MITEK SYSTEMS INC
Form 10-Q
August 03, 2016

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, 2016

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHNAGE 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)

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 x 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 x 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 x
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 x

There were 32,727,452 shares of the registrant's common stock outstanding as of August 1, 2016.

MITEK SYSTEMS, INC.

FORM 10-Q

For The Quarterly Period Ended June 30, 2016

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

MITEK SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

(amounts in thousands except share data)

	June 30, 2016 (Unaudited)	September 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,009	$ 2,753
Short-term investments	19,908	23,921
Accounts receivable, net	4,614	3,937
Other current assets	1,445	798
Total current assets	30,976	31,409
Long-term investments	8,313	-
Property and equipment, net	826	975
Intangible assets, net	2,902	3,397
Goodwill	2,833	2,873
Other non-current assets	92	92
Total assets	$ 45,942	$ 38,746
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,107	$ 1,538
Accrued payroll and related taxes	2,440	2,061
Deferred revenue, current portion	3,815	3,516
Other current liabilities	650	289
Total current liabilities	8,012	7,404
Deferred revenue, non-current portion	162	222
Other non-current liabilities	791	687
Total liabilities	8,965	8,313
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, 32,726,140 and	33	32

31,721,114 issued and outstanding, as of June 30, 2016 and September 30, 2015, respectively		
Additional paid-in capital	69,514	63,905
Accumulated other comprehensive loss	(68)	(3)
Accumulated deficit	(32,502)	(33,501)
Total stockholders' equity	36,977	30,433
Total liabilities and stockholders' equity	$ 45,942	$ 38,746

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

MITEK SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME

(Unaudited)

(amounts in thousands except for share data)

	Three Months Ended		Nine Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Revenue				
Software	$5,760	$4,675	$16,046	$12,415
Services	3,345	1,765	8,985	5,087
Total revenue	9,105	6,440	25,031	17,502
Operating costs and expenses				
Cost of revenue-software	157	266	679	705
Cost of revenue-services	636	326	1,776	942
Selling and marketing	2,940	1,646	7,956	4,513
Research and development	1,940	1,353	5,460	3,896
General and administrative	2,185	1,804	6,537	5,700
Acquisition-related costs and expenses	553	736	1,640	816
Total operating costs and expenses	8,411	6,131	24,048	16,572
Operating income	694	309	983	930
Other income, net	45	30	111	66
Income before income taxes	739	339	1,094	996
Income tax benefit (provision)	-	578	(95)	575
Net income	$739	$917	$999	$1,571
Net income per share – basic	$0.02	$0.03	$0.03	$0.05
Net income per share – diluted	$0.02	$0.03	$0.03	$0.05
Shares used in calculating net income per share – basic	31,823,386	30,764,694	31,477,723	30,704,250
Shares used in calculating net income per share – diluted	34,531,964	31,645,696	33,461,787	31,389,569
Other comprehensive income:				
Net income	$739	$917	$999	$1,571
Foreign currency translation adjustment	31	(1)	(98)	(1)
Unrealized gain on investments	26	-	33	(6)
Other comprehensive income	$796	$916	$934	$1,564

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

MITEK SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(amounts in thousands)

	Nine Months Ended June 30, 2016	2015
Operating activities:		
Net income	$999	$1,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	3,108	2,495
Amortization of closing and earnout shares	1,128	50
Amortization of intangible assets	449	24
Depreciation and amortization	329	322
Accretion and amortization on debt securities	131	314
Provision for bad debt	-	9
Changes in assets and liabilities:		
Accounts receivable	(672)	(433)
Other assets	(587)	(444)
Accounts payable	(431)	351
Accrued payroll and related taxes	377	(119)
Deferred revenue	262	671
Other liabilities	198	(621)
Net cash provided by operating activities	5,291	4,190
Investing activities:		
Purchases of investments	(28,946)	(21,805)
Sales and maturities of investments	24,549	17,956
Acquisition, net of cash acquired		(5,433)
Purchases of property and equipment	(140)	(52)
Net cash used in investing activities	(4,537)	(9,334)
Financing activities:		
Proceeds from exercise of stock options, net	1,599	125
Principal payments on capital lease obligations	(17)	(16)
Net cash provided by financing activities	1,582	109
Foreign currency effect on cash and cash equivalents	(80)	(1)
Net increase (decrease) in cash and cash equivalents	2,256	(5,036)
Cash and cash equivalents at beginning of period	2,753	7,767
Cash and cash equivalents at end of period	$5,009	$2,731
Supplemental disclosures of cash flow information:		
Cash paid for interest	$1	$3
Cash paid for income taxes	$84	$3
Supplemental disclosures of non-cash investing and financing activities:		

Settlement of note receivable as consideration for business acquisition	$-	$250
Unrealized holding gain (loss) on available-for-sale investments	$33	$(6)

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

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MITEK SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Mitek Systems, Inc. (the "Company") develops, markets and sells proprietary mobile capture and identity verification software solutions for enterprise customers.

