

MITEK SYSTEMS INC
Form 10-Q
August 08, 2014
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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 June 30, 2014

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

For the transition period from _____ to _____.

Commission File Number 001-35231

MITEK SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

8911 Balboa Ave., Suite B

San Diego, California
(Address of Principal Executive Offices)
(858) 309-1700

92123
(Zip Code)

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large Accelerated Filer Accelerated Filer

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

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

There were 30,503,668 shares of the registrant's common stock outstanding as of August 4, 2014.

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MITEK SYSTEMS, INC.

FORM 10-Q

For The Quarterly Period Ended June 30, 2014

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.**MITEK SYSTEMS, INC.****BALANCE SHEETS**

	June 30, 2014 (Unaudited)	September 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,141,126	\$ 23,294,456
Short-term investments	15,591,569	5,730,872
Accounts receivable, net	2,519,605	1,494,627
Other current assets	805,086	661,706
Total current assets	28,057,386	31,181,661
Long-term investments	1,623,696	
Property and equipment, net	1,406,543	1,629,664
Other non-current assets	42,049	42,049
Total assets	\$ 31,129,674	\$ 32,853,374
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,594,378	\$ 1,875,909
Accrued payroll and related taxes	1,586,725	1,455,487
Deferred revenue, current portion	3,602,456	2,335,532
Other current liabilities	145,380	151,536
Total current liabilities	6,928,939	5,818,464
Deferred revenue, non-current portion	361,200	511,125
Other non-current liabilities	677,011	795,043
Total liabilities	7,967,150	7,124,632
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, 30,481,168 and 30,361,442 issued and outstanding, respectively	30,481	30,361

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Additional paid-in capital	59,158,324	56,431,640
Accumulated other comprehensive gain	2,735	1,838
Accumulated deficit	(36,029,016)	(30,735,097)
Total stockholders' equity	23,162,524	25,728,742
Total liabilities and stockholders' equity	\$ 31,129,674	\$ 32,853,374

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

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MITEK SYSTEMS, INC.
STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Revenue				
Software	\$ 3,176,686	\$ 2,694,220	\$ 9,468,663	\$ 7,439,804
Maintenance and professional services	1,483,038	1,187,807	4,137,723	2,976,150
Total revenue	4,659,724	3,882,027	13,606,386	10,415,954
Operating costs and expenses				
Cost of revenue-software	293,877	240,053	787,544	586,915
Cost of revenue-maintenance and professional services	313,709	229,392	839,953	639,617
Selling and marketing	1,810,084	1,461,897	5,607,559	4,143,346
Research and development	1,589,521	1,976,020	4,745,723	5,020,127
General and administrative	2,302,973	2,032,316	6,968,419	5,849,052
Total costs and expenses	6,310,164	5,939,678	18,949,198	16,239,057
Operating loss	(1,650,440)	(2,057,651)	(5,342,812)	(5,823,103)
Other income (expense), net				
Interest and other expense, net	(1,545)	(1,986)	(4,821)	(5,294)
Interest income, net	19,479	7,578	55,940	24,221
Total other income (expense), net	17,934	5,592	51,119	18,927
Loss before income taxes	(1,632,506)	(2,052,059)	(5,291,693)	(5,804,176)
Provision for income taxes	(95)		(2,226)	(800)
Net loss	\$ (1,632,601)	\$ (2,052,059)	\$ (5,293,919)	\$ (5,804,976)
Net loss per share basic and diluted	\$ (0.05)	\$ (0.08)	\$ (0.17)	\$ (0.22)
Shares used in calculating net loss per share basic and diluted	30,481,168	27,109,787	30,451,058	26,534,357

