

MITEK SYSTEMS INC  
Form 10-K  
December 15, 2011  
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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
September 30, 2011 For the fiscal year ended September 30, 2011

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 of Incorporation)

87-0418827  
(I.R.S. Employer

8911 Balboa Ave., Suite B

Identification No.)

San Diego, California  
(Address of principal executive offices)

92123  
(Zip Code)

Registrant's telephone number: (858) 309-1700

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

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Common Stock, par value \$0.001 per share

(Title of class)

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of the registrant's common stock on March 31, 2011, the last business day of the registrant's most recently completed second fiscal quarter, as reported on the Over-the-Counter Bulletin Board, was \$62,757,743. Shares of stock held by officers and directors have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 24,530,209 shares of the registrant's common stock outstanding as of November 30, 2011.

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**MITEK SYSTEMS, INC.**

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**For The Fiscal Year Ended September 30, 2011**

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

**IMPORTANT NOTE ABOUT FORWARD-LOOKING STATEMENTS**

This Form 10-K, 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 Item 1 Business, Item 1.A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations but appear throughout this Form 10-K. Forward-looking statements may include, but are not limited to, statements relating to our outlook or expectations for earnings, revenues, expenses, asset quality 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. Specifically, forward looking statements may include statements relating to our future business prospects, revenue, income and financial condition.

Forward-looking statements can be identified by the use of words such as estimate, plan, project, forecast, intend, expect, anticipate, 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.

In addition to those factors discussed under Item 1.A Risk Factors , important factors could cause actual results to differ materially from our expectations. These factors include, but are not limited to:

adverse economic conditions;

general decreases in demand for our products and services;

changes in timing of introducing new products into the market;

intense competition (including entry of new competitors), including among competitors with substantially greater resources than us;

increased or adverse federal, state and local government regulation;

inadequate capital;

unexpected costs;

revenues and net income lower than forecasted;

litigation;

the possible fluctuation and volatility of operating results and financial conditions;

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inability to carry out our marketing and sales plans; and

the loss of key employees and executives.

All forward-looking statements included in this Form 10-K speak only as of the date of this Form 10-K 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-K or to reflect the occurrence of unanticipated events. The above list is not intended to be exhaustive and there may be other factors that could preclude us from realizing the predictions made in the forward-looking statements. We operate in a continually changing business environment and new factors emerge from time to time. We cannot predict such factors or assess the impact, if any, of such factors on our financial position or results of operations.

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**PART I**

**ITEM 1. BUSINESS.**

**Overview**

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

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

Our *Mobile Deposit*<sup>®</sup> product is a software application that allows users to remotely deposit a check using their smartphone camera. As of September 30, 2011, 161 financial institutions, including 7 of the top 10 U.S. retail banks and payment facilitating companies, have signed agreements to deploy *Mobile Deposit*<sup>®</sup>. Other mobile applications we offer include *Mobile Photo Bill Pay*, a mobile bill paying application that allows users to pay their bills using their smartphone camera, *Mobile ACH Enrollment*, an application that enables consumers to enroll their checking accounts as funding sources for mobile payments by taking photos of blank checks with their smartphones, *Mobile Balance Transfer*, a credit card shopping application that allows a user to transfer an existing balance by capturing an image of their current statement, *Mobile Imaging Cloud*, our mobile imaging platform that allows users to capture, extract and route information contained in documents and can be used to create camera-based mobile solutions, *Mobile Receipt*<sup>®</sup>, a receipt archival and expense report application, and *Mobile Phax*<sup>®</sup>, a mobile document faxing application using our proprietary technology. Our mobile applications support all major smartphone operating systems, including the iPhone<sup>®</sup>, Android<sup>®</sup>, and Blackberry<sup>®</sup>.

We market and sell our mobile solutions through channel partners or directly to enterprise customers and end-users who typically purchase licenses based on the number of transactions or subscribers that use our mobile applications. Our mobile solutions are often embedded in other mobile banking or enterprise applications developed by banks or their partners, and marketed under their own proprietary brands. During the past fiscal year, we began developing new solutions for the insurance market as well as leveraged our platform to create custom mobile imaging solutions. All of our mobile imaging solutions use our proprietary technology to capture and read data from photos of documents taken using camera-equipped smartphones and tablets.

We are headquartered in San Diego, California and were incorporated in the state of Delaware on May 29, 1986.

**Product and Technology Overview**

Our family of products consists of mobile imaging solutions and intelligent character recognition software provided as development toolkits. During the fiscal year ended September 30, 2011, we had one operating segment, document image processing and image analytics, based on our product and service offerings that use our intelligent character recognition and document capture technology.