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, open accounts, get insurance quotes and pay bills, as well as verify their identity by taking pictures of various documents with their camera-equipped smartphones and tablets instead of using the device's keyboard. As of June 30, 2016, the Company has been granted 27 patents and it has an additional 16 patent applications pending.

The Mobile Verify™ products combine the Mitek MiSnap auto capture experience with a variety of advanced computer vision techniques to provide verification of ID documents. Mobile Verify provides a check of authenticity of U.S. state-issued driver's licenses and includes full global coverage. These products enable banks and other businesses to improve know your customer processes. Mobile Fill™ enables the camera to serve as a keyboard. Using Mobile Fill, consumers can quickly pre-fill any form with personal data by simply snapping a picture of their driver license, credit card, or other document. 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, 2016, 5,205 financial institutions have signed agreements to deploy Mobile Deposit®. These include all of the top ten, and nearly all of the top 50 U.S. retail banks. The Company's mobile imaging software solutions are available for iOS and Android operating systems.

The Company markets and sells the Mitek Mobile Identity Suite of mobile capture and identity verification software products directly to enterprise customers or through channel partners. These software solutions are embedded in mobile banking or enterprise applications developed by banks, insurance companies or their partners, and then marketed under their own proprietary brands.

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company as of June 30, 2016 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 United States ("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, 2015, filed with the U.S. Securities and Exchange Commission on

December 7, 2015.

Results for the three and nine months ended June 30, 2016 are not necessarily indicative of results for any other interim period or for a full fiscal year.

Principles of Consolidation

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

Foreign Currency

The Company’s foreign subsidiaries operate and sell the Company’s products and services in various countries and jurisdictions around the world. As a result, the Company is exposed to foreign currency exchange risks. For those subsidiaries whose functional currency is not the U.S. dollar, assets and liabilities are translated into U.S. dollar equivalents at the exchange rate in effect on the balance sheet date and revenues and expenses are translated into U.S. dollars using the average exchange rate over the period. Resulting currency translation adjustments are recorded in accumulated other comprehensive income (loss) in the Consolidated Balance Sheets. The Company recorded net gains (losses) resulting from foreign exchange translation of $31,000 and $(1,000) for the three months ended June 30, 2016 and 2015, respectively, and net losses of $0.1 million and $1,000 for the nine months ended June 30, 2016 and 2015, respectively.

Use of Estimates

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

Goodwill and Purchased Intangible Assets

Goodwill resulted from the acquisition of IDchecker in fiscal year 2015. Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually or as circumstances indicate that their value may no longer be recoverable. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 350, Intangibles—Goodwill and Other (“ASC Topic 350”), the Company reviews the goodwill and indefinite-lived intangible asset for impairment at least annually in the fourth fiscal quarter and more frequently if events or changes in circumstances occur that indicate a potential reduction in the fair value of the reporting unit and/or the indefinite-lived intangible asset below their respective carrying values. Examples of such events or circumstances include: a significant adverse change in legal factors or in the business climate, a significant decline in the stock price, a significant decline in projected revenue or cash flows, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, or the presence of other indicators that would indicate a reduction in the fair value of a reporting unit.

Goodwill is considered to be impaired if the Company determines that the carrying value of the reporting unit to which the goodwill has been assigned exceeds management’s estimate of its fair value. Based on the guidance provided by ASC Topic 350 and FASB ASC Topic 280, Segment Reporting, management has determined that the Company operates in one segment and consists of one reporting unit given the similarities in economic characteristics between operations and the common nature of the products, services and customers. As the Company has only one reporting unit, and because the Company is publicly traded, the Company determines the fair value of the reporting unit based on market capitalization as this represents the best evidence of fair value. In the fourth quarter of fiscal 2015, we completed the annual goodwill impairment test as of September 30, 2015 and concluded that goodwill was not impaired. The conclusion that goodwill was not impaired was based on a comparison of net assets as of September 30, 2015 to market capitalization.

