,998</u>	<u>\$ 10,283</u>	<u>\$ 31,715</u>	<u>\$ —</u>
Liabilities:				
Acquisition-related contingent consideration	753	—	—	753
Total liabilities at fair value	<u>\$ 753</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 753</u>

- Level 1: Includes investments in U.S. Government and agency securities, which are valued based on recently executed transactions in the same or similar securities.
- Level 2: Convertible Senior Notes. On February 5, 2021, the Company issued \$155.3 million aggregate principal amount of 0.75% 2026 Notes as further described in Note 7. "Convertible Senior Notes." Concurrently with the issuance of the 2026 Notes, the Company entered into the Notes Hedge and Warrant Transactions which in combination are intended to reduce the potential dilution from the conversion of the 2026 Notes. Initially, conversion of the 2026 Notes will be settled solely in cash; however, following satisfaction of certain share reservation conditions, conversion of the 2026 Notes may be settled in cash, shares of the Company's common stock or a combination of cash and shares of its common stock, at the Company's election. The embedded conversion derivative associated with the 2026 Notes currently meets the criteria for an embedded derivative liability which required bifurcation and separate accounting. The Notes Hedge and Warrant Transactions are also currently classified as a derivative asset and as an increase to additional paid-in capital, respectively, on the Company's consolidated balance sheet. On the date the Company increases its authorized shares of common stock and satisfies the share reservation condition, the Notes Hedge and embedded conversion derivative will be reclassified to additional paid-in capital as the equity classification criteria is met. Changes in the fair value of these derivatives prior to being classified in equity are reflected in Other income, net, in the Company's consolidated statement of operations.

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

The Company carries the 2026 Notes at face value less unamortized discount and issuance costs on its consolidated balance sheets. Based on the fair value hierarchy, the Company classified the 2026 Notes as Level 2 as they are not actively traded.

- Level 3: During the quarter-ended March 31, 2021, the Company paid the outstanding balance of the acquisition-related contingent consideration. The following table includes a summary of the contingent consideration measured at fair value using significant unobservable inputs (Level 3) during the six months ended March 31, 2021 (amounts shown in thousands):

Balance at September 30, 2020	\$ 753
Foreign currency effect on contingent consideration	29
Payment of contingent consideration	\$ (782)
Balance at March 31, 2021	<u>\$ —</u>

4. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company had a goodwill balance of \$35.7 million at March 31, 2021, representing the excess of costs over fair value of assets of businesses acquired. Goodwill acquired in a business combination and determined to have an indefinite useful life is not amortized, but instead is tested for impairment at least annually in accordance with ASC 350. The following table summarizes changes in the balance of goodwill during the six months ended March 31, 2021 (amounts shown in thousands):

Balance at September 30, 2020	\$	35,669
Foreign currency effect on goodwill		59
Balance at March 31, 2021	\$	<u>35,728</u>

Intangible Assets

Intangible assets include the value assigned to purchased completed technology, customer relationships, and trade names. The estimated useful lives for all of these intangible assets range from two to seven years. Intangible assets as of March 31, 2021 and September 30, 2020, respectively, are summarized as follows (amounts shown in thousands, except for years):

March 31, 2021:	<u>Weighted Average Amortization Period</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Completed technologies	6.4 years	\$ 20,341	\$ 11,026	\$ 9,315
Customer relationships	4.8 years	17,628	11,000	6,628
Trade names	4.5 years	618	517	101
Total intangible assets		<u>\$ 38,587</u>	<u>\$ 22,543</u>	<u>\$ 16,044</u>

September 30, 2020:	<u>Weighted Average Amortization Period</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Completed technologies	6.4 years	\$ 20,341	\$ 9,416	\$ 10,925
Customer relationships	4.8 years	17,628	9,390	8,238
Trade names	4.5 years	618	492	126
Total intangible assets		<u>\$ 38,587</u>	<u>\$ 19,298</u>	<u>\$ 19,289</u>

Amortization expense related to acquired intangible assets was \$1.7 million and \$1.6 million for the three months ended March 31, 2021 and 2020, respectively, and \$3.4 million and \$3.2 million during the six months ended March 31, 2021 and 2020, respectively, and is recorded within acquisition-related costs and expenses on the consolidated statements of operations and other comprehensive income (loss).

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

	<u>Estimated Future Amortization Expense</u>
2021—remaining	\$ 3,104
2022	5,965
2023	3,915
2024	1,860
2025	1,200
Total	<u>\$ 16,044</u>

5. STOCKHOLDERS' EQUITY

Stock-Based Compensation Expense

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Cost of revenue	\$ 82	\$ 65	\$ 169	\$ 126
Selling and marketing	892	594	1,680	1,166
Research and development	777	680	1,517	1,354
General and administrative	1,217	969	2,349	1,965
Stock-based compensation expense included in expenses	\$ 2,968	\$ 2,308	\$ 5,715	\$ 4,611

As of March 31, 2021, the Company had \$22.8 million of unrecognized compensation expense related to outstanding stock options and RSUs expected to be recognized over a weighted-average period of approximately 2.4 years.

2020 Incentive Plan

In January 2020, the Company's board of directors (the "Board") adopted the Mitek Systems, Inc. 2020 Incentive Plan (the "2020 Plan") upon the recommendation of the compensation committee of the Board. On March 4, 2020, the Company's stockholders approved the 2020 Plan. The total number of shares of Common Stock reserved for issuance under the 2020 Plan is 4,500,000 shares plus such number of shares, not to exceed 107,903, as remained available for issuance under the 2002 Stock Option Plan, 2006 Stock Option Plan, 2010 Stock Option Plan, and 2012 Incentive Plan (collectively, the "Prior Plans") as of January 17, 2020, plus any shares underlying awards under the Prior Plans that are terminated, forfeited, cancelled, expire unexercised or are settled in cash after January 17, 2020. As of March 31, 2021, (i) 873,211 RSUs and 547,976 Performance RSUs were outstanding under the 2020 Plan, and 2,758,605 shares of Common Stock were reserved for future grants under the 2020 Plan and (ii) stock options to purchase an aggregate of 592,851 shares of Common Stock and 1,184,531 RSUs were outstanding under the Prior Plans.

Employee Stock Purchase Plan

In January 2018, the Board adopted the ESPP. On March 7, 2018, the Company's stockholders approved the ESPP. The total number of shares of Common Stock reserved for issuance thereunder is 1,000,000 shares. As of March 31, 2021, (i) 427,669 shares have been issued to participants pursuant to the ESPP and (ii) 572,331 shares of Common Stock were reserved for future purchases under the ESPP. The Company commenced the initial offering period on April 2, 2018. Subsequent offering periods commence semi-annually in February and August each year.

The ESPP enables eligible employees to purchase shares of Common Stock at a discount from the market price through payroll deductions, subject to limitations. Eligible employees may elect to participate in the ESPP only during an open enrollment period. The offering period immediately follows the open enrollment window, at which time ESPP contributions are withheld from the participant's regular paycheck. The ESPP provides for a 15% discount on the market value of the stock at the lower of the grant date price (first day of the offering period) and the purchase date price (last day of the offering period). The Company recognized \$0.2 million in stock-based compensation expense related to the ESPP in each of the three months ended March 31, 2021 and 2020. The Company recognized \$0.3 million and \$0.2 million in stock-based compensation expense related to the ESPP during the six months ended March 31, 2021 and 2020, respectively.

Director Restricted Stock Unit Plan

In January 2011, the Board adopted the Mitek Systems, Inc. Director Restricted Stock Unit Plan, as amended and restated (the "Director Plan"). On March 10, 2017, the Company's stockholders approved an amendment to the Director Plan. The total number of shares of Common Stock reserved for issuance thereunder is 1,500,000 shares. As of March 31, 2021, (i) 328,346 RSUs were outstanding under the Director Plan and (ii) 220,361 shares of Common Stock were reserved for future grants under the Director Plan.

Stock Options

The following table summarizes stock option activity under the Company's equity plans during the six months ended March 31, 2021:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at September 30, 2020	1,162,505	\$ 7.51	6.1	\$ 6,081
Granted	—	\$ —		
Exercised	(259,865)	\$ 7.54		
Canceled	—	\$ —		
Outstanding at March 31, 2021	902,640	\$ 7.50	6.0	\$ 11,368
Vested and Expected to Vest at March 31, 2021	902,640	\$ 7.50	6.0	\$ 11,368
Exercisable at March 31, 2021	625,015	\$ 6.61	5.2	\$ 4,979

The Company recognized \$0.2 million in stock-based compensation expense related to outstanding stock options in each of the three months ended March 31, 2021 and 2020. The Company recognized \$0.4 million and \$0.3 million in stock-based compensation expense related to outstanding stock options in the six months ended March 31, 2021 and 2020, respectively. As of March 31, 2021, the Company had \$1.3 million of unrecognized compensation expense related to outstanding stock options expected to be recognized over a weighted-average period of approximately 2.0 years.

Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the weighted-average exercise price, multiplied by the number of options outstanding and exercisable. The total intrinsic value of options exercised during the six months ended March 31, 2021 and 2020 was \$1.4 million and \$1.0 million, respectively. There were no options granted during the six months ended March 31, 2021. The per-share weighted-average fair value of options granted during the six months ended March 31, 2020 was \$4.32.

Restricted Stock Units

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

	Number of Shares	Weighted-Average Fair Market Value Per Share
Outstanding at September 30, 2020	2,661,943	\$ 7.95
Granted	706,412	\$ 12.27
Settled	(845,420)	\$ 7.39
Canceled	(77,635)	\$ 9.20
Outstanding at March 31, 2021	2,445,300	\$ 9.35

The cost of RSUs is determined using the fair value of Common Stock on the award date, and the compensation expense is recognized ratably over the vesting period. The Company recognized \$2.1 million and \$1.7 million in stock-based compensation expense related to outstanding RSUs in the three months ended March 31, 2021 and 2020, respectively. The Company recognized \$4.0 million and \$3.4 million in stock-based compensation expense related to outstanding RSUs in the six months ended March 31, 2021 and 2020, respectively. As of March 31, 2021, the Company had \$17.6 million of unrecognized compensation expense related to outstanding RSUs expected to be recognized over a weighted-average period of approximately 2.4 years.

Performance Restricted Stock Units

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

	Number of Shares	Weighted-Average Fair Market Value Per Share
Outstanding at September 30, 2020	353,556	\$ 6.06
Granted	284,765	\$ 11.84
Settled	(90,345)	\$ 6.06
Canceled	—	\$ —
Outstanding at March 31, 2021	547,976	\$ 10.06

The Company recognized \$0.3 million and \$0.1 million in stock-based compensation expense related to outstanding Performance RSUs in the three months ended March 31, 2021 and 2020, respectively. The Company recognized \$0.6 million and \$0.3 million in stock-based compensation expense related to outstanding Performance RSUs in the six months ended March 31, 2021 and 2020, respectively. As of March 31, 2021, the Company had \$3.3 million of unrecognized compensation expense related to outstanding RSUs expected to be recognized over a weighted-average period of approximately 2.5 years. During the three months ended March 31, 2021, 117,848 Performance RSUs vested as the performance criteria had been met.

Performance Options

On November 6, 2018, as an inducement grant pursuant to Nasdaq Listing Rule 5635(c)(4), the Company's Chief Executive Officer was granted performance options (the "Performance Options") to purchase up to 800,000 shares of Common Stock at an exercise price of \$9.50 per share, the closing market price for a share of Common Stock on the date of the grant. As long as he remains employed by the Company, such Performance Options shall vest upon the closing market price of Common Stock achieving certain predetermined levels and his serving as the Chief Executive Officer of the Company for at least 3.0 years. In the event of a change of control of the Company, all of the unvested Performance Options will vest if the per share price payable to the stockholders of the Company in connection with the Change of Control is an amount reaching those certain predetermined levels required for the Performance Options to otherwise vest. The Company recognized \$0.2 million in stock-based compensation expense related to outstanding Performance Options in each of the three months ended March 31, 2021 and 2020. The Company recognized \$0.4 million in stock-based compensation expense related to outstanding Performance Options in each of the six months ended March 31, 2021 and 2020. As of March 31, 2021, the Company had \$0.5 million of unrecognized compensation expense related to outstanding Performance Options expected to be recognized over a weighted-average period of approximately 0.6 years.

Share Repurchase Program

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

Rights Agreement

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

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

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

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

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

6. INCOME TAXES

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

For the three and six months ended March 31, 2021, the Company recorded an income tax provision of \$0.4 million and an income tax benefit of \$0.1 million, respectively, which yielded an effective tax rate of 29% and negative 4%, respectively. For each of the three and six months ended March 31, 2020, the Company recorded an income tax provision of \$0.2 million, which yielded an effective tax rate of 17% and 13%, respectively. The difference between the U.S. federal statutory tax rate and the Company's effective tax rate for the six months ended March 31, 2021 is primarily due to excess tax benefits resulting from the exercise of stock options and vesting of RSUs, the impact of foreign and state taxes, and the impact of federal and state research and development credits on its tax provision. The difference between the U.S. federal statutory tax rate and the Company's effective tax rate for the six months ended March 31, 2020 is primarily due to excess tax benefits resulting from the exercise of stock options and vesting of RSUs, the impact of foreign and state taxes, and the impact of federal and state research and development credits on its tax provision.

7. CONVERTIBLE SENIOR NOTES

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

	March 31, 2021
2026 Notes:	
Principal amount	\$ 155,250
Less: unamortized discount and issuance costs, net of amortization	(37,558)
Carrying amount	<u>\$ 117,692</u>
2026 Notes embedded conversion derivative	\$ 34,719

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

The 2026 Notes will mature on February 1, 2026, unless earlier redeemed, repurchased or converted. The 2026 Notes will bear interest from February 5, 2021 at a rate of 0.750% per year payable semiannually in arrears on February 1 and August 1 of each year, beginning on August 1, 2021. The 2026 Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding August 1, 2025, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2021, if the last reported sale price per share of the Company's common stock, \$0.001 par value (the "Common Stock") exceeds 130% of the conversion price for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter; (2) during five consecutive business days immediately after any five consecutive trading day period (such five consecutive trading day period, the "measurement period") in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price per share of the Common Stock on such trading day and the conversion rate on such trading day; (3) upon the occurrence of certain corporate events or distributions on the Common Stock. On or after August 1, 2025, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their 2026 Notes, in multiples of \$1,000 principal amount, at the option of the holder regardless of the foregoing circumstances. Upon conversion, the Company may satisfy its conversion obligation by paying and/or delivering, as the case may be, cash and, if applicable at the Company's election, shares of the Common Stock, based on the applicable conversion rate(s); provided that the Company will be required to settle conversions solely in cash unless and until the Company (i) receives stockholder approval to increase the number of authorized shares of the Common Stock and (ii) reserves such amount of shares of the Common Stock for future issuance as required pursuant to the Indenture that governs the 2026 Notes. The conversion rate for the 2026

Notes will initially be 47.9731 shares of the Common Stock per \$1,000 principal amount of 2026 Notes, which is equivalent to an initial conversion price of approximately \$20.85 per share of the Common Stock. The initial conversion price of the 2026 Notes represents a premium of approximately 37.5% to the \$15.16 per share last reported sale price of the Common Stock on February 2, 2021. The conversion rate is subject to adjustment under certain circumstances in accordance with the terms of the Indenture.

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

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

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

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

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

Embedded conversion derivative

Fair value as of February 5, 2021	\$	33,192
Change in fair value		1,527
Fair value as of March 31, 2021	\$	<u>34,719</u>

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

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

	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	2021	2020	2021	2020
Contractual interest expense	\$ 172	\$ —	\$ 172	\$ —
Amortization of debt discount and issuance costs	1,147	—	1,147	—
Total interest expense recognized	<u>\$ 1,319</u>	<u>\$ —</u>	<u>\$ 1,319</u>	<u>\$ —</u>

The derived effective interest rate on the 2026 Notes host contract was determined to be 6.71%, which remains unchanged from the date of issuance. The remaining unamortized debt discount was \$37.6 million as of March 31, 2021, and will be amortized over approximately 4.8 years.

Convertible Senior Notes Hedge and Warrants

In connection with the pricing of the 2026 Notes, the Company entered into the Notes Hedge with Bank of America, N.A., Jefferies International Limited and Goldman Sachs & Co. LLC (the "Option Counterparties"). The Notes Hedge provided the Company with the option to acquire, on a net settlement basis, approximately 7.4 million shares of common stock at a strike price of \$20.85, which is equal to the number of shares of common stock that notionally underlie and corresponds to the conversion price of the 2026 Notes. The Company also entered into Warrant Transactions with the Option Counterparties relating to the same number of shares of the Common Stock, subject to customary anti-dilution adjustments. The strike price of the Warrant Transactions is \$26.53 per share, which represents a 75.0% premium to the last reported sale price of the Common Stock on The NASDAQ Capital Market on February 2, 2021, and is subject to certain adjustments under the terms of the Warrant Transactions.

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

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

8. COMMITMENTS AND CONTINGENCIES

Leases

The Company's principal executive offices, as well as its research and development facility, are located in approximately 29,000 square feet of office space in San Diego, California and the term of the lease continues through June 30, 2024. The Company's other offices are located in Paris, France; Amsterdam, The Netherlands; New York, New York; Barcelona, Spain; and London, United Kingdom. Other than the lease for office space in San Diego, California, the Company does not believe that the leases for the offices are material to the Company. The Company believes its existing properties are in good condition and are sufficient and suitable for the conduct of its business.