Our proprietary recognition software is used to enable the automation of costly, labor-intensive business functions. We process images of documents in many ways, including quality analysis, image repair, document identification and the extraction of hand-printed and machine-printed text. Our capabilities can be deployed on

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any back office, industrial or desktop scanner, or on mobile devices that have a camera, to optimize and extract data from any scanned or photographed check, invoice or other financial document, as well as any other business form. Our capabilities include mobile document capture, image repair and optimization, optical character recognition ( OCR ) and intelligent character recognition ( ICR ), dynamic data finding on any document or check, distributed capture, courtesy amount recognition and legal amount recognition, and image analysis of signatures.

Our proprietary, patented technology, known as IImagePROVE<sup>®</sup>, is able to read and extract data from a photo of any document taken by a smartphone or tablet camera, in essence turning smartphone and tablet cameras into virtual scanning devices.

IImagePROVE<sup>®</sup> is a unique form of mobile document capture software that combines our core recognition technology with advanced mobile image processing capabilities that transform a four-color photograph of a document into a digital image that is equivalent in size, resolution and quality to documents scanned with traditional office copiers and fax machines. Unlike scanned documents, mobile photographs of documents captured by smartphones and tablets are exposed to variable lighting conditions, various angles and focal distance. Raw photos of documents taken by a smartphone or tablet may be of an unknown size and resolution from the original document and are often geometrically distorted, skewed or warped. As a result, the raw mobile document image is virtually unusable. IImagePROVE<sup>®</sup> uses advanced algorithms designed to identify and correct geometric and optical distortions and automatically correct each mobile document image. Using IImagePROVE<sup>®</sup>, we have created mobile imaging solutions for customer acquisition and retention that enable global businesses to create mobile applications that utilize camera-equipped smartphones, including the iPhone<sup>®</sup>, Android<sup>®</sup>, and BlackBerry<sup>®</sup>, and tablets, including the iPad<sup>®</sup>.

The majority of our revenue in the fiscal years ended September 30, 2011 and 2010 was generated by our Mobile Deposit<sup>®</sup> product, which we sell to customers in the financial services industry. Our other mobile imaging solutions, including Mobile Photo Bill Pay , Mobile ACH , Mobile Balance Transfer , and Mobile Imaging Cloud , have been recently announced and are in the evaluation phase with certain customers. This year, we also began offering a suite of mobile imaging solutions for the insurance industry. In addition to these vertical solution suites, we create custom mobile imaging solutions for organizations across industries.

**Mobile Imaging Solutions**

Our mobile banking suite includes Mobile Deposit<sup>®</sup>, Mobile Photo Bill Pay , Mobile ACH and Mobile Balance Transfer . We market and sell Mobile Deposit<sup>®</sup> primarily through sales partnerships with leading system integrators for the financial services industry including Fiserv, Inc., Fidelity National Information Services, Inc., NCR Corporation, Jack Henry & Associates, Inc., Wausau Financial Systems, Inc., BankServ, RDM Corporation, J&B Software Inc., Bluepoint Solutions, Inc., and others. The other solutions in our mobile banking suite are primarily sold directly to enterprise customers and end-users.

*Mobile Deposit<sup>®</sup>*

As of September 30, 2011, our Mobile Deposit<sup>®</sup> product is being used by 7 of the top 10 banks and numerous other community banks and credit unions. This was our first smartphone application to utilize our mobile imaging analytics and pattern recognition software to allow banks to accept check deposits via photos of checks taken with camera-equipped smartphones and tablets. Mobile Deposit<sup>®</sup> allows users to make deposits by photographing the front and back of a check and submitting the item electronically to their bank from their smartphone or tablet. We began to recognize revenue related to Mobile Deposit<sup>®</sup> in the third fiscal quarter of 2009, and received patent #7,778,497 in August, 2010, for the Method and Systems for Mobile Image Capture and Processing of Checks.

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### *Mobile Photo Bill Pay*

In October 2010, we announced Mobile Photo Bill Pay which provides a new level of service and convenience for customers who want to pay bills using their mobile device. Mobile Photo Bill Pay connects to online bill pay systems and allows users to pay bills by taking pictures of their bills with their smartphone or tablet camera. The core technology of Mobile Photo Bill Pay makes this possible by correcting image distortion, reading relevant data and processing the transactions through the users' banks. The payment is made electronically by debiting the users' account. With Mobile Photo Bill Pay, users can submit electronic payments from their smartphones or tablets without having to write checks, buy stamps, visit a payment location or even use their personal computers.

### *Mobile ACH Enrollment*

In March 2011, we announced Mobile ACH Enrollment which makes it convenient and easy for customers to use the camera on their smartphone or tablet to set up an auto debit from their bank account and enable electronic funds transfers. Instead of manual processes like filling out forms or providing a blank check, Mobile ACH Enrollment allows customers to simply take a picture of a check in order to enroll.

