

MITEK SYSTEMS INC
Form 10-Q
February 06, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended December 31, 2012

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

For the transition period from _____ to _____.

Commission File Number 001-35231

MITEK SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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Delaware (State or Other Jurisdiction of Incorporation or Organization)	87-0418827 (I.R.S. Employer Identification No.)
San Diego, California (Address of Principal Executive Offices) 8911 Balboa Ave., Suite B	92123 (Zip Code) (858) 309-1700 (Registrant's Telephone Number, Including Area Code)

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

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

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

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>	x
Non-Accelerated Filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company <input type="checkbox"/>	..
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		

There were 26,091,283 shares of the registrant's common stock outstanding as of February 1, 2013.

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MITEK SYSTEMS, INC.

FORM 10-Q

For The Quarterly Period Ended December 31, 2012

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Table of Contents**PART I****FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****MITEK SYSTEMS, INC.****BALANCE SHEETS**

	December 31, 2012 (Unaudited)	September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,592,950	\$ 6,702,090
Short-term investments	4,663,159	5,819,537
Accounts receivable, net	1,624,225	1,097,311
Other current assets	431,239	485,165
Total current assets	16,311,573	14,104,103
Long-term investments	828,000	2,085,690
Property and equipment, net	757,584	491,079
Other non-current assets	42,049	42,049
Total assets	\$ 17,939,206	\$ 16,722,921
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,155,898	\$ 711,950
Accrued payroll and related taxes	871,557	726,965
Deferred revenue	2,439,581	1,632,085
Other current liabilities	55,408	31,656
Total current liabilities	4,522,444	3,102,656
Other non-current liabilities	521,576	63,586
Total liabilities	5,044,020	3,166,242
Stockholders' equity:		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized, none issued and outstanding		
Common stock, \$0.001 par value, 40,000,000 shares authorized, 26,041,283 and 25,995,216 issued and outstanding, respectively	26,041	25,995
Additional paid-in capital	37,684,416	36,990,691
Accumulated other comprehensive income (loss)	3,762	(616)
Accumulated deficit	(24,819,033)	(23,459,391)
Total stockholders' equity	12,895,186	13,556,679
Total liabilities and stockholders' equity	\$ 17,939,206	\$ 16,722,921

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

Table of Contents**MITEK SYSTEMS, INC.****STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended December 31,	
	2012	2011
Revenue		
Software	\$ 2,570,706	\$ 2,892,026
Maintenance and professional services	738,958	627,458
Total revenue	3,309,664	3,519,484
Operating costs and expenses		
Cost of revenue-software	192,606	147,660
Cost of revenue-maintenance and professional services	147,390	154,609
Selling and marketing	1,264,052	850,928
Research and development	1,402,753	1,179,106
General and administrative	1,668,929	1,163,228
Total operating costs and expenses	4,675,730	3,495,531
Operating (loss) income	(1,366,066)	23,953
Other income (expense), net		
Interest and other expense, net	(43,693)	(67,065)
Interest income	50,117	74,024
Total other income (expense), net	6,424	6,959
Income (loss) before income taxes	(1,359,642)	30,912
Provision for income taxes		(4,637)
Net (loss) income	\$ (1,359,642)	\$ 26,275
Net (loss) income per share basic	\$ (0.05)	\$ 0.00
Net (loss) income per share diluted	\$ (0.05)	\$ 0.00
Shares used in calculating basic net (loss) income per share	26,024,288	24,390,215
Shares used in calculating diluted net (loss) income per share	26,024,288	27,817,545

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

Table of Contents**MITEK SYSTEMS, INC.****STATEMENTS OF CASH FLOWS**

(Unaudited)

	Three Months Ended December 31,	
	2012	2011
Operating activities:		
Net (loss) income	\$ (1,359,642)	\$ 26,275
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Stock-based compensation expense	656,534	501,697
Accretion and amortization on debt securities	97,751	
Depreciation and amortization	48,616	59,997
Provision (recovery) for doubtful accounts	(2,773)	4,206
Changes in assets and liabilities:		
Accounts receivable	(524,141)	(113,364)
Other assets	(2,157)	19,579
Accounts payable	443,948	183,315
Accrued payroll and related taxes	144,592	148,869
Deferred revenue	807,496	359,464
Other liabilities	485,802	(29,410)
Net cash provided by operating activities	796,026	1,160,628
Investing activities:		
Purchases of investments	(308,956)	(219,268)
Sales and maturities of investments	2,685,734	
Purchases of property and equipment	(315,121)	(43,304)
Net cash provided by (used in) investing activities	2,061,657	(262,572)
Financing activities:		
Proceeds from exercise of stock options	37,237	161,130
Principal payments on capital lease obligations	(4,060)	(3,436)
Net cash provided by financing activities	33,177	157,694
Net increase in cash and cash equivalents	2,890,860	1,055,750
Cash and cash equivalents at beginning of period	6,702,090	5,655,716
Cash and cash equivalents at end of period	\$ 9,592,950	\$ 6,711,466
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 2,192	\$ 3,122
Cash paid for income taxes	\$	\$ 800
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized holding gain on available for sale investments	\$ 4,378	\$ 4,931

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Capital lease obligations incurred	\$	\$ 95,388
Cashless exercise of options and warrants	\$	\$ 82

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

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MITEK SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

The Company applies its patented technology in image capture, correction and intelligent data extraction in the mobile financial and business applications market. The Company's technology for extracting data from any image taken using camera-equipped smartphones and tablets enables the development of consumer-friendly software products that use the camera as a simple mechanism to enter data and complete transactions. Users take a picture of the document and the Company's products correct image distortion, extract relevant data, route images to their desired location and process transactions through users' financial institutions.