The Company's leases have remaining terms of one to seven years. Certain leases contain renewal options for varying periods, which are at the Company's sole discretion. For leases where the Company is reasonably certain to exercise a renewal option, such option periods have been included in the determination of the Company's right-of-use ("ROU") assets and lease liabilities. As of March 31, 2021, the weighted-average remaining lease term for the Company's operating leases was 4.0 years and the weighted-average discount rate was 4.6%.

Lease liabilities expected to be paid within one year are recorded in current liabilities in the consolidated balance sheets. All other lease liabilities are recorded in non-current liabilities in the consolidated balance sheets. As of March 31, 2021, the Company had operating ROU assets of \$4.8 million. Total operating lease liabilities of \$6.4 million were comprised of current lease liabilities of \$1.8 million and non-current lease liabilities of \$4.6 million. As of September 30, 2020, the Company had operating ROU assets of \$5.4 million. Total operating lease liabilities of \$7.1 million were comprised of current lease liabilities of \$1.8 million and non-current lease liabilities of \$5.3 million.

The Company recognized \$0.5 million of operating lease costs in the three months ended March 31, 2021, and \$1.1 million of operating lease costs in the six months ended March 31, 2021. Operating lease costs are included within cost of revenue, selling and marketing, research and development, and general and administrative expenses, dependent upon the nature and use of the ROU asset, in the Company's consolidated statement of operations and other comprehensive income (loss).

The Company paid \$1.4 million in operating cash flows for operating leases in the six months ended March 31, 2021.

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

	Operating leases
2021—remaining	\$ 1,089
2022	1,824
2023	1,722
2024	1,388
2025	302
2026	296
Thereafter	377
Total lease payments	6,998
Less: amount representing interest	(607)
Present value of future lease payments	\$ 6,391

Legal Proceedings

Claim Against ICAR

On June 11, 2018, a claim was filed before the Juzgado de Primera Instancia number 5 of Barcelona, Spain, the first instance court in the Spanish civil procedure system, against ICAR. The claim, also directed to Mr. Xavier Codó Grasa, former controlling shareholder of ICAR and its current General Manager, was brought by the Spanish company Global Equity & Corporate Consulting, S.L. for the alleged breach by ICAR of a services agreement entered into in the context of the sale of the shares in ICAR to Mitek Holding B.V. ICAR responded to the claim on September 7, 2018 and the court process is ongoing but has been delayed as a consequence of the COVID-19 pandemic.

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

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

Third Party Claims Against Our Customers

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

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

Wells Fargo also filed petitions for *Inter Partes* Review ("IPR") with the Patent Trial and Appeal Board ("PTAB") challenging the validity of the four patents in the First Wells Lawsuit. Three of those four petitions were instituted, while one (relating to the '090 Patent) was denied institution. On November 24, 2020 and January 26, 2021, the PTAB issued final written decisions determining that

Wells Fargo had not demonstrated by a preponderance of the evidence that any claims of the '571 Patent, the '779 Patent, or '517 Patent were unpatentable.

On September 30, 2020, USAA filed suit against PNC Bank (the "First PNC Lawsuit") in the Eastern District of Texas alleging infringement of U.S. Patent Nos. 10,482,432 and 10,621,559. These two patents are continuations of an asserted patent in the Second Wells Lawsuit and relate to similar subject matter. On October 19, 2020, PNC Bank's integration partner, NCR Corporation, sent an indemnification demand to the Company requesting indemnification from all claims related to the First PNC Lawsuit. The complaint against PNC does not claim that any Company product infringes any of the asserted patents. At this time, the Company does not believe it is obligated to indemnify NCR Corporation or end-users of NCR Corporation resulting from the patent infringement allegations by USAA. On December 4, 2020, USAA filed an amended complaint against PNC Bank also asserting two patents at issue in the First Wells Lawsuit—U.S. Patent Nos. 8,699,779 ("the '779 Patent") and 8,977,571 ("the '571 Patent"). Also on December 4, 2020, PNC Bank filed a complaint for declaratory judgment of non-infringement of the '779 Patent and the '571 Patent in the Western District of Pennsylvania. On January 19, 2021, USAA filed a motion to dismiss that action in view of the pending lawsuit between the parties in the Eastern District of Texas. On February 2, 2021, NCR Corporation sent a second indemnification demand to the Company requesting indemnification of the claims described in the amended complaint. On March 31, 2021, USAA filed another suit against PNC Bank in the Eastern District of Texas alleging infringement of two patents from the Second Wells Lawsuit, U.S. Patent Nos. 10,013,605 and 10,013,681 (the "Second PNC Lawsuit" and together with the First PNC Lawsuit, the "PNC Lawsuits").

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

In April, May, and June 2020, the Company filed petitions for IPR with the PTAB of the U.S. Patent & Trademark Office challenging the validity of the Subject Patents. On November 6 and 17, 2020 and January 26, 2021, the PTAB decided to exercise its discretion and deny institution of the four petitions due to the alleged relationship between the Company and Wells Fargo, who previously filed petitions for IPR on the Subject Patents. The PTAB did not address the merits of the Company's petitions or the prior art cited in those petitions. The Company continues to believe that the prior art cited in the petitions renders all the claims of the Subject Patents invalid. On December 6, 2020, December 17, 2020, and February 23, 2021, the Company filed requests for rehearing and Precedential Opinion Panel ("POP") review of the four denied IPR petitions.

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

The Company incurred legal fees of \$0.5 million in the six months ended March 31, 2021 related to third party claims against our customers. Such fees are included in general and administrative expenses in the consolidated statement of operations and other comprehensive income (loss).

Claim Against UrbanFT, Inc.

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

On December 18, 2020, the Company filed a new suit against UrbanFT in the Superior Court of the State of California, County of San Diego (case no. 37-2020-00046670-CU-BC-CTL) asserting claims for breach of contract, open book account, and monetary damages. UrbanFT filed an answer and has not asserted any cross-claims as of now. We intend to vigorously pursue our claims and defend any cross-claims if any are filed at a later date.

Other Legal Matters

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

Revolving Credit Facility

On May 3, 2018, the Company and ID Checker, Inc. (together, the "Co-Borrowers") entered into a Loan and Security Agreement (the "Loan Agreement") with Silicon Valley Bank ("SVB"). Pursuant to the Loan Agreement, the Company arranged for a \$10.0 million secured revolving credit facility (the "Revolver") with a floating per annum interest rate equal to the greater of the Wall Street Journal prime rate, plus 0.25%, or 4.5%. The Co-Borrowers must maintain, at all times when any amounts are outstanding under the Revolver, either (i) minimum unrestricted cash at SVB and unused availability on the Revolver of at least \$15.0 million or (ii) Adjusted Quick Ratio of 1.75:1.00. In May 2019, the Company and SVB entered into an amendment of the Loan Agreement to extend the maturity of the Revolver to September 30, 2020, which was subsequently not renewed. There were no borrowings outstanding under the Revolver as of September 30, 2020.

9. REVENUE CONCENTRATION

For the three months ended March 31, 2021, the Company derived revenue of \$6.7 million from one customer, with such customer accounting for 23% of the Company's total revenue. For the three months ended March 31, 2020, the Company derived revenue of \$6.6 million from two customers, with each customer accounting for 14% of the Company's total revenue. For the six months ended March 31, 2021, the Company derived revenue of \$10.6 million from one customer, with such customer accounting for 19% of the Company's total revenue. For the six months ended March 31, 2020, the Company derived revenue of \$11.8 million from two customers, with such customers accounting for 16% and 11% of the Company's total revenue, respectively. The corresponding accounts receivable balances of customers from which revenues were in excess of 10% of total revenue were \$3.8 million and \$5.0 million at March 31, 2021 and 2020, respectively.

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

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

International sales accounted for approximately 26% and 25% of the Company's total revenue for the three months ended March 31, 2021 and 2020, respectively. International sales accounted for approximately 28% and 25% of the Company's total revenue for the six months ended March 31, 2021 and 2020, respectively. From a geographic perspective, approximately 35% and 66% of the Company's total long-term assets as of March 31, 2021 and September 30, 2020, respectively, are associated with the Company's international subsidiaries. From a geographic perspective, approximately 5% and 15% of the Company's total long-term assets excluding goodwill and other intangible assets as of March 31, 2021 and September 30, 2020, respectively, are associated with the Company's international subsidiaries.

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

This Quarterly Report on Form 10-Q (this “Form 10-Q”), contains “forward-looking statements” that involve risks and uncertainties, as well as assumptions that, if they never materialize or they prove incorrect, could cause our results to differ materially and adversely from those expressed or implied by such forward-looking statements. The forward-looking statements are contained principally in Part I, Item 2—“Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A—“Risk Factors,” but appear throughout this Form 10-Q. Forward-looking statements may include, but are not limited to, statements relating to our outlook or expectations for earnings, revenues, expenses, asset quality, volatility of our common stock, financial condition or other future financial or business performance, strategies, expectations, or business prospects, the duration and impact of the novel COVID-19 pandemic on our business, our customers, and markets generally, or the impact of legal, regulatory, or supervisory matters on our business, results of operations, or financial condition.

