

ZIONS BANCORPORATION /UT/
Form 8-K
November 04, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

November 4, 2003 (October 16, 2003)

Date of Report (Date of earliest event reported)

Zions Bancorporation

(Exact name of registrant as specified in its charter)

Utah
(State of incorporation)

0-2610
(Commission File Number)

87-0227400
(IRS Employer

Identification No.)

One South Main, Suite 1134, Salt Lake City, Utah
(Address of principal executive offices)

84111
(Zip Code)

(801) 524-4787

(Registrant's telephone number,

including area code)

N/A

(Former name or former address, if changed since last report)

ITEM 5. OTHER EVENTS

On October 16, 2003, Zions Bancorporation announced via press release its financial results for the quarter ended September 30, 2003. Excerpts from the press release are set forth below:

*****FOR IMMEDIATE RELEASE*****

FOR: ZIONS BANCORPORATION

Contact: Clark Hinckley

One South Main, Suite 1134

Tel: (801) 524-4787

Salt Lake City, Utah

October 16, 2003

Harris H. Simmons

Chairman/Chief Executive Officer

ZIONS BANCORPORATION REPORTS 2003 THIRD

QUARTER EARNINGS OF \$0.68 PER DILUTED SHARE

Results Include Impact of Several Key Strategic Actions

SALT LAKE CITY, October 16, 2003 Zions Bancorporation (Zions or the Company) (Nasdaq: ZION) today reported third-quarter net income of \$62.1 million, or \$0.68 per diluted share. This net income and earnings per share performance represented an increase of 57.4% and 58.1%, respectively, over the \$39.4 million, or \$0.43 per diluted share earned for the third quarter of 2002. Income from continuing operations was \$64.2 million for the third quarter of 2003, a decrease of 1.8% from the \$65.4 million reported for the third quarter of 2002. Income from continuing operations was \$0.71 per diluted share for the third quarter of 2003, unchanged from the third quarter of 2002.

Year-to-date net income for 2003 was \$242.2 million, or \$2.67 per diluted share compared to year-to-date net income of \$168.8 million, or \$1.83 per diluted share for 2002. Year-to-date income from continuing operations for 2003 was \$244.0 million, or \$2.69 per diluted share, an increase of 4.7% and 6.7%, respectively, over income from continuing operations of \$233.0 million, or \$2.52 per diluted share for year-to-date 2002.

Results for the third quarter of 2003 included the impact of several key strategic actions related to Zions' previously announced restructuring of Vectra Bank Colorado, the rationalization of branches in Zions Bank, restructuring of debt, and the final disposition of certain strategic investments. The impact of these items is summarized in the following table:

Impact of Strategic Actions

		Pre-Tax Amount	After-Tax Amount	Diluted EPS Impact
		(\$ millions)	(\$ millions)	
Income Statement Line Item Affected				
Vectra Restructuring	Impairment loss on goodwill	\$ (75.6)	\$ (75.6)	\$ (0.83)
	Restructuring charges	(0.6)	(0.4)	(0.01)
	Total Impact of Vectra	(76.2)	(76.0)	(0.84)
ZFNB Restructuring	Impairment losses on long-lived assets	(1.2)	(0.7)	(0.01)
Lexign Sale	Discontinued operations: Impairment			
	losses and loss on sale	(2.4)	(1.5)	(0.02)
Debt Extinguishment	Debt extinguishment cost	(24.2)	(15.0)	(0.16)
Sale of Equity Investments	Equity securities gains (losses), net [ICAP, plc]	68.5	42.3	0.47
	Equity securities gains (losses), net [Other]	16.7	10.3	0.11
	Total Sale of Equity Investments	85.2	52.6	0.58
Other Tax Effects of Above Items	Income taxes	N/A	7.3	0.08
Total Impact of Strategic Actions		\$ (18.8)	\$ (33.3)	\$ (0.37)

The \$75.6 million of impairment losses on goodwill are intangible losses that arise from write-downs of goodwill and do not impact tangible capital.

Loan and Deposit Growth

Loan growth for the quarter was modest, reflecting the improving but still soft economy and the Company's caution regarding aggressive loan growth in the current economic environment. On-balance-sheet net loans and leases at September 30, 2003 were \$19.4 billion. On-balance-sheet and sold loans being serviced were \$22.3 billion at September 30, 2003 and increased 4.7% from September 30, 2002 and 9.6% annualized from June 30, 2003.

Deposits at September 30, 2003 were \$20.9 billion, an increase of 7.2% over the balances reported one year ago. Deposits at September 30, 2003 increased at an annualized rate of 4.8% from the balances reported at the end of the second quarter of 2003.

Net Interest Income

For the quarter, taxable-equivalent net interest income of \$282.8 million increased 6.0% compared to \$266.7 million for the third quarter of 2002. For the third quarter of 2003, the net interest margin

was 4.39%, compared to 4.50% for the second quarter of 2003, and 4.53% for the third quarter of 2002.

Noninterest Income

For the third quarter of 2003, noninterest income was \$190.2 million compared to \$74.8 million for the third quarter of 2002. Excluding equity securities gains (losses) from both quarters, noninterest income for the third quarter of 2003 increased 11.3% from the third quarter of 2002.