Intangible assets are amortized over their useful lives. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. The carrying amounts of these assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparing the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate. The carrying amount of such assets is reduced to fair value if the undiscounted cash flows used in the test for recoverability are less than the carrying amount of such assets.

Net Income Per Share

The Company calculates net income per share in accordance with FASB ASC Topic 260, Earnings per Share. Basic net income per share is based on the weighted average number of common shares outstanding during the period.

Diluted net income per share also gives effect to all potentially dilutive securities outstanding during the period, such as options and restricted stock units ("RSUs"), if dilutive. In a period with a net loss position, potentially dilutive securities are not included in the computation of diluted net loss because to do so would be antidilutive, and the number of shares used to calculate basic and diluted net loss is the same.

For the three and nine months ended June 30, 2016 and 2015, the following potentially dilutive common shares were excluded from the calculation of net income per share, as they would have been antidilutive:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Stock options	516,671	2,288,077	899,426	2,316,232
Restricted stock units	6,374	330,684	41,620	408,869
IDchecker closing shares	238,688	-	322,399	-
Total potentially dilutive common shares outstanding	761,733	2,618,761	1,263,445	2,725,101

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

	Three Months Ended		Nine Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Net income	$739	$917	$999	$1,571
Weighted-average common shares outstanding:				
Basic	31,823,386	30,764,694	31,477,723	30,704,250
Diluted	34,531,964	31,645,696	33,461,787	31,389,569
Net income per share:				
Basic	$0.02	$0.03	$0.03	$0.05
Diluted	$0.02	$0.03	$0.03	$0.05

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 VSOE of the fair value of the undelivered element. If the requirements of ASC 985-605 are not met at the date of shipment, revenue is not recognized until such elements are known or resolved. Revenue from customer support services, or maintenance revenue, includes post-contract support and the rights to unspecified upgrades and enhancements. VSOE of fair value for customer support services is determined by reference to the price the customer pays for such element when sold separately; that is, the renewal rate offered to customers. In those instances, when objective and reliable evidence of fair value exists for the undelivered items but not for the delivered items, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items. Revenue from post-contract customer support is recognized ratably over the term of the contract. Certain customers have agreements that provide for usage fees above fixed minimums. 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.

The Company provides hosting services that give customers access to software that resides on Company servers. The Company's model typically includes an up-front fee and a monthly commitment from the customer that commences upon completion of the implementation through the remainder of the customer life. The up-front fee is the initial setup fee, or the implementation fee. The monthly commitment includes, but is not limited to, a fixed monthly fee or a transactional fee based on system usage that exceeds monthly minimums. If the up-front fee does not have standalone value, revenue is deferred until the date the customer commences use of the Company's services, at which point the up-front fees are recognized ratably over the life of the customer arrangement. If the up-front fee has standalone value, revenue is deferred until the work has been performed. In determining whether professional services have standalone value, the Company considers the following factors for each customer arrangement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date and the contractual dependence of the subscription service on the customer’s satisfaction with the professional services work.

Investments

Investments consist of corporate notes and bonds, and commercial paper. The Company classifies investments as available-for-sale at the time of purchase and reevaluates such classification as of each balance sheet date. All investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive income, a component of stockholders’ equity. The Company evaluates its investments to assess whether those with unrealized loss positions are other than temporarily impaired. Impairments are considered to be other-than-temporary if they are related to deterioration in credit risk or if it is likely that the Company will sell the securities before the recovery of its cost basis. Realized gains and losses and declines in value judged to be other-than-temporary are determined based on the specific identification method and are reported in other income, net in the Statements of Operations and Other Comprehensive Income. No other-than-temporary impairment charges were recognized in the three or nine months ended June 30, 2016 or 2015.

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

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. Allowances for doubtful accounts are established based on various factors, including credit profiles of the Company's customers, contractual terms and conditions, historical payments, and current economic trends. The Company reviews its allowances by assessing individual accounts receivable over a specific aging and amount. Accounts receivable are written off on a case-by-case basis, net of any amounts that may be collected. The Company maintained an allowance for doubtful accounts of $12,300 and $12,900 as of June 30, 2016 and September 30, 2015, respectively.

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 nine months ended June 30, 2016 and 2015, no software development costs were capitalized because the time period and costs incurred between technological feasibility and general release for all software product releases were not material or were not realizable.