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

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

	Nine Months Ended June 30,	
	2014	2013
Operating activities:		
Net loss	\$ (5,293,919)	\$ (5,804,976)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Stock-based compensation expense	2,667,969	2,045,767
Depreciation and amortization	355,320	209,257
Accretion and amortization on debt securities	300,724	154,010
Provision for bad debt	(3,200)	(1,773)
Changes in assets and liabilities:		
Accounts receivable	(1,021,778)	526,702
Other assets	(169,498)	(171,990)
Accounts payable	(281,531)	1,624,875
Accrued payroll and related taxes	131,238	511,717
Deferred revenue	1,116,999	1,053,998
Other liabilities	(110,206)	1,476,228
Net cash (used in) provided by operating activities	(2,307,882)	1,623,815
Investing activities:		
Purchases of investments	(20,691,725)	(4,059,036)
Sales and maturities of investments	8,933,624	5,340,734
Purchases of property and equipment	(132,199)	(1,278,334)
Net cash (used in) provided by investing activities	(11,890,300)	3,364
Financing activities:		
Proceeds from the issuance of common stock, net of issuance costs of \$0 and \$1,122,549, respectively		13,877,447
Proceeds from exercise of stock options	58,834	751,440
Principal payments on capital lease obligations	(13,982)	(12,524)
Net cash provided by financing activities	44,852	14,616,363
Net (decrease) increase in cash and cash equivalents	(14,153,330)	16,243,542
Cash and cash equivalents at beginning of period	23,294,456	6,702,090
Cash and cash equivalents at end of period	\$ 9,141,126	\$ 22,945,632

Supplemental disclosures of cash flow information:			
Cash paid for interest	\$	4,773	\$ 6,231
Cash paid for income taxes	\$	2,226	\$ 800
Supplemental disclosures of non-cash investing and financing activities:			
Unrealized holding gain (loss) on available-for-sale investments	\$	897	\$ (2,945)
Cashless settlement of restricted stock units	\$	15	\$ 16
Cashless exercise of stock options	\$	3	\$ 125

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

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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 a mobile solutions provider engaged in the development, sale and service of its proprietary software solutions related to mobile imaging.

The Company applies its patented technology in image capture, correction and intelligent data extraction in the mobile financial and business applications 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 June 30, 2014, the Company has been granted 20 patents and has an additional 23 patent applications pending.

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 June 30, 2014, 2,571 financial institutions have signed agreements to deploy Mobile Deposit® and 2,143 of these financial institutions have deployed Mobile Deposit® to their customers, including all of the top ten, and nearly all of the top 50, U.S. retail banks, as ranked by SNL Financial for the first quarter of calendar year 2014. 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 bank account and any camera-equipped smartphone or tablet, Mobile Photo Payments, a product that allows users to pay their bills directly to the biller using their camera-equipped smartphone or tablet, Mobile Balance Transfer, a product that allows credit card issuers to provide an offer to users and transfer an existing credit card balance by capturing an image of the user's current credit card statement, Mobile Photo Account Opening, a product that enables users to open a checking, savings or credit card account by capturing an image of the front and back of their driver's license 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 accessed by any smartphone or tablet using iOS and Android operating systems.

The Company markets and sells its mobile imaging software solutions through channel partners or directly to enterprise customers that typically purchase licenses based on the number of transactions or 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. In February 2014, the Company launched the Mitek Developers Network. The program will extend use of the Company's Mobile Imaging Platform to developers interested in creating new mobile applications using camera-equipped smartphones and tablets.

Basis of Presentation

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The accompanying unaudited financial statements of the Company as of June 30, 2014 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, 2013, filed with the U.S. Securities and Exchange Commission (the SEC) on December 12, 2013 (the Form 10-K).

Results for the three and nine months ended June 30, 2014 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.

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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.

Net Loss Per Share

The Company calculates net loss per share in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 260, *Earnings Per Share*. Basic and diluted net 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 nine months ended June 30, 2014 and 2013, the following potentially dilutive common shares were excluded from the calculation of net loss per share, as they would have been antidilutive:

	Three and nine months ended June 30,	
	2014	2013
Stock options	2,616,121	2,670,743
Restricted stock units	1,212,292	671,254
Warrants	6,667	6,667
Total potentially dilutive common shares outstanding	3,835,080	3,348,664

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Net loss	\$ (1,632,601)	\$ (2,052,059)	\$ (5,293,919)	\$ (5,804,976)
Weighted-average common shares outstanding basic	30,481,168	27,109,787	30,451,058	26,534,357
Effect of dilutive common share equivalents				
	30,481,168	27,109,787	30,451,058	26,534,357

Weighted-average common shares
and share equivalents outstanding
diluted

Net loss per share	basic	\$	(0.05)	\$	(0.08)	\$	(0.17)	\$	(0.22)
				&nb					