The Company's *Mobile Deposit*® product is software that allows users to remotely deposit a check using their camera-equipped smartphone or tablet. As of December 31, 2012, 708 financial institutions, including 32 of the top 50 U.S. retail banks and payment processing companies, have signed agreements to deploy *Mobile Deposit*®. Of the 708 financial institutions, 318 have deployed *Mobile Deposit*® to their customers. Other mobile imaging software solutions the Company offers include *Mobile Photo Bill Pay*, a mobile bill payment product that allows users to pay their bills using their camera-equipped smartphone or tablet, *Mobile Balance Transfer*, a product that allows credit card issuers to provide an offer to users and allows such users to transfer an existing credit card balance by capturing an image of the user's current credit card statement, *Mobile Enrollment*™, a product that enables users to enroll their checking account as a funding source for mobile payments by taking a photo of a blank check with their camera-equipped smartphone or tablet, and *Mobile Photo Quoting*, a product that enables users to receive insurance quotes by using their camera-equipped smartphone or tablet to take a picture of their driver's license and insurance card. The Company's mobile imaging software solutions can be deployed on all major smartphone and tablet operating systems.

The Company markets and sells its mobile imaging software solutions through channel partners or directly to enterprise customers and end-users that typically purchase licenses based on the number of transactions processed or the number of subscribers that use the Company's mobile software. The Company's mobile imaging software solutions are often embedded in other mobile banking or enterprise applications developed by banks, insurance companies or their partners, and marketed under their own proprietary brands.

Basis of Presentation

The accompanying unaudited financial statements of the Company as of December 31, 2012 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"). We believe the footnotes and other disclosures made are adequate for a fair presentation of the results of the interim periods presented. The financial statements include all adjustments (solely of a normal recurring nature) which are, in the opinion of management, necessary to make the information presented not misleading. You should read these financial statements and the accompanying notes in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012, filed with the Securities and Exchange Commission (the "SEC") on December 7, 2012 (the Form 10-K).

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. On an ongoing basis,

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management reviews its estimates based upon currently available information. Actual future results could differ materially from those estimates.

Table of Contents***Net Income (Loss) Per Share***

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

At December 31, 2012 and 2011, the following potentially dilutive common shares were excluded from the earnings per share calculation, as they would have been antidilutive:

	2012	2011
Stock options	3,780,471	246,500
Warrants	6,667	
Restricted stock units	719,167	
 Total potentially dilutive common shares outstanding	 4,506,305	 246,500

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

	Three months ended	
	December 31,	2012
	2011	\$
Net (loss) income	\$ (1,359,642)	\$ 26,275
 Weighted-average common shares outstanding basic	 26,024,288	 24,390,215
 Effect of dilutive securities	 3,427,330	
 Weighted-average common shares and share equivalents outstanding diluted	 26,024,288	 27,817,545
 Net (loss) income per share basic	 \$ (0.05)	 \$ 0.00
 Net (loss) income per share diluted	 \$ (0.05)	 \$ 0.00

Revenue Recognition

Revenue from sales of software licenses sold through direct and indirect channels is recognized upon shipment of the related product, if the requirements of FASB ASC Topic 985-605, *Software Revenue Recognition* (ASC 985-605) are met, including evidence of an arrangement, delivery, fixed or determinable fee, collectability and vendor specific objective evidence (VSOE) of the fair value of the undelivered element. If the requirements of ASC 985-605 are not met at the date of shipment, revenue is not recognized until such elements are known or resolved. Revenue from customer support services, or maintenance revenue, includes post-contract support and the rights to unspecified upgrades and enhancements. VSOE of fair value for customer support services is determined by reference to the price the customer pays for such element when sold separately; that is, the renewal rate offered to customers. In those instances when objective and reliable evidence of fair value exists for the undelivered items but not for the delivered items, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items. Revenue from post-contract customer support is recognized ratably over the term of the contract. Certain customers have agreements that provide for usage fees above fixed minimums. Fixed minimum transaction fees are recognized as

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revenue ratably over the term of the arrangement. Usage fees above fixed minimums are recognized as revenue when such amounts are reasonably estimable and billable. Revenue from professional services is recognized when such services are delivered. When a software sales arrangement requires professional services related to significant production, modification or customization of software, or when a customer considers professional services essential to the functionality of the software product, revenue is recognized based on predetermined milestone objectives required to complete the project, as those milestone objectives are deemed to be substantive in relation to the work performed. Any expected losses on contracts in progress are recorded in the period in which the losses become probable and reasonably estimable.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. The allowance for doubtful accounts reflects the Company's best estimate for probable losses inherent in accounts receivable balances. Management determines the allowance based on known troubled accounts, historical experience and other currently available evidence. The allowance for doubtful accounts was \$15,000 and \$17,773 as of December 31, 2012 and September 30, 2012, respectively.