Forward-looking statements can be identified by the use of words such as “estimate,” “plan,” “project,” “forecast,” “intend,” “expect,” “anticipate,” “believe,” “seek,” “target,” “will,” “would,” “could,” “can,” “may,” or similar expressions. Forward-looking statements reflect our judgment based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Part II, Item 1A—“Risk Factors” in this Form 10-Q and in our other filings with the U.S. Securities and Exchange Commission (the “SEC”), including our Annual Report on Form 10-K for the fiscal year ended September 30, 2020, filed with the U.S. Securities and Exchange Commission on December 7, 2020, as amended by Amendment No. 1 to the Annual Report on Form 10-K/A (the “Form 10-K”), filed with the SEC on December 11, 2020. Additionally, there may be other factors that could preclude us from realizing the predictions made in the forward-looking statements. We operate in a continually changing business environment and new factors emerge from time to time. We cannot predict such factors or assess the impact, if any, of such factors on our financial position or results of operations. All forward-looking statements included in this Form 10-Q speak only as of the date of this Form 10-Q and you are cautioned not to place undue reliance on any such forward-looking statements. Except as required by law, we undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect any events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

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

Overview

Mitek is a leading innovator of mobile image capture and digital identity verification solutions. We are a software development company with expertise in computer vision, artificial intelligence, and machine learning. We are currently serving more than 7,500 financial services organizations and leading marketplace and financial technology (“fintech”) brands across the globe. Our solutions are embedded in native mobile apps and browsers to facilitate better online user experiences, fraud detection and reduction, and compliant transactions.

Mitek’s Mobile Deposit® solution is used today by millions of consumers in the United States (“U.S.”) and Canada for mobile check deposit. Mobile Deposit® enables individuals and businesses to remotely deposit checks using their camera-equipped smartphone or tablet. Our Mobile Deposit® solution is embedded within the financial institutions’ digital banking apps used by consumers and has now processed approximately five billion check deposits. Mitek began selling Mobile Deposit® in early 2008 and received its first patent for this product in August 2010.

Mitek’s Mobile Verify® verifies a user’s identity online enabling organizations to build safer digital communities. Scanning an identity document helps enable an enterprise to verify the identity of the person with whom they are conducting business, to comply with growing governmental Anti-Money Laundering and Know Your Customer regulatory requirements, and to improve the overall customer experience for digital onboarding. To be sure the person submitting the identity document is who they say they are, Mitek’s Mobile Verify Face Comparison provides an additional layer of online verification and compares the face on the submitted identity document with the live selfie photo of the user.

The combination of identity document capture and data extraction process enables the organization to prefill the end user’s application, with far fewer key strokes, thus reducing keying errors, and improving both operational efficiency and the customer experience. Today, the financial services verticals (banks, credit unions, lenders, payments processors, card issuers, fintech companies, etc.) represent the greatest percentage of use of our solutions, but there is accelerated adoption by marketplaces, sharing economy, and hospitality sectors. Mitek uses artificial intelligence and machine learning to constantly improve the product performance of Mobile Verify® such as speed and accuracy of approvals of identification documents. The core of our user experience is driven by Mitek MiSnap™, the leading image capture technology, which is incorporated across our product lines. It provides a simple, intuitive, and superior user-experience, making digital transactions faster, more accurate, and easier for the consumer. Mobile Fill® automates application prefill of any form with user data by simply snapping a picture of the driver’s license or other similar user identity document.

CheckReader™ enables financial institutions to automatically extract data from a check image received across any deposit channel—branch, ATM, remote deposit capture, and mobile. Through the automatic recognition of all fields on checks, whether handwritten or machine print, CheckReader™ speeds the time to deposit for financial institutions and enables them to comply with check clearing regulations.

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

Second Quarter Fiscal 2021 Highlights

- Revenue for the three months ended March 31, 2021 was \$28.8 million, an increase of 24% compared to revenue of \$23.2 million in the three months ended March 31, 2020.
- Net income was \$1.0 million, or \$0.02 per diluted share, during the three months ended March 31, 2021, compared to net income of \$0.9 million, or \$0.02 per share, during the three months ended March 31, 2020.
- Cash provided by operating activities was \$16.1 million for the six months ended March 31, 2021, compared to \$8.4 million for the six months ended March 31, 2020.
- We added new patents to our portfolio during the second quarter of fiscal 2021 bringing our total number of issued patents to 71 as of March 31, 2021. In addition, we have 17 domestic and international patent applications pending as of March 31, 2021.

Market Opportunities, Challenges & Risks

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

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

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

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

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

We have a growing number of competitors in the mobile image capture and identity verification industry, many of which have greater financial, technical, marketing, and other resources. However, we believe our patented mobile image capture and identity verification technology, our growing portfolio of products and geographic coverage for the financial services industry, and our market expertise gives us a distinct competitive advantage. To remain competitive, we must continue to offer products that are attractive to the

consumer as well as being secure, accurate, and convenient. To help us remain competitive, we intend to further strengthen performance of our portfolio of products through research and development as well as partnering with other technology providers.

In the second quarter of fiscal 2020, concerns related to the spread of COVID-19 began to create global business disruptions as well as disruptions in our operations and to create potential negative impacts on our revenues and other financial results. COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020. In an effort to contain COVID-19 or slow its spread, governments around the world have enacted various measures, including orders to close all businesses not deemed “essential,” isolate residents to their homes or places of residence, and practice social distancing when engaging in essential activities. We anticipate that these actions and the global health crisis caused by COVID-19 will negatively impact business activity across the globe. The extent to which COVID-19 will impact our business, operations, and financial results is uncertain and difficult to predict and depends on numerous evolving factors including the duration and severity of the outbreak. See Item 1A: “Risk Factors” for additional details.

In an effort to protect the health and safety of our employees, our workforce has transitioned to working remotely and employee travel, including to our international subsidiaries, has been severely curtailed. It is not clear what the potential effects of any such alterations or modifications may have on our business, including the effects on our customers or vendors, or on our financial results. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state, local, or foreign authorities, or that we determine are in the best interests of our employees, customers, partners, and stockholders.

We anticipate in certain circumstances that the current stay-at-home orders and impact of the COVID-19 pandemic may accelerate the adoption of digital technologies and create future opportunities and uses for our products. However, we cannot predict what the overall impact of the COVID-19 pandemic will be on our business or financial condition as business and consumer activity decelerates across the globe. Because of our IT infrastructure and the nature of our business, our employees have generally been able to work remotely and productively despite the stay-at-home orders, but future productivity and the effects of COVID-19 on our operations is unknown at this time. We continue to seek new and innovative opportunities to serve our customers’ needs.

Results of Operations

Comparison of the Three Months Ended March 31, 2021 and 2020

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

			Three Months Ended March 31,			
			Percentage of Total Revenue		Increase (Decrease)	
	2021	2020	2021	2020	\$	%
Revenue						
Software and hardware	\$ 13,013	\$ 11,453	45 %	49 %	\$ 1,560	14 %
Services and other	15,760	11,739	55 %	51 %	4,021	34 %
Total revenue	\$ 28,773	\$ 23,192	100 %	100 %	\$ 5,581	24 %
Cost of revenue	3,792	3,186	13 %	14 %	606	19 %
Selling and marketing	8,530	6,686	30 %	29 %	1,844	28 %
Research and development	6,691	5,581	23 %	24 %	1,110	20 %
General and administrative	5,718	5,210	20 %	22 %	508	10 %
Acquisition-related costs and expenses	1,659	1,579	6 %	7 %	80	5 %
Restructuring costs	—	(114)	— %	— %	114	(100)%
Interest expense	1,319	—	5 %	— %	1,319	100 %
Other income, net	372	32	1 %	— %	340	1063 %
Income tax provision	(417)	(188)	(1)%	(1)%	(229)	(122)%
Net income	\$ 1,019	\$ 908	4 %	4 %	\$ 111	12 %

Revenue

Total revenue increased \$5.6 million, or 24%, to \$28.8 million in the three months ended March 31, 2021 compared to \$23.2 million in the three months ended March 31, 2020. Software and hardware revenue increased \$1.6 million, or 14%, to \$13.0 million in the three months ended March 31, 2021 compared to \$11.5 million in the three months ended March 31, 2020. This increase is primarily due to an increase in sales of our Mobile Deposit® and CheckReader™ software products. This increase was partially offset

by a decline in revenue from our identity verification hardware products. Services and other revenue increased \$4.0 million, or 34%, to \$15.8 million in the three months ended March 31, 2021 compared to \$11.7 million in the three months ended March 31, 2020. This increase is primarily due to continued growth in Mobile Verify® transactional SaaS revenue of \$3.1 million, or 50%, in the three months ended March 31, 2021 compared to the same period in 2020, as well as an increase in maintenance revenue associated with CheckReader™ and Mobile Deposit® software sales.

