

MITEK SYSTEMS INC
Form 10-Q
May 08, 2015

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 March 31, 2015

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

For the transition period from _____ to _____ .

Commission File Number 001-35231

MITEK SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	87-0418827
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
8911 Balboa Avenue	
San Diego, California	92123
(Address of Principal Executive Offices)	(Zip Code)

(858) 309-1700

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large Accelerated Filer

Accelerated Filer

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

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

There were 30,729,289 shares of the registrant’s common stock outstanding as of April 30, 2015.

MITEK SYSTEMS, INC.

FORM 10-Q

For The Quarterly Period Ended March 31, 2015

INDEX

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	1
	<u>Balance Sheets at March 31, 2015 (Unaudited) and September 30, 2014</u>	1
	<u>Statements of Operations and Other Comprehensive Income (Loss) (Unaudited) for the Three and Six Months Ended March 31, 2015 and March 31, 2014</u>	2
	<u>Statements of Cash Flows (Unaudited) for the Six Months Ended March 31, 2015 and March 31, 2014</u>	3
	<u>Notes to Financial Statements (Unaudited)</u>	4
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4.	<u>Controls and Procedures</u>	21

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	23
Item 1A.	<u>Risk Factors</u>	23
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
Item 3.	<u>Defaults Upon Senior Securities</u>	23
Item 4.	<u>Mine Safety Disclosures</u>	23
Item 5.	<u>Other Information</u>	23
Item 6.	<u>Exhibits</u>	24
	<u>Signatures</u>	25

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

MITEK SYSTEMS, INC.

BALANCE SHEETS

	March 31,	September
	2015	30,
	(Unaudited)	2014

	March 31,	September
	2015	30,
	(Unaudited)	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$5,740,117	\$7,766,590
Short-term investments	19,965,390	16,269,170
Accounts receivable, net	2,982,753	2,955,350
Other current assets	1,035,717	704,409
Total current assets	29,723,977	27,695,519
Long-term investments	2,517,612	2,072,018
Property and equipment, net	1,101,405	1,293,270
Other non-current assets	42,049	42,049
Total assets	\$33,385,043	\$31,102,856
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,300,077	\$1,792,267
Accrued payroll and related taxes	1,195,766	1,434,913
Deferred revenue, current portion	3,635,351	2,826,670
Other current liabilities	175,244	157,649
Total current liabilities	6,306,438	6,211,499
Deferred revenue, non-current portion	235,125	311,225
Other non-current liabilities	558,541	638,099
Total liabilities	7,100,104	7,160,823
Stockholders' equity:		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.001 par value, 60,000,000 shares authorized, 30,729,289 and 30,521,080 issued and outstanding, respectively	30,729	30,521
Additional paid-in capital	61,641,010	59,946,288
Accumulated other comprehensive gain (loss)	(13,664)	(7,810)
Accumulated deficit	(35,373,136)	(36,026,966)
Total stockholders' equity	26,284,939	23,942,033

Total liabilities and stockholders' equity	\$33,385,043	\$31,102,856
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The accompanying notes form an integral part of these financial statements.

MITEK SYSTEMS, INC.

STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended		Six Months Ended	
	March 31, 2015	2014	March 31, 2015	2014
Revenue				
Software	\$3,993,013	\$3,122,114	\$7,739,530	\$6,291,978
Maintenance and professional services	1,679,313	1,362,024	3,322,119	2,654,684
Total revenue	5,672,326	4,484,138	11,061,649	8,946,662
Operating costs and expenses				
Cost of revenue-software	225,245	172,568	439,155	493,667
Cost of revenue-maintenance and professional services	332,408	276,646	615,900	526,244
Selling and marketing	1,428,643	1,947,573	2,866,709	3,797,475
Research and development	1,387,828	1,630,628	2,542,971	3,156,202
General and administrative	1,811,708	2,668,246	3,976,546	4,665,445
Total operating costs and expenses	5,185,832	6,695,661	10,441,281	12,639,033
Operating income (loss)	486,494	(2,211,523)	620,368	(3,692,371)
Other income (expense), net				
Interest and other expense	(1,120)	(1,576)	(2,170)	(3,277)
Interest and other income	22,276	21,252	38,529	36,462
Total other income (expense), net	21,156	19,676	36,359	33,185
Income (loss) before income taxes	507,650	(2,191,847)	656,727	(3,659,186)
Provision for income taxes	-	(1,170)	(2,897)	(2,131)
Net income (loss)	\$507,650	\$(2,193,017)	\$653,830	\$(3,661,317)
Net income (loss) per share – basic	\$0.02	\$(0.07)	\$0.02	\$(0.12)
Net income (loss) per share – diluted	\$0.02	\$(0.07)	\$0.02	\$(0.12)
Shares used in calculating net income (loss) per share – basic	30,697,391	30,453,455	30,657,308	30,427,646
Shares used in calculating net income (loss) per share – diluted	31,321,259	30,453,455	31,241,374	30,427,646
Other comprehensive income (loss):				
Net income (loss)	507,650	(2,193,017)	653,830	(3,661,317)
Unrealized gain (loss) on investments	(3,667)	6,686	(5,854)	5,845
Other comprehensive income (loss)	503,983	(2,186,331)	647,976	(3,655,472)