Table of Contents*Software Development Costs*

Research and development costs are charged to expense as incurred. However, the 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, related overhead incurred to develop new products and upgrade and enhance the Company's current products and 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 periods ended December 31, 2012 and September 30, 2012, no software development costs were capitalized because the time period and cost incurred between technological feasibility and general release for all software product releases was insignificant.

Fair Value of Equity Instruments

The fair value of equity instruments involves significant estimates based on underlying assumptions made by management. The fair value for purchase rights under the Company's equity plans is measured at the grant date using a Black-Scholes valuation model, which involves estimates of stock volatility, expected life of the instruments and other assumptions and using the closing price of the Company's common stock on the grant date for restricted stock units. The fair value of stock-based awards is recognized as an expense over the requisite term of the award.

Deferred Income Taxes

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

Comprehensive Income (Loss)

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

	Three months ended December 31,	
	2012	2011
Net income (loss)	\$ (1,359,642)	\$ 26,275
Other comprehensive income (loss):		
Change in unrealized gains/losses on marketable securities	4,378	4,931
Total comprehensive income (loss)	\$ (1,355,264)	\$ 31,206

Accumulated other comprehensive income on the balance sheet at December 31, 2012 includes a net unrealized gain on the Company's available-for-sale securities of \$3,762, compared to a net unrealized loss of approximately \$616 at September 30, 2012.

2. INVESTMENTS

The following table summarizes investments by type of security as of December 31, 2012:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-sale securities:				

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Corporate debt securities, short-term	\$ 4,660,020	\$ 3,616	\$ (477)	\$ 4,663,159
Corporate debt securities, long-term	827,377	623		828,000
Total	\$ 5,487,397	\$ 4,239	\$ (477)	\$ 5,491,159

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The following table summarizes investments by type of security as of September 30, 2012:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-sale securities:				
Corporate debt securities, short-term	\$ 5,818,549	\$ 3,343	\$ (2,355)	\$ 5,819,537
Corporate debt securities, long-term	2,087,294	684	(2,288)	2,085,690
Total	\$ 7,905,843	\$ 4,027	\$ (4,643)	\$ 7,905,227

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

The Company determines the appropriate designation of investments at the time of purchase and reevaluates such designation as of each balance sheet date. All of the Company's investments are designated as available-for-sale debt securities. As of December 31, 2012 and September 30, 2012, 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 tax, 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 that 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 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 related to a credit loss, or securities that management intends to sell before recovery, is recognized in earnings. The amount of an other-than-temporary impairment on debt securities related to other factors is recorded consistent with changes in the fair value of all other available-for-sale securities as a component of stockholders' equity in other comprehensive income. No other-than-temporary impairment charges were recognized in the three months ended December 31, 2012 and 2011.

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 three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which consists of the following:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Based on the fair value hierarchy, all of the Company's investments are classified as Level 2, as represented in the following table:

	December 31, 2012	September 30, 2012
Short-term investments:		
Corporate debt securities		
Industrial	\$ 1,186,251	\$ 2,264,934
Financial	1,110,978	1,604,618
Utility	416,225	
Commercial paper		
Financial	1,198,965	1,197,730
Industrial	349,148	348,817
Certificate of deposit financial	401,592	403,438
Total short-term investments	\$ 4,663,159	\$ 5,819,537
Long-term investments:		
Corporate debt securities		
Financial	\$ 828,000	\$ 1,237,992
Industrial		426,974
Utility		420,724
Total long-term investments	\$ 828,000	\$ 2,085,690

3. CREDIT FACILITY

In January 2011, the Company entered into a loan and security agreement with its primary operating bank. The loan agreement permits the Company to borrow, repay, and re-borrow, from time to time until January 31, 2013, up to \$400,000 subject to the terms and conditions of the agreement. The Company's obligations under the loan agreement are secured by a security interest in its equipment and other personal property. Interest on the credit facility accrues at an annual rate equal to one percentage point above the Prime Rate, fixed on the date of each advance. Interest on the outstanding amount under the loan agreement is payable monthly. The loan agreement contains customary covenants for credit facilities of this type, including limitations on the disposition of assets, mergers and reorganizations. The Company is also obligated to meet certain financial covenants under the loan agreement, including minimum liquidity, with which the Company was in compliance as of December 31, 2012 and 2011.

4. STOCKHOLDERS' EQUITY*Stock-Based Compensation Expense*

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

	Three months ended December 31, 2012		2011
Sales and marketing	\$ 76,653	\$ 69,563	
Research and development	123,578	107,219	
General and administrative	456,303	324,915	
Stock-based compensation expense included in operating expenses		\$ 656,534	\$ 501,697

The fair value calculations for stock-based compensation awards were based on the following assumptions:

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Three months ended

	December 31,	
	2012	2011
Risk-free interest rate	0.18% - 0.71%	0.35% - 1.06%
Expected life (years)	4.91	4.14
Expected volatility	165%	90%
Expected dividends	None	None

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The expected life of options granted is derived using assumed exercise rates based on historical exercise patterns and vesting terms, and represents the period of time that options granted are expected to be outstanding. Expected stock price volatility is based upon implied volatility and other factors, including historical volatility. After assessing all available information on either historical volatility, implied volatility, or both, the Company concluded that a combination of both historical and implied volatility provides the best estimate of expected volatility.

As of December 31, 2012, the Company had \$9,024,393 of unrecognized compensation expense related to outstanding stock options and restricted stock units expected to be recognized over a weighted-average period of approximately 3.1 years.