Cost of Revenue

Cost of revenue includes personnel costs related to billable services and software support, direct costs associated with our hardware products, hosting costs, and the costs of royalties for third party products embedded in our products. Cost of revenue increased \$0.6 million, or 19%, to \$3.8 million in the three months ended March 31, 2021 compared to \$3.2 million in the three months ended March 31, 2020. As a percentage of revenue, cost of revenue decreased to 13% in the three months ended March 31, 2021 from 14% in the three months ended March 31, 2020. The increase in cost of revenue is primarily due to an increase in cost of revenues associated with higher variable personnel, hosting and royalty costs associated with a higher volume of Mobile Verify® transactions processed during the three months ended March 31, 2021 compared to the same period in 2020.

Selling and Marketing Expenses

Selling and marketing expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with sales and marketing personnel. Selling and marketing expenses also include non-billable costs of professional services personnel, advertising expenses, product promotion costs, trade shows, and other brand awareness programs. Selling and marketing expenses increased \$1.8 million, or 28%, to \$8.5 million in the three months ended March 31, 2021 compared to \$6.7 million in the three months ended March 31, 2020. As a percentage of revenue, selling and marketing expenses increased to 30% in the three months ended March 31, 2021 from 29% in the three months ended March 31, 2020. The increase in selling and marketing expense is due to higher personnel-related costs resulting from our increased headcount and higher product promotion costs of \$1.8 million in the three months ended March 31, 2021 compared to the same period in 2020. The overall increase in selling and marketing expense was partially offset by a decrease in travel and related expenses as a result of the COVID-19 pandemic during the three months ended March 31, 2021 as compared to the same period in 2020.

Research and Development Expenses

Research and development expenses include payroll, employee benefits, stock-based compensation, third party contractor expenses, and other headcount-related costs associated with software engineering and mobile capture science. Research and development expenses increased \$1.1 million, or 20%, to \$6.7 million in the three months ended March 31, 2021 compared to \$5.6 million in the three months ended March 31, 2020. As a percentage of revenue, research and development expenses decreased to 23% in the three months ended March 31, 2021 from 24% in the three months ended March 31, 2020. The increase in research and development expenses is primarily due to higher personnel-related costs resulting from our increased headcount in the three months ended March 31, 2021 compared to the same period in 2020.

General and Administrative Expenses

General and administrative expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with finance, legal, administration, and information technology functions, as well as third party legal, accounting, and other administrative costs. General and administrative expenses increased \$0.5 million, or 10%, to \$5.7 million in the three months ended March 31, 2021 compared to \$5.2 million in the three months ended March 31, 2020. As a percentage of revenue, general and administrative expenses decreased to 20% in the three months ended March 31, 2021 from 22% in the three months ended March 31, 2020. The increase in general and administrative expenses is primarily due to higher personnel-related costs resulting from our increased headcount during the three months ended March 31, 2021 compared to the same period in 2020.

Acquisition-Related Costs and Expenses

Acquisition-related costs and expenses include amortization of intangible assets, expenses recorded due to changes in the fair value of contingent consideration, stock-based compensation, and other costs associated with acquisitions. Acquisition-related costs and expenses increased \$0.1 million, or 5%, to \$1.7 million in the three months ended March 31, 2021 compared to \$1.6 million in the three months ended March 31, 2020. As a percentage of revenue, acquisition-related costs and expenses decreased to 6% in the three months ended March 31, 2021 from 7% in the three months ended March 31, 2020. The increase in acquisition-related costs and expenses is due to the impact of foreign exchange rates on the amortization of certain intangible assets during the three months ended March 31, 2021 compared to the same period in 2020.

Restructuring Costs

Restructuring costs consist of employee severance obligations and other related costs. There were no restructuring costs in the three months ended March 31, 2021. Restructuring costs were negative \$0.1 million in the three months ended March 31, 2020 and are due to a reversal of costs accrued for the restructuring plan implemented in June 2019.

Interest Expense

Interest expense includes the amortization of debt discount and issuance costs and coupon interest incurred associated with our 0.75% convertible senior notes due 2026 (the “2026 Notes”). Interest expense was \$1.3 million for the three months ended March 31, 2021 and consisted of \$1.1 million of amortization of debt discount and issuance costs and \$0.2 million of coupon interest incurred. There was no interest expense in the three months ended March 31, 2020.

Other Income, Net

Other income, net includes interest income net of amortization and net realized gains or losses on our marketable securities portfolio, foreign currency transactional gains or losses, and the change in fair value of our convertible senior notes hedge and embedded conversion derivative. Other income, net increased \$0.3 million, to \$0.4 million in the three months ended March 31, 2021 compared to \$32,000 in the three months ended March 31, 2020. This increase is primarily due to an increase in interest income as a result of higher cash and investment balances and an overall foreign currency exchange transactional gain recorded during the three months ended March 31, 2021 as compared to an overall foreign currency exchange transactional loss recorded during the same period in 2020.

Income Tax Benefit (Provision)

For the three months ended March 31, 2021, we recorded an income tax provision of \$0.4 million, which yielded an effective tax rate of 29%. For the three months ended March 31, 2020, we recorded an income tax provision of \$0.2 million, or an effective tax rate of 17%. The difference between the U.S. federal statutory tax rate and our effective tax rate for the three months ended March 31, 2021 and 2020 was primarily due to the impact of foreign and state taxes, the impact of certain permanent items on its tax provision, and the impact of federal and state research and development credits on its tax provision.

Comparison of the Six Months Ended March 31, 2021 and 2020

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

	Six Months Ended March 31,					
			Percentage of Total Revenue		Increase (Decrease)	
	2021	2020	2021	2020	\$	%
Revenue						
Software and hardware	\$ 25,315	\$ 22,968	46 %	51 %	\$ 2,347	10 %
Services and other	29,433	22,291	54 %	49 %	7,142	32 %
Total revenue	\$ 54,748	\$ 45,259	100 %	100 %	\$ 9,489	21 %
Cost of revenue	7,930	6,119	14 %	14 %	1,811	30 %
Selling and marketing	15,915	13,334	29 %	29 %	2,581	19 %
Research and development	12,855	10,873	23 %	24 %	1,982	18 %
General and administrative	10,776	10,498	20 %	23 %	278	3 %
Acquisition-related costs and expenses	3,352	3,187	6 %	7 %	165	5 %
Restructuring costs	—	(114)	— %	— %	114	(100)%
Interest expense	1,319	—	2 %	— %	1,319	100 %
Other income, net	468	335	1 %	1 %	133	40 %
Income tax benefit (provision)	117	(229)	— %	(1)%	346	(151)%
Net income	\$ 3,186	\$ 1,468	6 %	3 %	\$ 1,718	117 %

Revenue

Total revenue increased \$9.5 million or 21%, to \$54.7 million in the six months ended March 31, 2021 compared to \$45.3 million in the six months ended March 31, 2020. Software and hardware revenue increased \$2.3 million, or 10%, to \$25.3 million in the six months ended March 31, 2021 compared to \$23.0 million in the six months ended March 31, 2020 primarily due to an increase in sales of our Mobile Deposit®, ID_CLOUD™, and CheckReader™ software products and identity verification hardware products. Services and other revenue increased \$7.1 million, or 32%, to \$29.4 million in the six months ended March 31, 2021 compared to \$22.3 million in the six months ended March 31, 2020 primarily due to strong growth in Mobile Verify® transactional SaaS revenue of \$5.3 million in the six months ended March 31, 2021 compared to the same period in 2020, as well as an increase in maintenance revenue associated with CheckReader™ and Mobile Deposit® software sales and hosted mobile deposit transactional revenue.

Cost of Revenue

Cost of revenue includes personnel costs related to billable services and software support, direct costs associated with our hardware products, hosting costs, and the costs of royalties for third party products embedded in our products. Cost of revenue increased \$1.8 million, or 30%, to \$7.9 million in the six months ended March 31, 2021 compared to \$6.1 million in the six months ended March 31, 2020. As a percentage of revenue, cost of revenue was consistent at 14% in each of the six months ended March 31, 2021 and 2020. The increase in cost of revenue is primarily due to an increase in variable personnel, hosting and royalty costs associated with a higher volume of Mobile Verify® transactions processed during the six months ended March 31, 2021 compared to the same period in 2020.

Selling and Marketing Expenses

Selling and marketing expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with sales, marketing, and product management personnel. Selling and marketing expenses also include non-billable costs of professional services personnel, advertising expenses, product promotion costs, trade shows, and other brand awareness programs. Selling and marketing expenses increased \$2.6 million, or 19%, to \$15.9 million in the six months ended March 31, 2021 compared to \$13.3 million in the six months ended March 31, 2020. As a percentage of revenue, selling and marketing expenses were consistent at 29% in each of the six months ended March 31, 2021 and 2020. The increase in selling and marketing expense is primarily due to higher personnel-related costs resulting from our increased headcount of \$3.0 million and higher product promotion costs of \$0.4 million in the six months ended March 31, 2021 compared to the same period in 2020. The overall increase in selling and marketing expense was partially offset by a decrease in travel and related expenses of \$0.8 million as a result of the COVID-19 pandemic.