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

MITEK SYSTEMS, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	March 31, 2015	2014
Operating activities:		
Net income (loss)	\$653,830	\$(3,661,317)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock-based compensation expense	1,685,181	1,745,121
Depreciation and amortization	214,794	236,518
Accretion and amortization on debt securities	243,333	195,937
Provision for bad debt	9,900	(4,500)
Changes in assets and liabilities:		
Accounts receivable	(37,303)	(1,616,192)
Other assets	(189,495)	46,134
Accounts payable	(492,190)	(191,270)
Accrued payroll and related taxes	(239,147)	(7,668)
Deferred revenue	732,581	790,488
Other liabilities	(51,690)	(64,716)
Net cash provided by (used in) operating activities	2,529,794	(2,531,465)
Investing activities:		
Purchases of investments	(17,968,902)	(17,651,627)
Sales and maturities of investments	13,436,088	4,873,624
Purchases of property and equipment	(22,928)	(114,091)
Net cash used in investing activities	(4,555,742)	(12,892,094)
Financing activities:		
Proceeds from exercise of stock options	9,748	58,834
Principal payments on capital lease obligations	(10,273)	(9,208)
Net cash (used in) provided by financing activities	(525)	49,626
Net decrease in cash and cash equivalents	(2,026,473)	(15,373,933)
Cash and cash equivalents at beginning of period	7,766,590	23,294,456
Cash and cash equivalents at end of period	\$5,740,117	\$7,920,523
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$2,230	\$3,295
Cash paid for income taxes	\$2,897	\$2,131
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized holding (loss) gain on available-for-sale investments	\$(5,854)	\$5,845
Cashless settlement of restricted stock units	\$204	\$15
Cashless exercise of stock options	\$4	\$3

The accompanying notes form an integral part of these financial statements

MITEK SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Mitek Systems, Inc. (the “Company”) is engaged in the development, sale and service of its proprietary software solutions related to mobile capture and identity authentication.

The Company applies its patented technology in image capture, correction and intelligent data extraction in the mobile financial and business services markets. The Company’s technology allows users to remotely deposit checks, pay bills, transfer credit card balances, open accounts and get insurance quotes by taking pictures of various documents with their camera-equipped smartphones and tablets instead of using the device keyboard. The Company’s products use advanced algorithms to correct image distortion, extract relevant data, route images to their desired location and process transactions through users’ financial institutions. As of March 31, 2015, the Company has been granted 21 patents and has an additional 21 patent applications pending.

The Company’s products enable deposits, confirm identity and accelerate payments for mobile transactions.

Deposit

The Company’s Mobile Deposit[®] and Commercial Mobile Deposit Capture[™] products are software that allows consumers and businesses to remotely deposit checks using their camera-equipped smartphone or tablet. As of March 31, 2015, 3,705 financial institutions have signed agreements to deploy Mobile Deposit[®] and 3,181 of these financial institutions have deployed Mobile Deposit[®] to their consumers, including all of the top ten, and nearly all of the top 50, U.S. retail banks, as ranked by SNL Financial for the fourth quarter of calendar year 2014. Commercial Mobile Deposit Capture[™] utilizes the same technology as Mobile Deposit[®], but has additional capabilities specifically designed to meet the needs of business users such as invoice capture.

Identity

The Company’s identity offerings feature Mobile Photo Account Opening[™] which allows a consumer to take a photo of his or her driver’s license or other identity document to pre-fill mobile application forms on a mobile device. The Company’s identity offerings are currently in early deployment with large banks and insurance companies where they help consumers to open new financial accounts or get competitive rate quotes. Mobile Photo Account Opening[™] can be used by bank personnel (both in-branch or at a community event) as well as by consumers on their mobile device (both native app or mobile web).

Payment

The Company’s mobile photo payment solutions enable mobile bill payment for financial institutions and organizations that bill consumers directly.