Stock Options

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

	Number of Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding, September 30, 2012	3,512,286	\$ 3.39	6.46
Granted	394,563	\$ 2.52	
Exercised	(46,067)	\$ 0.81	
Cancelled	(80,311)	\$ 7.77	
Outstanding, December 31, 2012	3,780,471	\$ 3.23	6.53

As of December 31, 2012, the Company had \$6,208,656 of unrecognized compensation expense related to outstanding stock options expected to be recognized over a weighted-average period of approximately 2.9 years. The per share weighted-average fair value of options granted during the three months ended December 31, 2012 was \$2.48.

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

Range of Exercise Prices	Number of Options Outstanding	Weighted Average		Number of Exercisable Options	Weighted Average		Number of Unvested Options
		Remaining Contractual Life (in Years)	Exercise Price		Exercise Price of Exercisable Options		
\$0.09 \$ 0.79	877,935	5.48	\$ 0.60	846,507	\$ 0.60	31,428	
\$0.80 \$ 1.95	946,116	2.51	\$ 1.12	941,251	\$ 1.12	4,865	
\$2.34 \$ 2.60	847,002	8.65	\$ 2.50	209,633	\$ 2.60	637,369	
\$3.33 \$ 9.97	738,668	9.16	\$ 5.96	110,912	\$ 8.91	627,756	
\$11.05 \$ 11.68	370,750	9.13	\$ 11.08	17,991	\$ 11.19	352,759	
	3,780,471	6.53	\$ 3.23	2,126,294	\$ 1.55	1,654,177	

Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the weighted-average exercise price, multiplied by the number of options outstanding or exercisable. The total intrinsic value of options exercised during the three months ended December 31, 2012 and 2011 was \$84,510 and \$3,524,675, respectively. As of December 31, 2012, there were 3,780,471 options outstanding with a weighted-average remaining contractual term, weighted-average exercise price and aggregate intrinsic value of 6.53 years, \$3.23 and \$4,862,479, respectively. As of December 31, 2012, there were 2,126,294 options exercisable with a weighted-average remaining contractual term, weighted-average exercise price and aggregate intrinsic value of 4.57 years, \$1.55 and \$4,304,201, respectively.

2012 Incentive Plan

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In January 2012, the Company's board of directors adopted the Mitek Systems, Inc. 2012 Incentive Plan (the "2012 Plan"), upon the recommendation of the compensation committee of the board of directors. The total number of shares of the Company's common stock reserved for issuance under the 2012 Plan is 2,000,000 shares, plus that number of shares of the Company's common stock that would otherwise return to the available pool of unissued shares reserved for awards under the Company's 1999 Stock Option Plan, 2000 Stock Option Plan, 2002 Stock Option Plan, 2006 Stock Option Plan and 2010 Stock Option Plan (collectively, the "Prior Plans"). There were no awards granted under the Prior Plans after the approval of the 2012 Plan by the Company's stockholders on February 22, 2012. Stock options granted under the Prior Plans that were outstanding at such date remain in effect until such options are exercised or expire.

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The 2012 Plan authorizes the grant of stock options, stock appreciation rights, restricted stock, restricted stock units and cash awards. Stock options granted under the 2012 Plan may be either options intended to constitute incentive stock options or nonqualified stock options, in each case as determined by the compensation committee of the board of directors in accordance with the terms of the 2012 Plan. As of December 31, 2012, stock options to purchase 1,080,063 shares of the Company's common stock and 244,167 restricted stock units were outstanding under the 2012 Plan, and 902,482 shares of the Company's common stock were reserved for future grants.

The following table summarizes the number of stock options outstanding under the Prior Plans as of December 31, 2012:

2000 Stock Option Plan	316,392
2002 Stock Option Plan	243,163
2006 Stock Option Plan	368,000
2010 Stock Option Plan	1,372,853
Total stock options outstanding under the Prior Plans	2,300,408

In May 2003, the President and Chief Executive Officer of the Company was granted an option to purchase up to 400,000 shares of the Company's common stock in connection with his appointment as President and Chief Executive Officer. This grant was made without stockholder approval as an inducement award pursuant to Rule 5635(c)(4) of the NASDAQ Listing Rules. The Company filed a registration statement on Form S-8 with the Securities and Exchange Commission registering the shares subject to the grant on December 15, 2011.

Restricted Stock Units

The following table summarizes restricted stock unit activity under the Company's plans during the three months ended December 31, 2012:

	Number of Shares	Weighted Average Fair Market Value Per Share
Outstanding, September 30, 2012	515,834	\$ 6.30
Granted	215,000	\$ 2.69
Settled		
Cancelled	(11,667)	\$ 11.05
Outstanding, December 31, 2012	719,167	\$ 5.15

The cost of the restricted stock units is determined using the fair value of the Company's common stock on the award date, and the compensation expense is recognized ratably over the vesting period. The Company recognized \$176,158 and \$76,861 in stock-based compensation expense related to the outstanding restricted stock units in the three months ended December 31, 2012 and 2011, respectively. As of December 31, 2012, the Company had \$2,815,737 of unrecognized compensation expense related to outstanding restricted stock units expected to be recognized over a weighted-average period of approximately 3.4 years.