Research and Development Expenses

Research and development expenses include payroll, employee benefits, stock-based compensation, third party contractor expenses, and other headcount-related costs associated with software engineering and mobile capture science. Research and development expenses increased \$2.0 million, or 18%, to \$12.9 million in the six months ended March 31, 2021 compared to \$10.9 million in the six months ended March 31, 2020. As a percentage of revenue, research and development expenses decreased to 23% in the six months ended March 31, 2021 from 24% in the six months ended March 31, 2020. The increase in research and development expenses is primarily due to higher personnel-related costs resulting from our increased headcount in the six months ended March 31, 2021 compared to the same period in 2020.

General and Administrative Expenses

General and administrative expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with finance, legal, administration, and information technology functions, as well as third party legal, accounting, and other administrative costs. General and administrative expenses increased \$0.3 million, or 3%, to \$10.8 million in the six months ended March 31, 2021 compared to \$10.5 million in the six months ended March 31, 2020. As a percentage of revenue, general and administrative expenses decreased to 20% in the six months ended March 31, 2021 from 23% in the six months ended March 31, 2020. The increase in general and administrative expenses is primarily due to higher personnel-related costs resulting from our increased headcount of \$0.7 million during the six months ended March 31, 2021 compared to the same period in 2020. This increase is partially offset by a decrease in intellectual property litigation costs of \$0.5 million.

Acquisition-Related Costs and Expenses

Acquisition-related costs and expenses include amortization of intangible assets, expenses recorded due to changes in the fair value of contingent consideration, stock-based compensation, and other costs associated with acquisitions. Acquisition-related costs and expenses increased \$0.2 million, or 5%, to \$3.4 million in the six months ended March 31, 2021 compared to \$3.2 million in the six months ended March 31, 2020. As a percentage of revenue, acquisition-related costs and expenses decreased to 6% in the six months ended March 31, 2021 from 7% in the six months ended March 31, 2020. The increase in acquisition-related costs and expenses is primarily due to the impact of foreign exchange rates on the amortization of certain intangible assets during the six months ended March 31, 2021 compared to the same period in 2020.

Restructuring Costs

Restructuring costs consist of employee severance obligations and other related costs. There were no restructuring costs in the six months ended March 31, 2021. Restructuring costs were negative \$0.1 million in the six months ended March 31, 2020 due to a reversal of costs accrued for the restructuring plan implemented in June 2019.

Interest Expense

Interest expense includes the amortization of debt discount and issuance costs and coupon interest incurred associated with our 2026 Notes. Interest expense was \$1.3 million for six months ended March 31, 2021 and consisted of \$1.1 million of amortization of debt discount and issuance costs and \$0.2 million of coupon interest incurred. There was no interest expense in the six months ended March 31, 2020.

Other Income, Net

Other income, net includes interest income net of amortization and net realized gains or losses on our marketable securities portfolio, foreign currency transactional gains or losses, and the change in fair value of our convertible senior notes hedge and embedded conversion derivative. Other income, net increased \$0.2 million, to \$0.5 million of net income in the six months ended March 31, 2021 compared to \$0.3 million of net income in the six months ended March 31, 2020, primarily due to an increase in interest income as a result of higher cash and investment balances and a higher foreign currency exchange transactional gain.

Income Tax Benefit (Provision)

For the six months ended March 31, 2021, we recorded an income tax benefit of \$0.1 million, which yielded an effective tax rate of negative 4%. For the six months ended March 31, 2020, we recorded an income tax provision of \$0.2 million, or an effective tax rate of 13%. The difference between the U.S. federal statutory tax rate and our effective tax rate for the six months ended March 31, 2021 and 2020 was primarily due to excess tax benefits resulting from the exercise of stock options and vesting of restricted stock, the impact of foreign and state taxes, the impact of certain permanent items on its tax provision, and the impact of federal and state research and development credits on its tax provision.

Liquidity and Capital Resources

On March 31, 2021, we had \$219.5 million in cash and cash equivalents and investments compared to \$62.0 million on September 30, 2020, an increase of \$157.5 million, or 254%. The increase in cash and cash equivalents and investments is primarily due to net proceeds from the issuance of the 2026 Notes of \$140.4 million (net of sale of warrants and purchase of convertible senior notes hedge), net cash provided by operating activities of \$16.1 million, and proceeds from the issuance of our common stock, par value \$0.001 ("Common Stock") under our equity plan of \$2.8 million. These increases were partially offset by the payment of acquisition-related contingent consideration of \$0.8 million and capital expenditures of \$0.7 million.

Cash Flows from Operating Activities

Net cash provided by operating activities during the six months ended March 31, 2021 was \$16.1 million and resulted primarily from net income of \$3.2 million, net non-cash charges of \$10.8 million, and favorable changes in operating assets and liabilities of \$2.0 million. The primary non-cash adjustments to operating activities were stock-based compensation expense, amortization of intangible assets, accretion and amortization on debt securities & other, depreciation and amortization, and amortization of investment premiums and other totaling \$5.7 million, \$3.4 million, \$1.1 million, \$0.8 million, and \$0.3 million, respectively, which were partially offset by a deferred tax benefit of \$0.5 million.

Net cash provided by operating activities during the six months ended March 31, 2020 was \$8.4 million and resulted primarily from net income of \$1.5 million adjusted for non-cash charges of \$9.0 million as well as favorable changes in operating assets and liabilities of \$2.1 million. The primary non-cash adjustments to operating activities were stock-based compensation expense,

amortization of intangible assets, depreciation and amortization, and deferred taxes totaling \$4.6 million, \$3.2 million, and \$0.7 million and \$0.5 million, respectively.

Cash Flows from Investing Activities

Net cash used in investing activities was \$124.7 million during the six months ended March 31, 2021, which consisted primarily of net purchases of investments of \$124.1 million and capital expenditures of \$0.7 million.

Net cash used in investing activities was \$7.8 million during the six months ended March 31, 2020, which consisted primarily of net purchases of investments of \$7.4 million and capital expenditures of \$0.4 million.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$142.6 million during the six months ended March 31, 2021, which consisted of net proceeds from the issuance of the 2026 Notes of \$149.7 million, proceeds from the issuance of equity plan Common Stock of \$2.8 million, and proceeds from other borrowings of \$0.3 million partially offset by net cash used for the call spreads on the sales and purchases of warrants and convertible senior notes hedge issued in connection with the 2026 Notes of \$9.3 million, and payment of acquisition-related contingent consideration of \$0.8 million.

Net cash used in financing activities was \$0.3 million during the six months ended March 31, 2020, which consisted of repurchases and retirements of Common Stock of \$1.0 million, payment of acquisition-related contingent consideration of \$0.5 million, and principal payments on other borrowings of \$0.1 million, partially offset by net proceeds from the issuance of equity plan Common Stock of \$1.3 million.

0.75% Convertible Senior Notes due 2026

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

The net proceeds from this offering were approximately \$149.7 million, after deducting the Initial Purchasers' discounts and commissions and the Company's estimated offering expenses related to the offering. The 2026 Notes will mature on February 1, 2026, unless earlier redeemed, repurchased or converted. The 2026 Notes will bear interest from February 5, 2021 at a rate of 0.750% per year payable semiannually in arrears on February 1 and August 1 of each year, beginning on August 1, 2021. The 2026 Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding August 1, 2025, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2021, if the last reported sale price per share of the Company's common stock, \$0.001 par value (the "Common Stock") exceeds 130% of the conversion price for each of at least 20 trading days during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter; (2) during five consecutive business days immediately after any five consecutive trading day period (such five consecutive trading day period, the "measurement period") in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price per share of the Common Stock on such trading day and the conversion rate on such trading day; and (3) upon the occurrence of certain corporate events or distributions on the Common Stock. On or after August 1, 2025, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of the 2026 Notes, in multiples of \$1,000 principal amount, at the option of the holder regardless of the foregoing circumstances. Upon conversion, the Company may satisfy its conversion obligation by paying and/or delivering, as the case may be, cash and, if applicable at the Company's election, shares of the Common Stock, based on the applicable conversion rate(s); provided that the Company will be required to settle conversions solely in cash unless and until the Company (i) receives stockholder approval to increase the number of authorized shares of the Common Stock and (ii) reserves such amount of shares of the Common Stock for future issuance as required pursuant to the indenture that will govern the 2026 Notes. The conversion rate for the 2026 Notes will initially be 47.9731 shares of the Common Stock per \$1,000 principal amount of 2026 Notes, which is equivalent to an initial conversion price of approximately \$20.85 per share of the Common Stock. The initial conversion price of the 2026 Notes represents a premium of approximately 37.5% to the \$15.16 per share last reported sale price of the Common Stock on February 2, 2021. The conversion rate is subject to adjustment under certain circumstances in accordance with the terms of the Indenture. The impact of the convertible feature will be dilutive to our earnings per share when our average stock price for the period is greater than the conversion price.