### *Mobile Balance Transfer*

In September 2011, we announced Mobile Balance Transfer, a simple, cost effective way for financial institutions to acquire new credit card customers and new balances. Upon opening the application, consumers are prompted to take a photo of their current credit card statement with their smartphone or tablet. Mobile Balance Transfer accurately and securely converts the photographed data and sends it to the banks' existing scoring systems. If the customer qualifies, they are immediately extended a competitive balance transfer offer. The customer can accept the offer with a single touch of their device keypad, and the bank automatically transfers the balance and sets up the new credit card account.

### *Mobile Imaging Cloud*

In the fourth quarter of fiscal 2011, we announced the availability of Mobile Imaging Cloud, which captures, extracts and routes information contained in documents and can be used to create camera-based mobile solutions that simplify the user experience for tasks such as receipt management and expense reporting, obtaining insurance quotations, flexible spending account reimbursements and submitting prescriptions. This product provides mobile application developers, system integrators and businesses with a fast, cost-effective way to create smartphone and tablet applications that use the camera as an input method for a wide variety of tasks. Mitek's Mobile Imaging Cloud currently works with checks, bills, receipts, vehicle identification numbers, U.S. driver's licenses and insurance cards, and can be configured to handle virtually any document.

### *Mobile Receipt® and Mobile Phax®*

During fiscal 2009, we launched Mobile Receipt® and Mobile Phax®. Mobile Receipt® is designed to convert the photo of a receipt taken with a smartphone or tablet into a high quality image and with a single touch, converts the data into a professional looking expense report. Mobile Phax® is designed to allow a user to take a photo of any letter sized document or page with their smartphone or tablet and send it as a PDF to any email address or fax machine.

## **Intelligent Character Recognition Software Products**

Our intelligent character recognition toolkits are marketed under the brand ImageNet® and include a suite of products that leverage our proprietary intelligent character recognition and data extraction software engines.

In the fourth quarter of fiscal 2011, we announced an enterprise platform called MitekONE that addresses all deposit types: remote deposit capture, self-service, back office check scanning and Mobile Deposit®. This product allows financial institutions to offer a quality user experience across channels. MitekONE gives



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financial institutions the ability to better manage deposits by identifying types of checks so they can apply appropriate business rules for personal and business checks versus other payment types, such as money orders and cashier checks. MitekONE's advanced duplicate detection is a fraud-management mechanism that improves the ability of financial institutions to detect attempted duplicate remote deposits of the same check both within banks and across institutions. This capability utilizes our ImageNet® ICR technology.

### *ImageNet®*

ImageNet® products are designed to provide a high level of accuracy in remittance processing, proof of deposit and lock box processing applications. These products are used to reduce manual labor by automatically extracting amounts and routing information from checks and distinguishing between common document types, such as personal and business checks, substitute checks, pre-authorized drafts and other document types specified by customers. We sell our ImageNet® suite of products to our channel partners who resell them as integrated components of their solutions and services.

### *FraudProtect®*

FraudProtect® Systems is a comprehensive, automated software application designed to allow banks to detect the most common forms of check fraud from forged signatures and counterfeit checks, as well as the detection of pre-authorized drafts and payee name alterations.

## **Intellectual Property**

Our success depends significantly upon our proprietary technology. We attempt to protect our intellectual property rights primarily through copyrights, trademarks, trade secrets, employee and third party nondisclosure agreements and other measures. If we are unable to protect our intellectual property or infringe intellectual property of a third party, our operating results could be harmed.

As of September 30, 2011, we had 12 issued patents and we had 7 national and international pending patent applications. We have 23 registered trademarks and will continue to evaluate the registration of additional trademarks as appropriate. We claim common law protection for, and may seek to register, other trademarks. In addition, we generally enter into confidentiality agreements with our employees.

## **Sales and Marketing**

We market our products and services primarily through channel partners as well as through our internal, direct sales organization. We have a marketing group that develops corporate and product marketing strategies and executes marketing plans with support of external resources as needed. We employ a technically oriented sales force with management assistance to identify the needs of existing and prospective customers. Our sales strategy concentrates on OEMs, systems integrators, distributors, and software solution companies that we believe are key users and designers of automated document processing systems for high performance, large volume applications, in addition to financial institutions that are positioning themselves in the emerging mobile capture and remote data capture market. In addition, we sell and support our products through foreign resellers. The sales process is supported by a broad range of marketing programs, including trade shows, direct marketing, public relations and advertising.