5. INCOME TAXES

The Company's deferred tax assets are primarily comprised of federal and state net operating loss carryforwards. Such carryforwards began to expire in the fiscal year ended September 30, 2011. Under the Tax Reform Act of 1986, the amount of and the benefit from net operating losses that can be carried forward may be limited in certain circumstances. The Company carries a deferred tax valuation allowance equal to 100% of the net deferred tax assets. In recording this allowance, management has considered a number of factors, particularly the Company's recent history of sustained operating losses. Management has concluded that a valuation allowance is required for 100% of the net deferred tax assets as it is more likely than not that the deferred tax assets will not be realized.

The California state net operating loss carryforwards were suspended for the 2011 tax year. Any operating loss carryforwards that will expire prior to utilization as a result of limitations on the ability to utilize such carryforwards will be removed from deferred tax assets with a corresponding reduction of the valuation allowance. There can be no assurance that the Company will ever realize the benefit of any or all of the federal and state net operating loss carryforwards or the credit carryforwards, either due to ongoing operating losses or due to ownership changes, which limit the usefulness of the net operating loss carryforwards. Based on the 100% valuation allowance on the net deferred tax

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assets, the Company does not anticipate that future changes in the Company's unrecognized tax benefits will impact its effective tax rate.

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The Company's policy is to classify interest and penalties related to income tax matters as income tax expense. The Company had no accrual for interest or penalties as of December 31, 2012 or December 31, 2011, and has not recognized interest and/or penalties in the statements of operations for the three months ended December 31, 2012.

6. COMMITMENTS AND CONTINGENCIES

Legal Matters

USAA

On March 29, 2012, United Services Automobile Association ("USAA") filed a complaint in the U.S. District Court for the Western District of Texas San Antonio Division against the Company seeking, among other things, a declaratory judgment that USAA does not infringe certain patents of the Company relating to Mobile Deposit and that such patents are not enforceable against USAA. In addition, USAA alleges that it disclosed confidential information to the Company and that the Company used such information in its patents and Mobile Deposit® product in an unspecified manner. USAA seeks damages and injunctive relief. USAA subsequently amended its pleadings to assert a claim for false advertising and reverse palming off under the Lanham Act, and to seek reimbursement under the parties' license agreement.

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

The courts consolidated the foregoing cases in the U.S. District Court for the Western District of Texas, and on November 19, 2012, the Company answered USAA's various claims and counterclaims, moved to dismiss USAA's Lanham Act cause of action, and filed a counterclaim against USAA for violation of the Lanham Act.

The Company believes that USAA's claims are without merit and intends to vigorously defend against those claims and pursue its claims against USAA. The Company does not believe that the results of USAA's claims will have a material adverse effect on its financial condition or results of operations.

Top Image Systems Ltd.

On September 26, 2012, the Company filed a lawsuit against Israeli-based Top Image Systems Ltd. and TIS America Inc. (collectively "TISA") in the U.S. District Court for the District of Delaware, alleging that TISA infringes five of the Company's patents relating to image capture on mobile devices. The Company is seeking damages against TISA and injunctive relief to prevent them from selling their mobile imaging products.

On January 7, 2013, TISA answered the Company's complaint by denying the allegations and raising several affirmative defenses. On January 11, 2013, the Company amended its complaint to add a sixth patent, which had recently been issued to Company and also relates to image capture on mobile devices.

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. While any legal proceeding has an element of uncertainty, management of the Company believes that the disposition of such matters, in the aggregate, will not have a material effect on the Company's financial condition or results of operations.

Facility Lease

The Company's principal executive offices, as well as its research and development facility, are located in approximately 24,012 square feet of office space in San Diego, California. The lease for such space was due to expire in December 2012. On July 3, 2012, the Company entered into an amendment to the existing lease (the "Lease Amendment"), which decreases the rentable square footage to approximately 22,523 square feet. The Lease Amendment commences on January 1, 2013 and extends the term of the existing lease through June 30, 2019. The annual base rent under the Lease Amendment is approximately \$471,000 per year and is subject to annual increases of approximately three percent per year. In connection with the Lease Amendment, the Company issued a standby letter of credit to the landlord that allows for one or more draws of up to

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\$210,000 over the term of the lease extension. The Company believes its existing properties are in good condition and are sufficient and suitable for the conduct of its business.

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7. REVENUE AND VENDOR CONCENTRATIONS

Revenue Concentration

For the three months ended December 31, 2012, the Company derived revenue of approximately \$1,954,000 from three customers, totaling 28%, 21% and 11% of the Company's total revenue, compared to revenue of approximately \$2,455,000 from four customers, totaling 26%, 16%, 15% and 13% of the Company's total revenue in the three months ended December 31, 2011. The corresponding accounts receivable balances of customers from which revenues were in excess of 10% of total revenue were approximately \$2,347,000 and \$1,827,000 at December 31, 2012 and 2011, respectively.

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

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

International sales accounted for approximately 3% and 2% of the Company's total revenue for the three months ended December 31, 2012 and 2011, respectively. The Company sells its products in U.S. currency only.

Vendor Concentration

The Company purchases its integrated software components from multiple third-party software providers at competitive prices. For the three months ended December 31, 2012, the Company did not make purchases from any one vendor comprising 10% or more of the Company's total purchases. The Company made purchases from one vendor that comprised approximately 10% of the Company's total purchases for the three months ended December 31, 2011. The corresponding accounts payable balance due from the vendor from which purchases were in excess of 10% of total purchases for the three months ended December 31, 2011 was \$9,834. The Company has entered into contractual relationships with some of its vendors; however, the Company does not believe it is substantially dependent upon nor exposed to any significant concentration risk related to purchases from any of its vendors, given the availability of alternative sources for its necessary integrated software components.