In connection with the issuance of the 2026 Notes, we entered into transactions for convertible notes hedge (the "Notes Hedge") and warrants (the "Warrant Transactions"). The Notes Hedge was entered into with Bank of America, N.A., Jefferies International Limited and Goldman Sachs & Co. LLC, and provided the Company with the option to acquire, on a net settlement basis, approximately 7.4 million shares of common stock at a strike price of \$20.85, which is equal to the number of shares of common stock

that notionally underlie and corresponds to the conversion price of the 2026 Notes. The cost of the Notes Hedge was \$33.2 million. The Notes Hedge will expire on February 1, 2026, equal to the maturity date of the 2026 Notes. The Notes Hedge is expected to reduce the potential equity dilution upon conversion of the 2026 Notes if the daily volume-weighted average price per share of our common stock exceeds the strike price of the Notes Hedge.

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

Rights Agreement

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

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

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

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

Share Repurchase Program

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

CARES Act

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. We continue to examine the impacts the CARES Act may have on our business.

Other Liquidity Matters

On March 31, 2021, we had investments of \$165.6 million, designated as available-for-sale debt securities, which consisted of commercial paper, corporate issuances, and asset-backed securities, carried at fair value as determined by quoted market prices for identical or similar assets, with unrealized gains and losses, net of tax, and reported as a separate component of stockholders' equity. All securities whose maturity or sale is expected within one year are classified as "current" on the consolidated balance sheets. All other securities are classified as "long-term" on the consolidated balance sheets. At March 31, 2021, we had \$131.3 million of our available-for-sale securities classified as current and \$34.3 million of our available-for-sale securities classified as long-term. At September 30, 2020, we had \$40.0 million of our available-for-sale securities classified as current and \$2.0 million of our available-for-sale securities classified as long-term.

We had working capital of \$182.6 million at March 31, 2021 compared to \$59.8 million at September 30, 2020.

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

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements as of March 31, 2021.

Changes in Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of the consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. We review our estimates on an on-going basis, including those related to revenue recognition, stock-based compensation, income taxes and the valuation of goodwill, intangibles and other long-lived assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. The critical accounting policies and estimates used in the preparation of our consolidated financial statements are described in Item 7—“Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in the Form 10-K for the year ended September 30, 2020.

In February 2021, the Company issued the 2026 Notes. Concurrently with the issuance of the 2026 Notes, the Company entered into the Notes Hedge and Warrant Transactions. See *Convertible Senior Notes Hedge and Embedded Conversion Derivative* in Note 1. “Nature of Operations and Summary of Significant Accounting Policies” for our new policy surrounding these items and Note 7. “Convertible Senior Notes” for additional information related to these transactions. Other than the aforementioned, there have been no other material changes to our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended September 30, 2020.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rates

The primary objective of our investment activities is to preserve principal while at the same time maximizing after-tax yields without significantly increasing risk. To achieve this objective, we maintain our investment portfolio of cash equivalents and marketable securities in a variety of securities, including corporate debt securities, commercial paper, certificates of deposit, and asset-backed securities. We have not used derivative financial instruments in our investment portfolio, and none of our investments are held for trading or speculative purposes. Short-term and long-term debt securities are generally classified as available-for-sale and consequently are recorded on the consolidated balance sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of estimated tax. As of March 31, 2021, our marketable securities had remaining maturities between approximately one and 42 months and a fair market value of \$165.6 million, representing 47% of our total assets.

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

Foreign Currency Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. We recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2021.

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, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding our legal proceedings, see Note 8 to the consolidated financial statements included in this Form 10-Q and Item 3—“Legal Proceedings” in the Form 10-K. In addition to the legal proceedings discussed in Note 8, the Company is subject to various claims and legal proceedings arising in the ordinary course of its business. While any legal proceeding has an element of uncertainty, the Company believes that the disposition of such matters, in the aggregate, will not have a material effect on the Company’s financial condition or results of operations.

ITEM 1A. RISK FACTORS

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

Risks Associated With Our Indebtedness

Our indebtedness and liabilities could limit the cash flow available for our operations, expose us to risks that could adversely affect our business, financial condition and results of operations and impair our ability to satisfy our obligations under the 2026 Notes.

In February 2021, we issued \$155.3 million aggregate principal amount of the 2026 Notes and may also incur additional indebtedness to meet future financing needs. Our indebtedness could have significant negative consequences for our security holders and our business, results of operations and financial condition by, among other things:

- making it difficult for us to satisfy our obligations, including debt service obligations;
- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing or refinance debt;
- requiring the dedication of a substantial portion of our cash flow from operations to service our indebtedness, which will reduce the amount of cash available for other purposes;
- limiting our flexibility to plan for, or react to, changes in our business and the industry in which we operate;
- diluting the interests of our existing stockholders as a result of issuing shares of our common stock upon conversion of the 2026 Notes; and
- placing us at a possible competitive disadvantage with competitors that are less leveraged than us or have better access to capital.

Our business may not generate sufficient funds, and we may otherwise be unable to maintain sufficient cash reserves, to pay amounts due under our indebtedness, and our cash needs may increase in the future. In addition, any future indebtedness that we may incur may contain financial and other restrictive covenants that limit our ability to operate our business, raise capital or make payments under our other indebtedness. If we fail to comply with these covenants or to make payments under our indebtedness when due, then we would be in default under that indebtedness, which could, in turn, result in that and our other indebtedness becoming immediately payable in full.

We may be unable to raise the funds necessary to repurchase the 2026 Notes for cash following a fundamental change, or to pay any cash amounts due upon conversion, and our future indebtedness may limit our ability to repurchase the 2026 Notes or pay cash upon their conversion.

Holders of the 2026 Notes may in certain circumstances require us to repurchase their 2026 Notes following a fundamental change at a cash repurchase price generally equal to the principal amount of the 2026 Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion, we will satisfy all of our conversion obligation in cash until we receive stockholder approval and thereafter, part or all of such conversion obligation in cash. We may not have enough available cash or be able to obtain financing at the time we are required to repurchase the 2026 Notes or pay the cash amounts due upon conversion. In addition, applicable law, regulatory authorities and the agreements governing our other indebtedness may restrict our ability to repurchase the 2026 Notes or pay the cash amounts due upon conversion. Our failure to repurchase 2026 Notes or to pay the cash amounts due upon conversion when required will constitute a default under the Indenture. A default under the Indenture or the fundamental change itself could also lead to a default under agreements governing our other indebtedness, which may result in that

other indebtedness becoming immediately payable in full. We may not have sufficient funds to satisfy all amounts due under the other indebtedness and the 2026 Notes.

Provisions in the 2026 Notes Indenture could delay or prevent an otherwise beneficial takeover of us.

Certain provisions in the 2026 Notes and the Indenture could make a third party attempt to acquire us more difficult or expensive. For example, if a takeover constitutes a fundamental change, then holders of the 2026 Notes will have the right to require us to repurchase their 2026 Notes for cash. In addition, if a takeover constitutes a make-whole fundamental change, then we may be required to temporarily increase the conversion rate. In either case, and in other cases, our obligations under the 2026 Notes and the Indenture could increase the cost of acquiring us or otherwise discourage a third party from acquiring us or removing incumbent management, including in a transaction that holders of our common stock may view as favorable.

The accounting method for the 2026 Notes could adversely affect our reported financial condition and results.

The accounting method for reflecting the 2026 Notes on our balance sheet, accruing interest expense for the 2026 Notes and reflecting the underlying shares of our common stock in our reported diluted earnings per share may adversely affect our reported earnings and financial condition.

As described in Note 7. “Convertible Senior Notes” to the consolidated financial statements included in this Form 10-Q, we will be required to settle conversions of the 2026 Notes entirely in cash unless and until we (1) receive stockholder approval to increase the number of authorized shares of our common stock and (2) reserve such amount of shares of common stock for future issuance as required pursuant to the Indenture that governs the 2026 Notes. Accordingly, the conversion option that is part of the 2026 Notes will be accounted for as a derivative pursuant to accounting standards relating to derivative instruments and hedging activities. In general, this will result in an initial valuation of the conversion option, which will be bifurcated from the debt component of the 2026 Notes, resulting in an original issue discount. The original issue discount will be accreted to interest expense over the term of the 2026 Notes, which will result in an effective interest rate reported in our consolidated statements of operations and comprehensive income significantly in excess of the stated coupon rate of the 2026 Notes.

This accounting treatment will reduce our earnings and could adversely affect the price at which our common stock trades, but it will not affect the amount of cash interest paid to holders of the 2026 Notes or our cash flows.