For the fiscal year ended September 30, 2011, we recorded 11% of our revenues from a direct customer and 22% from a channel partner. For the fiscal year ended September 30, 2010, we recorded 12%, 11% and 10% of our revenues from three different channel partners. During most quarterly periods in fiscal year 2011 and 2010, sales of licenses to one or two 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 one channel partner. If we were to lose a channel partner relationship, we do not believe such a loss would adversely

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affect our operations because either we or another channel partner could sell our products directly to the end-user. However, we or other channel partners must establish a relationship with such end-user, which could take time to develop, if it develops at all.

International sales accounted for approximately 12% and 10% of our total revenue for the fiscal years ended September 30, 2011 and 2010, respectively. We sell our products in U.S. currency only.

## **Competition**

Our mobile products address a new market for the use of smartphone and tablet cameras and therefore face emerging competition primarily from start-up ventures. We believe our products are among the first smartphone and tablet solutions of their kind, but we anticipate growing competition as the market matures.

The market for document image processing products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. We face direct and indirect competition from a broad range of competitors who offer a variety of products and solutions to our current and potential customers. Our principal competition comes from: (i) customer developed solutions; (ii) direct competition from companies offering automated document processing systems; (iii) companies offering competing technologies capable of recognizing hand-printed and cursive characters; and (iv) direct competition from companies offering check imaging systems to banks.

It is also possible that we will face competition from participants new to the industry. Moreover, as the market for automated document processing, ICR, check imaging and fraud detection software develops, a number of companies with significantly greater resources than we have could attempt to enter or increase their presence in our industry, either independently or by acquiring or forming strategic alliances with our competitors, or otherwise increase their focus on the industry. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of our current and potential customers.

Our products are compliant with Service-Oriented Architecture standards and compete, to various degrees, with products produced by a number of substantial competitors. Competition among product providers in this market generally focuses on price, accuracy, reliability and technical support. We believe our primary competitive advantages in this market are: (i) recognition accuracy with regard to hand-printed characters; (ii) flexibility resulting from the ability of our products to operate in several Microsoft Web Services environments; (iii) scalability; and (iv) an architectural software design that allows our products to be more readily modified, improved with added functionality and configured for new products, thereby allowing our software to be easily upgraded. Despite these advantages, ImageNet® competitors have existed longer and have far greater financial resources and industry connections than we have.

Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, operating results and financial condition.

## **Maintenance and Support**

Following the installation of our software at a customer site, we provide ongoing software support services to assist our customers with operating the systems. We have an internal customer service department that handles installation and maintenance requirements. The majority of inquiries are handled by telephone and electronic mail. For more complicated issues, our staff, after customer consent, can log on to our customers' systems remotely. We maintain our customers' software largely through releases that contain improvements and incremental additions. Nearly all of our customers purchase post-contract support from us. These services are a significant source of our recurring revenue and they are typically contracted on an annual basis.

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Customers with maintenance coverage receive software updates from us on an if-and-when-available basis only. Foreign distributors generally provide customer training, service and support for the products they sell. Additionally, our products are supported internationally by distributors. Technical support is provided by telephone as well as technical visits if necessary in addition to those previously mentioned.

We believe that as the installed base of our products grows and as customers purchase additional complementary products, revenue from professional services will increase and the software support function will become a larger source of recurring revenues. Maintenance and support service fees are deferred and recognized as income over the contract period on a straight-line basis. Costs incurred by us to supply maintenance and support services are charged to cost of revenues as incurred.

## **Research and Development**

Typically, our software products are developed internally. We also purchase or license intellectual property rights. We believe that our future success depends in part on our ability to maintain and improve our core technologies, enhance our existing products and develop new products that meet an expanding range of customer requirements. We do not believe we are materially dependent upon licenses or other agreements with third parties for the development of our products.

Internal research and development allows us to maintain closer technical control over our products and gives us the freedom to designate which modifications and enhancements are most important and when they should be implemented. We devise innovative solutions to automated character processing problems, such as the enhancement and improvement of degraded images, and the development of user-manipulated tools to aid in document image processing. We intend to expand our existing product offerings and to introduce new document image processing software solutions. In the development of new products and enhancements to existing products, we use our own tools extensively. We perform all quality assurance and develop documentation internally. We strive to become informed at the earliest possible time about changing usage patterns and hardware advances that may affect software design. We intend to continue to support industry standard operating environments.

Our team of specialists in recognition algorithms, software engineering, user interface design, product documentation and quality improvement is responsible for maintaining and enhancing the performance, quality and usability of all of our products. In addition to research and development, our engineering staff provides customer technical support on an as-needed basis along with technical sales support.