Guarantees

In the ordinary course of business, the Company is not subject to potential obligations under guarantees that fall within the scope of FASB ASC Topic 460, Guarantees ("ASC 460"), except for standard indemnification and warranty provisions that are contained within many of the Company's customer license and service agreements and certain supplier agreements, and give rise only to the disclosure requirements prescribed by ASC 460. Indemnification and warranty provisions contained within the Company's customer license and service agreements and certain supplier agreements are generally consistent with those prevalent in the Company's industry. The Company has not previously incurred significant costs to settle claims or pay awards under these indemnification or warranty obligations. The Company accounts for these obligations in accordance with FASB ASC Topic 450, Contingencies ("ASC 450"), and records a liability for these obligations when a loss is probable and reasonably estimable. The Company has not recorded any liabilities for these obligations as of June 30, 2016 or September 30, 2015.

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

Comprehensive income consists of net income, unrealized gains and losses on available-for-sale securities and foreign currency translation adjustments. Included on the Consolidated Balance Sheets at June 30, 2016 is an accumulated other comprehensive loss of $68,000, compared to $3,000 at September 30, 2015, related to the Company’s available-for-sale securities and foreign currency translation adjustments.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance codified in FASB ASC Topic 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 2019. The Company is currently evaluating the impact of the provisions of ASC 606.

In September 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments (Topic 805)” (“ASU 2015-16”) which eliminates the requirement to restate prior period financial statements for measurement period adjustments. ASU 2015-16 requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new standard is effective for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. The Company does not believe the adoption of ASU 2015-16 will have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments—Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). ASU 2016-01 is intended to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. We are assessing the impact of adopting ASU 2016-01 on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which modified lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for the Company beginning in its first quarter of fiscal 2020 and early adoption is permitted. The Company is currently evaluating the timing of its adoption and the impact of adopting the new lease standard on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718) (“ASU 2016-09”), which simplified certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification in the statement of cash flows. ASU 2016-09 will be effective for the Company beginning in its first quarter of fiscal 2018. The Company is currently evaluating the impact of adopting the new stock compensation standard on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which requires entities to use a Current Expected Credit Loss model which is a new impairment model based on expected losses rather than incurred losses. Under this model, an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost. The entity's estimate would consider relevant information about past events, current conditions and reasonable and supportable forecasts. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 31, 2019 with early adoption permitted for annual reporting periods beginning after December 31, 2018. The Company is currently evaluating the impact ASU 2016-13 will have on its consolidated financial statements.

No other new accounting pronouncement issued or effective during the three months ended June 30, 2016 had, or is expected to have, a material impact on the Company’s consolidated financial statements.

2. BUSINESS COMBINATION

On June 17, 2015, the Company completed the acquisition (the “Acquisition”) of IDchecker NL B.V., a company incorporated under the laws of the Netherlands (“IDC NL”), and ID Checker, Inc., a California corporation and wholly owned subsidiary of IDC NL (“IDC Inc.” and together with IDC NL, “IDchecker”), pursuant to a Share Purchase Agreement (the “Share Purchase Agreement”) dated May 26, 2015, by and among the Company, IDC NL, ID Checker Holding B.V. (“Parent”), Stichting Administratiekantoor

OPID (together with Parent, the “Sellers”), and the other individuals specified therein. Upon completion of the Acquisition, IDC NL and IDC Inc. became wholly owned subsidiaries of the Company and the transaction has been accounted for as an acquisition of a business. IDchecker is a provider of cloud-based identification document verification services.

The total consideration for the Acquisition was $5.6 million in cash (the “Cash Payment”), subject to adjustments for transaction expenses, indebtedness, and working capital adjustments, and forgiveness of the outstanding balance of approximately $0.3 million on a promissory note issued by the Company to IDchecker. Approximately $2.7 million in shares (the “Closing Shares”) of the Company’s common stock, par value $0.001 per share (“Common Stock”), or 712,790 Closing Shares, were issued to the Sellers at the closing of the Acquisition. In January 2016, the Company issued 137,306 additional shares (the “Paid Earnout Shares”) to the Sellers for achievement by IDchecker of certain revenue and net income targets for the nine-month period ended September 30, 2015. In addition, the Company may issue to the Sellers up to an aggregate of $1.0 million in additional shares of Common Stock (together with the Paid Earnout Shares, the “Earnout Shares”) subject to the achievement of certain revenue and net income targets by IDchecker during the twelve-month period ending on September 30, 2016 (the “Earnout Period”). If the revenue or net income achieved by IDchecker during the Earnout Period is less than the applicable targets but equal to or greater than 80% of such targets, the Sellers will receive a prorated amount of Earnout Shares. Vesting of both the Closing Shares and Earnout Shares is subject to the continued employment of the founders of IDchecker and such shares are being accounted for as compensation for future services in accordance with FASB ASC Topic 718, Compensation – Stock Compensation. For additional information regarding the Closing Shares and Earnout Shares, see Note 5 to the Company’s consolidated financial statements.