Mobile Photo Bill Pay[®] is for financial institutions and Mobile Photo Payments[™] is for organizations that bill consumers directly. Both allow a consumer to take a photo of a bill to extract data which is then used to pre-fill the

fields required to accomplish certain tasks such as making a mobile payment, adding a new payee or paying monthly bills on a smartphone or tablet.

Mobile Photo Balance Transfer[™] allows a consumer to take a photo of a credit card statement to extract data which is then used to pre-fill the fields of a credit card balance transfer application. The consumer is then presented with a competitive credit card offer and can transfer the existing credit card balance to the new credit card. The Company's mobile photo payment software solutions are available for iOS and Android operating systems.

Developer Program

In February 2014, the Company launched Mitek Developers. The program extends use of the Company's mobile capture SDK and Mobile Imaging Platform[™] to developers interested in creating new mobile applications that use camera-equipped smartphones and tablets to capture data from documents.

Distribution Model

The Company delivers its mobile capture software solutions on-premise as well as in the cloud and markets and sells these solutions through channel partners or directly to enterprise customers. The Company's mobile capture software solutions are often embedded in 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 March 31, 2015 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 financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014, filed with the U.S. Securities and Exchange Commission (the "SEC") on December 5, 2014 (the "Form 10-K").

Results for the three and six months ended March 31, 2015 are not necessarily indicative of results for any other interim period or for a full year.

Reclassifications

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

Use of Estimates

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

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 and diluted net income (loss) per share are based on the weighted-average number of common shares outstanding during the period, without giving effect to potentially dilutive securities. In a period with a net loss position, potentially dilutive securities, such as options, warrants and restricted stock units ("RSUs"), are not included in the calculation of diluted net loss because to do so would be antidilutive, and the number of shares used to calculate basic and diluted net loss is the same.

For the three and six months ended March 31, 2015 and 2014, the following potentially dilutive common shares were excluded from the calculation of net income (loss) per share, as they would have been antidilutive:

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	Three Months Ended		Six Months Ended	
	March 31, 2015	2014	March 31, 2015	2014
Stock options	2,507,643	2,708,063	2,218,425	2,708,063
Restricted stock units	399,780	1,155,472	435,461	1,155,472
Warrants	-	6,667	-	6,667
Total potentially dilutive common shares outstanding	2,907,423	3,870,202	2,653,886	3,870,202

5

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

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Net income (loss)	\$507,650	\$(2,193,017)	\$653,830	\$(3,661,317)
Weighted-average common shares outstanding:				
Basic	30,697,391	30,453,455	30,657,308	30,427,646
Diluted	31,321,259	30,453,455	31,241,374	30,427,646
Net income (loss) per share:				
Basic	0.02	(0.07)	0.02	(0.12)
Diluted	0.02	(0.07)	0.02	(0.12)

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. Revenue derived from professional services primarily includes consulting, implementation, and training. Revenue from fixed fee service engagements is recognized after the services are performed using the completed performance method. Revenue from time and materials service engagements is generally recognized as the services are performed.

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 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

Accounts receivable, net, is as follows:

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	March 31,	September 30,
	2015	2014
Accounts receivable	\$2,998,753	\$2,961,450
Less: Allowance for doubtful accounts	(16,000)	(6,100)
Accounts receivable, net	\$2,982,753	\$2,955,350

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.

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 three and six months ended March 31, 2015 and 2014, 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.

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 RSUs. The fair value of stock-based awards is recognized as an expense over the respective terms of the awards.

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 its deferred tax assets due to the 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 the Company 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. Included on the balance sheet at March 31, 2015 is an accumulated other comprehensive loss of \$13,664, compared to an accumulated other comprehensive loss of \$7,810 at September 30, 2014, related to the Company's available-for-sale securities.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance codified in ASC 606, Revenue Recognition – Revenue from Contracts with Customers ("ASC 606") which amends the guidance in former ASC 605, Revenue Recognition. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2018. The FASB has issued for public comment a proposed Accounting Standards Update, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date that would defer the effective date of its new revenue recognition standard by one year. The Company is currently evaluating the impact of the provisions of ASC 606.

2. INVESTMENTS

The following table summarizes investments by type of security as of March 31, 2015:

		Gross	Gross	
		Unrealized	Unrealized	Fair Market
	Cost	Gains	Losses	Value
Available-for-sale securities:				
Corporate debt securities, short-term	\$19,979,906	\$ 998	\$ (15,514)	\$19,965,390
Corporate debt securities, long-term	2,516,760	852	—	