In order to improve the accuracy of our document image processing products, we devote significant research and development resources to enhance our core technology, including our database of millions of character images that are used to train the neural network software that forms the core of our ICR engine. In addition, we have expanded our research and development tasks to include pre- and post-processing of data subject to automated processing.

Our research and development organization includes software engineers and scientists, some of whom have advanced degrees, as well as additional personnel in product management, quality assurance and client services. We balance our engineering resources between development of OCR/ICR and Mobile Image Analytics technology and applications development. All of our software engineers are involved in applications development, including OCR/ICR research and development of our Mobile Imaging Platforms and Products with solutions for Mobile Check Payments, Mobile Bill Pay, Mobile Capture, Data Capture, Form Identification, real-time Image Quality Analysis and Fraud Detection and Signatures, quality assurance, and customer services and support.

Our research and development expenses for the years ended September 30, 2011 and 2010 were \$2,996,109 and \$2,002,399, respectively. We expect research and development expense to increase during fiscal year 2012 as we continue to expand our research and product development efforts.

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### **Employees and Labor Relations**

As of September 30, 2011, we had 32 full-time employees, consisting of 11 in sales and marketing, 18 in research and development, product management, network administration and support and 3 in finance, administration and other capacities. In addition, we engaged various consultants in the area of research and development, product development and marketing during the fiscal year ended September 30, 2011. We have never had a work stoppage and none of our employees are represented by a labor organization. We consider our relations with our employees to be good.

### **Available Information**

Our principal offices are located at 8911 Balboa Ave., Suite B, San Diego, CA 92123 and our telephone number is (858) 309-1700. We are subject to the reporting requirements under the Securities Exchange Act of 1934, as amended (the Exchange Act). Consequently, we are required to file reports and information with the Securities and Exchange Commission (SEC), including reports on the following forms: annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. These reports and other information concerning us may be accessed, free of charge, through the SEC's website at [www.sec.gov](http://www.sec.gov) and our website at [www.miteksystems.com](http://www.miteksystems.com). Information contained in, or that can be accessed through, our website is not part of this Form 10-K.

### **ITEM 1A. RISK FACTORS.**

*The following risk factors and other information included in this Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. If any of the following risks actually occur, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our stock could decline, and you could lose all or part of your investment.*

#### **Risks Associated With Our Business**

*We have a history of losses and we may not achieve profitability in the future.*

Our operations resulted in a net loss of \$125,057 and \$682,353 for the years ended September 30, 2011 and 2010, respectively. We have a history of losses and may continue to incur significant losses for the foreseeable future. As of September 30, 2011, we had an accumulated deficit of approximately \$15,619,000. Our future profitability depends upon many factors, including several that are beyond our control. These factors include without limitation:

changes in the demand for our products and services;

loss of key customers or contracts;

the introduction of competitive software;

the failure to gain market acceptance of our new and existing products;

the failure to successfully, cost effectively and timely develop, introduce and market new products, services and product enhancements; and

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the timing of recognition of revenue.

In addition, as a public company, we incur significant legal, accounting, and other expenses related to being a public company. As a result of these expenditures, we will have to generate and sustain increased revenue to achieve and maintain future profitability.

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***We may need to raise additional capital to fund continuing operations and an inability to raise the necessary capital or to do so on acceptable terms could threaten the success of our business.***

We currently anticipate that our available capital resources, including our credit facility and operating cash flow, will be sufficient to meet our expected working capital and capital expenditure requirements for at least the next 12 months. However, such resources may not be sufficient to fund the long-term growth of our business. If we determine that it is necessary to raise additional funds, we may choose to do so through strategic collaborations, licensing arrangements, public or private equity or debt financing, a bank line of credit, or other arrangements. We cannot be sure that any additional funding, if needed, will be available on terms favorable to us or at all. Furthermore, any additional equity or equity-related financing may be dilutive to our stockholders, new equity securities may have rights, preferences or privileges senior to those of existing holders of our shares of common stock, and debt or equity financing, if available, may subject us to restrictive covenants and significant interest costs. If we obtain funding through a strategic collaboration or licensing arrangement, we may be required to relinquish our rights to certain of our technologies, products or marketing territories. If we are unable to obtain the financing necessary to support our operations, we may be required to defer, reduce or eliminate certain planned expenditures or significantly curtail our operations.

***Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.***

Federal and state tax laws impose restrictions on the utilization of net operating loss ( NOL ) and tax credit carryforwards in the event of an ownership change for tax purposes as defined by Section 382 of the Internal Revenue Code. Under Section 382 of the Internal Revenue Code, if a corporation undergoes an ownership change (generally defined as greater than 50% change (by value) in its equity ownership over a three year period), the corporation's ability to use its pre-change NOL carryforwards and other pre-change tax attributes to offset its post-change income may be limited. At September 30, 2011, we do not believe that any ownership changes have occurred which would materially limit the utilization of the NOL carryforwards. However, future equity offerings or acquisitions that have equity as a component of the purchase price could result in an ownership change. If an ownership change does occur in the future, utilization of the NOL or other tax attributes may be limited.