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

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

Forward-looking statements can be identified by the use of words such as estimate, plan, project, forecast, intend, expect, anticipate, believe, seek, target or similar expressions. Forward-looking statements reflect our judgment based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below,

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and those discussed in the section titled "Risk Factors" included elsewhere in this Form 10-Q and in our other SEC filings, including the Form 10-K. Additionally, there may be other factors that could preclude us from realizing the predictions made in the forward-looking statements. We operate in a continually changing business environment and new factors emerge from time to time. We cannot predict such factors or assess the impact, if any, of such factors on our financial position or

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results of operations. All forward-looking statements included in this Form 10-Q speak only as of the date of this Form 10-Q and you are cautioned not to place undue reliance on any such forward-looking statements. Except as required by law, we undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect any events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

Overview

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

We apply our patented technology in image capture, correction and intelligent data extraction in the mobile financial and business applications market. Our technology for extracting data from any image taken using camera-equipped smartphones and tablets enables the development of consumer-friendly software products that use the camera as a simple mechanism to enter data and complete transactions. Users take a picture of the document and our products correct image distortion, extract relevant data, route images to their desired location and process transactions through users' financial institutions.

Our *Mobile Deposit*® product is software that allows users to remotely deposit a check using their camera-equipped smartphone or tablet. As of December 31, 2012, 708 financial institutions, including 32 of the top 50 U.S. retail banks and payment processing companies, have signed agreements to deploy *Mobile Deposit*®. Of the 708 financial institutions, 318 have deployed *Mobile Deposit*® to their customers. Other mobile imaging software solutions we offer include *Mobile Photo Bill Pay*, a mobile bill payment product that allows users to pay their bills using their camera-equipped smartphone or tablet, *Mobile Balance Transfer*, a product that allows credit card issuers to provide an offer to users and allows such users to transfer an existing credit card balance by capturing an image of the user's current credit card statement, *Mobile Enrollment*, a product that enables users to enroll their checking account as a funding source for mobile payments by taking a photo of a blank check with their camera-equipped smartphone or tablet, and *Mobile Photo Quoting*, a product that enables users to receive insurance quotes by using their camera-equipped smartphone or tablet to take a picture of their driver's license and insurance card. Our mobile imaging software solutions can be deployed on all major smartphone and tablet operating systems.

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

Market Opportunities, Challenges and Risks

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

To sustain our growth in 2013 and beyond, we must continue to offer mobile applications that address a growing market for mobile banking and mobile imaging solutions sold into other vertical markets. Factors adversely affecting the pricing of or demand for our mobile applications, such as competition from other products or technologies, any decline in the demand for mobile applications, or negative publicity or obsolescence of the software environments in which our products operate, could result in lower revenues or gross margins. Further, because most of our revenues are from a single type of technology, our product concentration may make us especially vulnerable to market demand and competition from other technologies, which could reduce our revenues.

The implementation cycles for our software and services by our channel partners and customers can be lengthy, often a minimum of three to six months and sometimes longer for larger customers and require significant investments. For example, as of December 31, 2012, we executed agreements indirectly through channel partners or directly with customers covering 708 *Mobile Deposit*® customers, 318 of whom have completed implementation and launched *Mobile Deposit*® to their customers. If implementation of our products by our channel partners and customers is delayed or otherwise not completed, our business, financial condition and results of operations may be adversely affected.

We derive revenue predominately from the sale of licenses to use the products covered by our patented technologies, such as our *Mobile Deposit*® application, and to a lesser extent by providing maintenance and professional services for the products we offer. The revenue we derive from the sale of such licenses is primarily derived from the sale to our channel partners of licenses to sell the applications we offer. Revenues related to most of our licenses for mobile products are required to be recognized up front upon satisfaction of all applicable revenue recognition

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criteria. The recognition of future revenues from these licenses is dependent upon a number of factors, including the timing of implementation of our products by our channel partners and customers and the timing of any re-orders of additional licenses and/or license renewals by our channel partners and customers.

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

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

Results of Operations

Comparison of the Three Months Ended December 31, 2012 and 2011

Revenue

Total revenue decreased \$209,820, or 6%, to \$3,309,664 for the three months ended December 31, 2012 compared to \$3,519,484 for the three months ended December 31, 2011. The decrease is primarily due to a decrease in sales of software licenses of \$321,320, or 11%, to \$2,570,706 for the three months ended December 31, 2012 compared to \$2,892,026 for the three months ended December 31, 2011. The decrease in software license revenue primarily relates to the timing of sales of our mobile imaging products as well as the deferral of revenues from certain current year licenses that are expected to be recognized in future periods. Sales of maintenance and professional services increased \$111,500, or 18%, to \$738,958 for the three months ended December 31, 2012 compared to \$627,458 for the three months ended December 31, 2011 primarily due to an increase in maintenance agreements and revenue related thereto.