Upon the closing of the Acquisition, the Company deposited $1.8 million of the Cash Payment and 20% of the Closing Shares into an escrow fund to serve as collateral and partial security for working capital adjustments and certain indemnification obligations. In January 2016, the Company also deposited 27,461 Earnout Shares into an escrow fund, and to the extent any future Earnout Shares are issued to the Sellers, 20% of such Earnout Shares will be placed in the escrow fund. The escrow fund will be maintained for up to 24 months following the last issuance of Earnout Shares or until such earlier time as the escrow fund is exhausted.

The purchase price is subject to a post-closing adjustment in net working capital as provided in the Share Purchase Agreement.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as part of the Acquisition as of June 17, 2015 (amounts shown in thousands):

	June 17, 2015
Current assets	$620
Property, plant and equipment	42
Intangible assets	3,570
Assets acquired	$4,232
Current liabilities	$(476)
Other liabilities	(810)
Liabilities assumed	$(1,286)

Fair value of net assets acquired	$2,946
Total consideration paid	5,819
Goodwill before effect in exchange rates	$2,873
Effect of movements in exchange rates	(40)
Goodwill	$2,833

The Company estimated the fair value of identifiable acquisition-related intangible assets primarily based on discounted cash flow projections that will arise from these assets. The Company exercised significant judgment with regard to assumptions used in the determination of fair value such as with respect to discount rates and the determination of the estimated useful lives of the intangible assets, (see Note 4 to the Company's consolidated financial statements). The excess of the purchase price over the fair value of the assets acquired and liabilities assumed was allocated to goodwill. Goodwill in the amount of $2.9 million was recorded in the Consolidated Balance Sheets. The goodwill recognized is due to expected synergies and other factors and is not expected to be deductible for income tax purposes.

3. INVESTMENTS

The following table summarizes investments by type of security as of June 30, 2016 (amounts shown in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-sale securities:				
Corporate debt securities, short-term	$12,245	$ 1	$ (4)	$12,242
Corporate debt securities, long-term	2,302	—	(4)	2,298
Government debt securities, short-term	7,677	—	(11)	7,666
Government debt securities, long-term	6,027	—	(12)	6,015
Total	$28,251	$ 1	$ (31)	$28,221

The following table summarizes investments by type of security as of September 30, 2015 (amounts shown in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-sale securities:				
Corporate debt securities, short-term	$23,924	$ 3	$ (6)	$23,921
Corporate debt securities, long-term	—	—	—	—
Total	$23,924	$ 3	$ (6)	$23,921

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

The Company determines the appropriate designation of investments at the time of purchase and reevaluates such designation as of each balance sheet date. All of the Company's investments are designated as available-for-sale debt securities. As of June 30, 2016 and September 30, 2015, the Company's short-term investments have maturity dates of less than one year from the balance sheet date and the Company's long-term investments have maturity dates of greater than one year from the balance sheet date.

Available-for-sale marketable securities are carried at fair value as determined by quoted market prices for identical or similar assets, with unrealized gains and losses, net of taxes, and reported as a separate component of stockholders' equity. Management reviews the fair value of the portfolio at least monthly, and evaluates individual securities with fair value below amortized cost at the balance sheet date. For debt securities, in order to determine whether impairment is other than temporary, management must conclude whether the Company intends to sell the impaired security and whether it is more likely than not that the Company will be required to sell the security before recovering its amortized cost basis. If management intends to sell an impaired debt security or it is more likely than not that the Company will be required to sell the security prior to recovering its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. The amount of an other-than-temporary impairment on debt securities related to a credit loss, or securities that management intends to sell before recovery, is recognized in earnings. The amount of an other-than-temporary impairment on debt securities related to other factors is recorded consistent with changes in the fair value of all other available-for-sale securities as a component of stockholders' equity in other comprehensive income. No other-than-temporary impairment charges were recognized in the three and nine months ended June 30, 2016 and 2015.

Fair Value Measurements and Disclosures

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

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

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

The following tables represent the fair value hierarchy of the Company’s investments and acquisition related contingent consideration as of June 30, 2016 and September 30, 2015, respectively (amounts shown in thousands):

	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016:		
Assets:		