***We currently derive substantially all of our revenue from a single type of technology. If this technology and the related products do not achieve or continue to achieve market acceptance, our business, financial condition and results of operations would be adversely affected.***

We currently derive substantially all of our product revenues from licenses and sales of software products to customers incorporating our intelligent character recognition technology. If we are unable to achieve or continue to achieve market acceptance of our core technology or products incorporating such technology, we will not generate significant revenue growth from the sale of our products.

Additionally, factors adversely affecting the pricing of or demand for our products and services, such as competition from other products or technologies, any decline in the demand for document image processing, negative publicity or obsolescence of the software environments in which our products operate could adversely affect our business, financial condition and results of operations.

***If economic or other factors negatively affect the small and medium-sized business sector, our customers may become unwilling or unable to purchase our products and services, which could cause our revenue to decline.***

Many of our existing and target customers are in the small and medium-sized business sector. These businesses are more likely to be significantly affected by economic downturns than larger, more established businesses. Additionally, these customers often have limited discretionary funds, which they may choose to spend on items other than our products and services. If small and medium-sized businesses experience economic hardship, it could negatively affect the overall demand for our products and services, and could cause our revenue to decline.

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***We face competition from several companies that may have greater resources than we do, which could result in price reductions, reduced margins or loss of market share.***

We compete against numerous companies in the intelligent character recognition market. Competition in this market may increase as a result of a number of factors, such as the entrance of new or larger competitors. These competitors may have greater financial, technical, marketing and public relations resources, larger client bases and greater brand or name recognition than we do. These competitors could, among other things:

announce new products or technologies that have the potential to replace our existing product offerings;

force us to charge lower prices; or

adversely affect our relationships with current clients.

We may be unable to compete successfully against our current and potential competitors and if we lose business to our competitors or are forced to lower our prices, our revenue, operating margins and market share could decline.

***We must continue to engage in extensive research and development in order to remain competitive.***

Our ability to compete effectively with our intelligent character recognition product line depends upon our ability to meet changing market conditions and develop enhancements to our products on a timely basis in order to maintain our competitive advantage. Rapidly advancing technology and rapidly changing user preferences characterize the markets for products incorporating intelligent character recognition technology. Our continued growth will ultimately depend upon our ability to develop additional technologies and attract strategic alliances for related or separate product lines. There can be no assurance that we will be successful in developing and marketing product enhancements and additional technologies, that we will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these products, or that our new products and product enhancements will adequately meet the requirements of the marketplace, will be of acceptable quality, or will achieve market acceptance.

***Our annual and quarterly results have fluctuated greatly in the past and will likely continue to do so, which may cause substantial fluctuations in our common stock price.***

Our annual and quarterly operating results have in the past and may in the future fluctuate significantly depending on factors including the timing of customer projects and purchase orders, new product announcements and releases by us and other companies, gain or loss of significant customers, price discounting of our products, the timing of expenditures, customer product delivery requirements, availability and cost of components or labor and economic conditions, generally, and in the information technology market, specifically. Revenues related to most of our licenses for mobile products are required to be recognized upon satisfaction of all applicable revenue recognition criteria. The recognition of future revenues from these licenses is dependent on 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.

In fiscal years 2011 and 2010, sales of licenses to one or two channel partners has comprised a significant part of our revenue. This is attributable to the timing of renewal or purchases of licenses and does not represent a dependence on any channel partner. If we were to lose a channel partner relationship, we do not believe such a loss would adversely affect our operations because either we or another channel partner could sell our products to the end-user that purchased from the channel partner we lost. However in that case, we or other channel partners must establish a relationship with the end-user, which could take time to develop, if it develops at all.

Any unfavorable change in these or other factors could have a material adverse effect on our operating results for a particular quarter or year, which may cause downward pressure on our common stock price. We expect quarterly and annual fluctuations to continue for the foreseeable future.

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*Our historical order flow patterns, which we expect to continue, have caused forecasting difficulties for us. If we do not meet our forecasts or analysts' forecasts for us, the price of our common stock may decline.*

Historically, a significant portion of our sales have resulted from shipments during the last few weeks of the quarter from orders received in the final month of the applicable quarter. We do, however, base our expense levels, in significant part, on our expectations of future revenue. As a result, we expect our expense levels to be relatively fixed in the short term. Any concentration of sales at the end of the quarter may limit our ability to plan or adjust operating expenses. Therefore, if anticipated shipments in any quarter do not occur or are delayed, expenditure levels could be disproportionately high as a percentage of sales, and our operating results for that quarter would be adversely affected. As a result, we believe that period-to-period comparisons of our results of operations are not and will not necessarily be meaningful, and you should not rely upon them as an indication of future performance. If our operating results for a quarter are below the expectations of public market analysts and investors, the price of our common stock may be materially adversely affected.