Cost of Revenue

Cost of revenue includes the costs of royalties for third party products embedded in our products, personnel costs related to software support and billable professional services engagements, amortization of capitalized software development costs, cost of reproduction of compact discs and other media devices, and shipping costs. Cost of revenue increased \$37,727, or 12%, to \$339,996 for the three months ended December 31, 2012 compared to \$302,269 for the three months ended December 31, 2011. The increase is primarily due to a relatively higher mix of sales of products containing third-party software on which we pay royalties, partially offset by decreased professional services activity on billable engagements. As a percentage of revenue, cost of revenue increased to 10% for the three months ended December 31, 2012 compared to 9% for the three months ended December 31, 2011, primarily due to the decrease in revenue.

Selling and Marketing Expenses

Selling and marketing expenses include payroll, employee benefits and other headcount-related costs associated with sales and marketing personnel, non-billable time for professional services personnel and advertising, promotions, trade shows, seminars and other programs. Selling and marketing expenses increased \$413,124 or 49%, to \$1,264,052 for the three months ended December 31, 2012 compared to \$850,928 for the three months ended December 31, 2011. The increase is primarily due to increased personnel-related costs, including stock-based and other incentive compensation expense, related to an increase in headcount associated with establishing our direct sales force. As a percentage of revenue, selling and marketing expenses increased to 38% for the three months ended December 31, 2012 compared to 24% for the three months ended December 31, 2011.

Research and Development Expenses

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

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technologies to anticipated future generations of products within our area of business.

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Research and development expenses increased \$223,647, or 19%, to \$1,402,753 for the three months ended December 31, 2012 compared to \$1,179,106 for the three months ended December 31, 2011. The increase is primarily due to increased personnel-related costs, including stock-based and other incentive compensation expense, related to an increase in headcount associated with the growth of our business, outside services and recruitment expenses. As a percentage of revenue, research and development expenses increased to 42% for the three months ended December 31, 2012 compared to 34% for the three months ended December 31, 2011.

General and Administrative Expenses

General and administrative expenses include payroll, employee benefits and other headcount-related costs associated with finance, facilities, legal, accounting and other administrative fees. General and administrative expenses increased \$505,701, or 43%, to \$1,668,929 for the three months ended December 31, 2012 compared to \$1,163,228 for the three months ended December 31, 2011. The increase is primarily due to increased personnel-related costs, including stock-based and other incentive compensation expenses, an increase in headcount associated with the growth of our business and increased legal expenses. As a percentage of revenue, general and administrative expenses increased to 50% for the three months ended December 31, 2012 compared to 33% for the three months ended December 31, 2011, primarily due to the increases in personnel-related costs and legal fees.

Other Income (Expense), Net

Interest and other expense, net was \$43,693 for the three months ended December 31, 2012 compared to \$67,065 for the three months ended December 31, 2011, an increase of \$23,372 primarily due to a decrease in amortization expense related to our investment portfolio. Interest income was \$50,117 for the three months ended December 31, 2012 compared to \$74,024 for the three months ended December 31, 2011, a decrease of \$23,907 due to a decrease in our investment portfolio.

Liquidity and Capital Resources

On December 31, 2012, we had \$15,084,109 in cash and cash equivalents and short-term and long-term investments compared to \$14,607,317 on September 30, 2012, an increase of \$476,792. The increase in cash and cash equivalents and short-term and long-term investments was primarily due to an increase in cash provided by operating activities.

Net cash provided by operating activities

Net cash provided by operating activities during the three months ended December 31, 2012 was \$796,026. Cash provided by operating activities increased due to non-cash adjustments to operating activities for stock-based compensation expense, accretion and amortization on debt securities, and depreciation and amortization totaling \$656,534, \$97,751, and \$48,616, respectively. Cash provided by operating activities also increased due to increases in deferred revenue of \$807,496, other liabilities of \$485,802 and accounts payable of \$443,948, partially offset by a decrease in accounts receivable of \$524,141, all associated with the growth of our business.

Net cash provided by operating activities during the three months ended December 31, 2011 was \$1,160,628. Cash provided by operating activities increased due to net income totaling \$26,275 for the three months ended December 31, 2011 as well as non-cash adjustments to operating activities for stock-based compensation expense and depreciation and amortization totaling \$501,697 and \$59,997, respectively. Cash provided by operating activities also increased due to an increase of \$359,464 in deferred revenue, an increase of \$183,315 in accounts payable and an increase of \$148,869 in accrued payroll and related taxes, all associated with the growth of our business. These changes in cash provided by operating activities were partially offset by an increase in accounts receivable of \$113,364 associated with increased sales and the timing of customer billings and receipt of payments.

Net cash provided by (used in) investing activities

Net cash provided by investing activities was \$2,061,657 during the three months ended December 31, 2012, which consisted of \$2,685,734 related to the sales and maturities of investments, partially offset by purchases of investments of \$308,956, and \$315,121 related to the purchase of property and equipment.

Net cash used in investing activities was \$262,572 during the three months ended December 31, 2011, which consisted of \$219,268 related to the purchase of investments and \$43,304 related to the purchase of property and equipment.

Net cash provided by financing activities

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Net cash provided by financing activities was \$33,177 during the three months ended December 31, 2012, which included net proceeds of \$37,237 from the exercise of stock options partially offset by principal payments on capital lease obligations of \$4,060.

Net cash provided by financing activities was \$157,694 during the three months ended December 31, 2011, which included net proceeds of \$161,130 from the exercise of stock options partially offset by principal payments on capital lease obligations of \$3,436.