For each financial statement period after issuance of the 2026 Notes unless and until we obtain the stockholder approval described in Note 7. “Convertible Senior Notes” to the consolidated financial statements included in this Form 10-Q, a gain (or loss) will be reported in our consolidated statements of operations and other comprehensive income to the extent the valuation of the conversion option changes from the previous period. The Notes Hedge transactions will also be accounted for as a derivative instrument until such time that we receive stockholder approval to increase our authorized share count by a sufficient number of shares as required under the Indenture, offsetting the gain (or loss) associated with changes to the valuation of the conversion option. Although we do not expect there to be a material net impact to our consolidated statements of operations and comprehensive income as a result of our issuing the 2026 Notes and entering into the Notes Hedge, we cannot assure you that these transactions will be completely offset, which may result in volatility to our consolidated statements of operations and comprehensive income.

If we obtain stockholder approval, we expect that, under applicable accounting principles, we will continue carrying on the balance sheet a debt discount for accounting purposes, which will be accreted into interest expense over the term of the 2026 Notes. As a result of this accretion, the interest expense that we expect to recognize for the 2026 Notes for accounting purposes will be greater than the cash interest payments we will pay on the 2026 Notes, which will result in lower reported income or higher reported loss. The lower reported income or higher reported loss resulting from this accounting treatment could depress the trading price of our common stock. However, in August 2020, the Financial Accounting Standards Board published an Accounting Standards Update, which we refer to as ASU 2020-06 and which will be required to be effective for us for fiscal years beginning after December 15, 2021 (or, in the case of smaller reporting companies, December 15, 2023), including interim periods within those fiscal years. However, early adoption is permitted in certain circumstances for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. When effective, we expect that ASU 2020-06 will eliminate the separate accounting described above and reduce the interest expense that we expect to recognize for the 2026 Notes for accounting purposes. We expect that we will early adopt ASU 2020-06 beginning in our fiscal year 2022, commencing as of October 1, 2021.

In addition, we expect to be eligible to use the treasury stock method to reflect the shares underlying the 2026 Notes in our diluted earnings per share. Under this method, if the conversion value of the 2026 Notes exceeds their principal amount for a reporting period, then we will calculate our diluted earnings per share assuming that all the 2026 Notes were converted and that we issued shares of our common stock to settle the excess. However, if reflecting the 2026 Notes in diluted earnings per share in this manner is anti-dilutive, or if the conversion value of the 2026 Notes does not exceed their principal amount for a reporting period, then the shares underlying the 2026 Notes will not be reflected in our diluted earnings per share. In addition, if accounting standards change in the future and we are not permitted to use the treasury stock method, then our diluted earnings per share may decline. For example, ASU 2020-06 amends these accounting standards, effective as of the dates referred to above, to eliminate the treasury stock method for convertible instruments and instead require application of the “if converted” method. Under the “if-converted” method, diluted earnings per share would generally be calculated assuming that all the 2026 Notes were converted at the beginning of the reporting period, unless the result would be anti-dilutive. The application of the if-converted method may reduce our reported diluted earnings

per share. Because we are required, upon conversion of any 2026 Notes, to settle the conversion value in cash up to at least the principal amount of 2026 Notes being converted, we currently expect that the application of the “if-converted” method to the 2026 Notes under ASU 2020-06 will be substantially similar to the treasury stock method described above.

Furthermore, if any of the conditions to the convertibility of the 2026 Notes is satisfied, then we may be required under applicable accounting standards to reclassify the liability carrying value of the 2026 Notes as a current, rather than a long-term, liability. This reclassification could be required even if no noteholders convert their 2026 Notes and could materially reduce our reported working capital.

The conditional conversion feature of the 2026 Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the 2026 Notes is triggered, holders of 2026 Notes will be entitled to convert the 2026 Notes at any time during specified periods at their option. If one or more holders elect to convert their 2026 Notes, we would be required to settle the conversion value solely in cash until we receive stockholder approval and thereafter, up to at least the principal amount being converted which could adversely affect our liquidity.

Risks Related to Investing in Our Common Stock

The Notes Hedge and Warrant Transactions may affect the value of our common stock.

In connection with the pricing of the 2026 Notes, we entered into the Notes Hedge with the Option Counterparties. We also entered into Warrant Transactions with the Option Counterparties. The Notes Hedge is expected generally to reduce or offset potential dilution to our common stock upon any conversion of the 2026 Notes and/or offset any cash payments we may be required to make in excess of the principal amount of converted 2026 Notes, as the case may be. However, the Warrant Transactions could separately have a dilutive effect to the extent that the market value per share of our common stock exceeds the strike price of the warrants.

The Option Counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions from time to time prior to the maturity of the 2026 Notes (and are likely to do so during any observation period relating to a conversion of 2026 Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock.

The Option Counterparties may choose to engage in, or to discontinue engaging in, any of these transactions with or without notice at any time, and their decisions will be in their sole discretion.

We will be subject to counterparty risk with respect to the Notes Hedge transactions.

The Option Counterparties are financial institutions, and we will be subject to the risk that one or more of the Option Counterparties might default under their respective Notes Hedges. Our exposure to the credit risk of the Option Counterparties will not be secured by any collateral. Recent global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If any Option Counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under our transactions with such Option Counterparty.

Our exposure will depend on many factors, but, generally, the increase in our exposure will be correlated to the increase in the market price and in the volatility of our common stock. In addition, upon a default by any Option Counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of any of the Option Counterparties.

Conversion of the 2026 Notes or exercise of the warrants evidenced by the Warrant Transactions may dilute the ownership interest of existing stockholders.

Any stock issued upon conversion of the 2026 Notes will dilute the ownership interests of existing stockholders. Furthermore, the warrants evidenced by the Warrant Transactions are expected to be settled on a net-share basis. As a result, the conversion of some or all of the 2026 Notes or the exercise of some or all of such warrants may dilute the ownership interests of existing stockholders. Any sales in the public market of the shares of our common stock issuable upon such conversion of the 2026 Notes or such exercise of the warrants could adversely affect prevailing market prices of our common stock and, in turn, the price of the 2026 Notes. In addition, the existence of the 2026 Notes may encourage short selling by market participants because the conversion of the 2026 Notes could depress the price of our common stock.

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

There were no unregistered sales of the Company’s equity securities during the quarter ended March 31, 2021, that were not previously disclosed in a Current Report on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description	Incorporated by Reference from Document
2.1**	<u>Share Purchase Agreement, dated October 16, 2017, by and among Mitek Systems, Inc., Mitek Systems Holdings B.V., and the shareholders of ICAR Vision Systems, S.L.</u>	(1)
2.2**	<u>Share Purchase Agreement, dated May 23, 2018, by and among Mitek Systems, Inc., the shareholders of A2iA Group II, S.A.S. and Andera Partners, S.C.A., as representative of the Sellers.</u>	(2)
3.1	<u>Restated Certificate of Incorporation of Mitek Systems, Inc., as amended.</u>	(3)
3.2	<u>Second Amended and Restated Bylaws of Mitek Systems, Inc.</u>	(4)
3.3	<u>Certificate of Designation of Series B Junior Participating Preferred Stock.</u>	(5)
4.1	<u>Indenture, dated as of February 5, 2021, between Mitek Systems, Inc. and UMB Bank, National Association.</u>	(6)
10.1	<u>Mitek Systems, Inc. Cash Incentive Program Fiscal 2021.</u>	(7)
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u>	*
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u>	*
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	*
101.INS	Inline XBRL Instance Document. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.	*
101.SCH	Inline XBRL Taxonomy Extension Schema Linkbase Document.	*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	*
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).	*

* Filed herewith.

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

- (1) Incorporated by reference to the Company's Current Report on Form 8-K/A filed with the SEC on October 20, 2017.
- (2) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on May 23, 2018.
- (3) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.
- (4) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on November 10, 2014.
- (5) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on October 23, 2018.
- (6) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on February 5, 2021.
- (7) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on January 25, 2021.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 6, 2021

MITEK SYSTEMS, INC.

By: /s/ Scipio Maximus Carnecchia

Scipio Maximus Carnecchia
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jeffrey C. Davison

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

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

I, Scipio Maximus Carnecchia, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mitek Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 6, 2021

/s/ Scipio Maximus Carnecchia

Scipio Maximus Carnecchia
Chief Executive Officer
(Principal Executive Officer)

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

I, Jeffrey C. Davison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mitek Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 6, 2021

/s/ Jeffrey C. Davison

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

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

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

1. This Quarterly Report on Form 10-Q for the period ended March 31, 2021 (this "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. The information contained in this Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period covered by this Quarterly Report.

May 6, 2021

/s/ Scipio Maximus Carnecchia

Scipio Maximus Carnecchia
Chief Executive Officer
(Principal Executive Officer)

May 6, 2021

/s/ Jeffrey C. Davison

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

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

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