*Defects or malfunctions in our products could hurt our reputation, sales and profitability.*

Our business and the level of customer acceptance of our products depend upon the continuous, effective and reliable operation of our products. Our products are extremely complex and are continually being modified and improved, and as such may contain undetected defects or errors when first introduced or as new versions are released. To the extent that defects or errors cause our products to malfunction and our customers' use of our products is interrupted, our reputation could suffer and our revenue could decline or be delayed while such defects are remedied. We may also be subject to liability for the defects and malfunctions of third party technology partners and others with whom our products and services are integrated.

In addition, our products are typically intended for use in applications that are critical to a customer's business. As a result, we believe that our customers and potential customers have a greater sensitivity to product defects than the market for software products in general. There can be no assurance that, despite our testing, errors will not be found in new products or releases after commencement of commercial shipments, resulting in loss of revenues or delay in market acceptance, diversion of development resources, damage to our reputation, adverse litigation, or increased service and warranty costs, any of which would have a material adverse effect upon our business, operating results and financial condition.

## **Risks Related to Our Intellectual Property**

*If the patents we own or license, or our other intellectual property rights, do not adequately protect our technologies, we may lose market share to our competitors and be unable to operate our business profitably.*

Our success depends significantly on our ability to protect our rights to the technologies used in our products, including Mobile Deposit<sup>®</sup>. We rely on trademark, trade secret, copyright and patent law, as well as a combination of nondisclosure, confidentiality and other contractual arrangements to protect our technology and rights. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or maintain any competitive advantage. In addition, we cannot be assured that any of our pending patent applications will result in the issuance of a patent to us. The U.S. Patent and Trademark Office (PTO) may deny or require significant narrowing of claims in our pending patent applications, and patents issued as a result of the pending patent applications, if any, may not provide us with significant commercial protection or be issued in a form that is advantageous to us. We could also incur substantial costs in proceedings before the PTO. Our issued and licensed patents and those that may be issued or licensed in the future may expire or may be challenged, invalidated or circumvented, which could limit our ability to stop competitors from marketing related technologies. Additionally, upon expiration of our issued or licensed patents, we may lose some of our rights to exclude others from making, using, selling or importing products using the technology based on the expired patents. We also must rely on contractual provisions with the third parties that license technology to us and that obligate these third parties to protect our rights in the technology licensed to us. There is no guarantee that these third parties would be successful in attempting to protect our rights in any such



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licensed technology. There is no assurance that competitors will not be able to design around our patents or other intellectual property or any intellectual property or technology licensed to us. We also rely on unpatented proprietary technology. We cannot assure you that we can meaningfully protect all our rights in our unpatented proprietary technology or that others will not independently develop substantially equivalent proprietary products or processes or otherwise gain access to our unpatented proprietary technology.

We seek to protect our know-how and other unpatented proprietary technology with confidentiality agreements and intellectual property assignment agreements with our employees, consultants, partners, and customers. However, such agreements may not be enforceable or may not provide meaningful protection for our proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements or in the event that our competitors discover or independently develop similar or identical designs or other proprietary information. In addition, we rely on the use of registered and common law trademarks with respect to the brand names of some of our products. Common law trademarks provide less protection than registered trademarks. Loss of rights in our trademarks could adversely affect our business, financial condition and results of operations.

Furthermore, the laws of foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S. If we fail to apply for intellectual property protection or if we cannot adequately protect our intellectual property rights in these foreign countries, our competitors may be able to compete more effectively against us, which could adversely affect our competitive position, as well as our business, financial condition and results of operations.

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

In the past, third parties have asserted claims that certain technologies incorporated in our products infringe their patent rights. Although we have resolved such claims and there are currently no claims of infringement pending against us, there can be no assurance that we will not receive notices in the future from parties asserting that our products infringe, or may infringe, on their intellectual property rights. If our technology and products infringe upon the proprietary rights of other parties, we could incur substantial costs and we may have to:

obtain licenses, which may not be available on commercially reasonable terms, if at all, and may be non-exclusive, thereby giving our competitors access to the same intellectual property licensed to us;

expend significant resources to redesign our products or technology to avoid infringement;

discontinue the use and sale of infringing products;

pay substantial damages; and

defend litigation or administrative proceedings which may be costly whether we win or lose, and which could result in a substantial diversion of our valuable management resources.