Credit Facility

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

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Other Liquidity Matters

On December 31, 2012, we had investments of \$5,491,159, designated as available-for-sale marketable securities, which consisted of commercial paper and corporate issuances, carried at fair value as determined by quoted market prices for identical or similar assets, with unrealized gains and losses, net of tax, and reported as a separate component of stockholders' equity. All securities whose maturity or sale is expected within one year are classified as current on the balance sheet. All other securities are classified as long-term on the balance sheet. At December 31, 2012, we had \$4,663,159 of our available-for-sale securities classified as current and \$828,000 classified as long-term. At September 30, 2012, we had \$5,819,537 of our available-for-sale securities classified as current and \$2,085,690 classified as long-term.

We had working capital of \$11,789,129 at December 31, 2012 compared to \$11,001,447 at September 30, 2012.

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

Critical Accounting Policies

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

Revenue Recognition

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

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

Persuasive evidence of an arrangement exists;

Delivery of the product or performance of the service has occurred;

The fees are fixed or determinable;

Collection of the contractual fee is probable; and

Vendor-specific objective evidence of the fair value of undelivered elements or other appropriate method of revenue allocation exists.

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

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material adverse effect on our future revenues and operating results.

Accounts Receivable

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

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Investments

We determine the fair value of our assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. We use a fair value hierarchy based on the following three levels of inputs that may be used to measure fair value, of which the first two are considered observable and the last unobservable:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

Fair Value of Equity Instruments

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

Deferred Income Taxes

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

Software Development Costs

Research and development costs are charged to expense as incurred. However, the costs incurred for the development of computer software that will be sold, leased, or otherwise marketed are capitalized when technological feasibility has been established. Software development costs consist primarily of compensation of development personnel, related overhead incurred to develop new products and upgrade and enhance our current products and fees paid to outside consultants. Capitalization of costs ceases and amortization of capitalized software development costs commences when the products are available for general release. For the three months ended December 31, 2012 and 2011, no software development costs were capitalized because the time period and cost incurred between technological feasibility and general release for all software product releases was insignificant.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The primary objective of our investment activities is to preserve principal while at the same time maximizing after-tax yields without significantly increasing risk. To achieve this objective, we maintain our investment portfolio of cash equivalents and marketable securities in a variety of securities including corporate debt securities, commercial paper and certificates of deposit. We have not used derivative financial

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instruments in our investment portfolio, and none of our investments are held for trading or speculative purposes. Short-term and long-term marketable securities are generally classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of estimated tax. Marketable securities as of December 31, 2012 had remaining maturities between approximately two and 18 months. Our short-term and long-term marketable securities had a fair market value of \$5,491,159 at December 31, 2012, representing approximately 31% of our total assets.

The fair value of our cash equivalents and marketable 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 marketable 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.

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ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q. We recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2012.

Changes in Internal Control over Financial Reporting

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

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PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For information regarding our legal proceedings, see Note 6 to our financial statements included in this Form 10-Q and Item 3 Legal Proceedings in the Form 10-K. Other than as set forth below, as of December 31, 2012, there have been no material developments in our historical legal proceedings since September 30, 2012.

Top Image Systems Ltd.

As previously disclosed in the Form 10-K, on September 26, 2012, we filed a lawsuit against Israeli-based Top Image Systems Ltd. and TIS America Inc. (collectively, TISA) in the U.S. District Court for the District of Delaware, alleging that TISA infringes five of our patents relating to image capture on mobile devices. We are seeking damages against TISA and injunctive relief to prevent them from selling its mobile imaging products.

On January 7, 2013, TISA answered our complaint by denying the allegations and raising several affirmative defenses. On January 11, 2013, we amended our complaint to add our sixth patent, which had recently been issued and also relates to image capture on mobile devices.

In addition to the foregoing, we are subject to various claims and legal proceedings arising in the ordinary course of our business. While any legal proceeding has an element of uncertainty, we believe that the disposition of such matters, in the aggregate, will not have a material effect on our 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 of the Form 10-K describes some of the risks and uncertainties associated with our business, which we strongly encourage you to review. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results, and future prospects. There have been no material changes in our risk factors from those disclosed in the Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

ITEM 5. OTHER INFORMATION.

None.

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ITEM 6. EXHIBITS.

Exhibit No.	Description	Incorporated by Reference from Document
3.1	Restated Certificate of Incorporation of Mitek Systems, Inc.	(1)
3.2	Amended and Restated Bylaws of Mitek Systems, Inc.	(2)
4.1	Form of debenture issued on December 10, 2009.	(3)
4.2	Form of warrant issued on December 10, 2009.	(3)
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.	*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.	*
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*

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Exhibit No.	Description	Incorporated by Reference from Document
101**	Financial statements from the Quarterly Report on Form 10-Q of Mitek Systems, Inc. for the quarter ended December 31, 2012, formatted in XBRL: (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Cash Flows, (iv) the Notes to the Financial Statements.	*

* Filed herewith.

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

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

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SIGNATURES

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

February 6, 2013

MITEK SYSTEMS, INC.

By: /s/ James B. DeBello
James B. DeBello

President and Chief Executive Officer

(Principal Executive Officer)

By: /s/ Russell C. Clark
Russell C. Clark

Chief Financial Officer

(Principal Financial and Accounting Officer)