Furthermore, we may initiate claims or litigation against parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Litigation, either as plaintiff or defendant, could result in significant expense to us, whether or not such litigation is resolved in our favor. Even if we were to prevail, any litigation could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations. Furthermore, as a result of a patent infringement suit brought against us or our channel partners or licensees, we or our channel partners or licensees may be forced to stop or delay developing, manufacturing or selling technologies or potential products that are claimed to infringe a third party's intellectual property unless that party grants us or our channel partners or licensees rights to use its intellectual property. Ultimately, we may be unable to develop some of our technologies or potential products or may have to discontinue development of a product candidate or cease some of our business operations as a result of patent infringement claims, which could severely harm our business.



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### **Risks Related to our Operations**

*If we are unable to retain and recruit qualified personnel, or if any of our key executives or key employees discontinues his or her employment with us, it may have a material adverse effect on our business.*

We are highly dependent on the key members of our management team and other key technical personnel. If we were to lose the services of one or more of our key personnel, or if we failed to attract and retain additional qualified personnel, it could materially and adversely affect our customer relationships, competitive position and revenues. Furthermore, recruiting and retaining qualified highly skilled engineers involved in the ongoing developments required to refine our technologies and to introduce future applications is critical to our success. We may be unable to attract, assimilate and retain qualified personnel on acceptable terms given the competition within the high technology industry. We do not have any employment agreements providing for a specific term of employment with any member of our senior management. We do not maintain key man insurance policies on any of our officers or employees.

We plan to grant stock options or other forms of equity awards in the future as a method of attracting and retaining employees, motivating performance and aligning the interests of employees with those of our stockholders. As of November 30, 2011, we had 22,000 shares of common stock available for issuance pursuant to future grants of equity awards under our existing equity compensation plans, which will limit our ability to provide equity incentive awards to existing and future employees. If we are unable to adopt, implement and maintain equity compensation arrangements that provide sufficient incentives, we may be unable to retain our existing employees and attract additional qualified candidates. If we are unable to retain our existing employees, including qualified technical personnel, and attract additional qualified candidates, our business and results of operations could be adversely affected.

*Legislation and governmental regulations enacted in the U.S. and other countries that apply to us or to our customers may require us to change our current products and services and/or result in additional expenses, which could adversely affect our business and results of operations.*

Legislation and governmental regulations affect how our business is conducted, including changes in legislation and governmental regulations impacting financial institutions, insurance companies and mobile device companies. Globally, legislation and governmental regulations also influence our current and prospective customers' activities, as well as their expectations and needs in relation to our products and services. Compliance with these laws and regulations may be onerous and expensive, and may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance. Any such increase in costs as a result of changes in these laws and regulations or in their interpretation could individually or in the aggregate make our products and services less attractive to our customers, delay the introduction of new products in one or more regions, cause us to change or limit our business practices or affect our financial condition and operating results.

*Compliance with changing regulations concerning corporate governance and public disclosure may result in additional expenses.*

In recent years, there have been several changes in laws, rules, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and various other new regulations promulgated by the SEC and rules promulgated by the national securities exchanges.

The Dodd-Frank Act, enacted in July 2010, expands federal regulation of corporate governance matters and imposes requirements on publicly-held companies, including us, to, among other things, provide stockholders with a periodic advisory vote on executive compensation and also adds compensation committee reforms and enhanced pay-for-performance disclosures. While some provisions of the Dodd-Frank Act are effective upon enactment, others will be implemented upon the SEC's adoption of related rules and regulations. The scope and timing of the adoption of such rules and regulations is uncertain and accordingly, the cost of compliance with the Dodd-Frank Act is also uncertain.

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In addition, Sarbanes-Oxley specifically requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. In particular, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of Sarbanes-Oxley. Our testing, or the subsequent testing by our independent registered public accounting firm, if and when required, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently have limited internal audit capabilities and will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

These and other new or changed laws, rules, regulations and standards are, or will be, subject to varying interpretations in many cases due to their lack of specificity. As a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Our efforts to comply with evolving laws, regulations and standards are likely to continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. Further, compliance with new and existing laws, rules, regulations and standards may make it more difficult and expensive for us to maintain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. Members of our board of directors and our principal executive officer and principal financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified directors and executive officers, which could harm our business. We continually evaluate and monitor regulatory developments and cannot estimate the timing or magnitude of additional costs we may incur as a result.

*Our restated certificate of incorporation and amended and restated bylaws provide for indemnification of officers and directors at our expense and limits their liability, which may result in a major cost to us and hurt the interests of our stockholders because corporate resources may be expended for the benefit of officers and/or directors.*