Loan sales and servicing income included a gain on sale of \$2.4 million in the third quarter of 2003 resulting from the securitization of \$587 million of small business loans.

The third quarter of 2003 also included net equity securities gains of \$77.4 million compared to net equity securities losses of \$26.5 million for the third quarter of 2002. Equity securities gains during the third quarter of 2003 included the following:

	Pre-Tax Amount	
	(\$ millions)	Diluted EPS Impact
	_____	_____
Gain on sale of ICAP, plc stock	\$ 68.5	\$ 0.47
Gain on sale of other investments	16.7	0.11
Write-downs made by venture capital funds	(7.8)	(0.04)*
	_____	_____
Total	\$ 77.4	\$ 0.54

*Net of income taxes and minority interest, the results of the venture capital funds reduced net income by \$3.5 million in the third quarter of 2003.

The gain on the sale of ICAP, plc was previously reported in an 8-K filed with the Securities and Exchange Commission on July 1, 2003.

Noninterest Expense

For the third quarter of 2003, noninterest expense was \$245.5 million compared to \$219.2 million for the third quarter of 2002. The third quarter of 2003 includes debt extinguishment cost of \$24.2 million. Excluding this item, noninterest expense increased 1.0% from the third quarter of 2002.

Vectra Bank Colorado Restructuring

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As previously noted, earlier this year the Company and Vectra management initiated a strategic review of Vectra Bank.

As a part of the restructuring of Vectra Bank Colorado, the Company offered 11 branches for sale during the quarter. The assets and liabilities to be sold were measured at their fair value less

estimated costs to sell based on bids, letters of intent received and negotiations to date. As a result, the Company recognized an impairment loss on goodwill of \$7.1 million on the branches held for sale. The loans and deposits associated with these branches at quarter end were \$153.9 million and \$133.0 million, respectively.

As a result of this restructuring and as previously communicated, Zions also performed a SFAS 142 impairment test on the retained operations of Vectra in the third quarter of 2003. As a result of this analysis, in which Zions was assisted by valuation consultants from KPMG LLP, Zions recognized an additional goodwill impairment charge of \$68.5 million. The SFAS 142 Step 1 fair value calculation resulted in a determination of modest impairment compared to current book value adjusted to exclude assets and liabilities associated with the branches being sold. The total \$68.5 million goodwill impairment included the adjustments resulting from the Step 2 measurement of the fair value of assets and liabilities.

The total goodwill impairment of \$75.6 million in the quarter is the sum of the \$7.1 million and \$68.5 million described above.

Sale of Lexign, Inc.

During the third quarter of 2003, Zions completed the sale of its subsidiary, Lexign, Inc., incurring a pretax loss on sale of \$2.4 million. However, the sale also triggered a tax capital loss that was recognizable only due to capital gains from the sale of equity investments during the quarter. This capital loss resulted in an income tax benefit of \$11.9 million, included in other tax effects in the table on page 2.

Asset Quality

The ratio of nonperforming assets to total loans and other real estate was 0.56% at September 30, 2003 compared to 0.61% at June 30, 2003 and 0.72% at September 30, 2002. For the third quarter of 2003, net loan and lease losses were \$18.4 million or 0.38% annualized of average loans, compared to \$17.2 million or 0.36% annualized for the second quarter of 2003 and \$21.3 million or 0.46% annualized for the third quarter of 2002. At \$281.3 million on September 30, 2003, the allowance for loan losses was 1.45% of total loans and 342% of nonperforming loans.

Provision for Loan Losses

For the third quarter of 2003, the provision for loan losses was \$18.3 million compared to \$18.2 million provided during the second quarter of 2003 and \$22.3 million provided during the third quarter of 2002. The provision reflects management's evaluation of its various portfolios, statistical

trends and other economic factors, and its desire to maintain a strong coverage of nonperforming assets in a continued uncertain economic environment in the markets in which it operates.

Capital Management

During the third quarter of 2003, Zions repurchased 352,983 shares of common stock at an average price of \$54.60 per share. Year-to-date 2003, Zions has repurchased 1,577,631 shares at an average price of \$48.00 per share. As of September 30, 2003, the Company had \$1.9 million remaining in its currently authorized share repurchase program. Weighted average common and common equivalent shares outstanding for the third quarter of 2003 were 90,810,743, compared to 90,586,065 for the second quarter of 2003 and 92,017,388 for the third quarter of 2002.

The Company's tangible common equity ratio increased to 6.55% at September 30, 2003, from 6.20% at June 30, 2003 and 6.09% at September 30, 2002.

Zions conducted a modified Dutch auction tender offer during the quarter in which tenders for \$197.4 million of notes were received. All tendered securities qualified as Tier 2 capital.

During the quarter Zions issued \$500 million of 6.00% subordinated notes due 2015. All of this debt issue qualifies as Tier 2 capital. The Company subsequently swapped this fixed rate debt for a Libor-based floating rate.

These debt issuances and redemptions had the net effect of increasing Tier 2 capital by approximately \$300 million.

About Zions Bancorporation

Zions Bancorporation is one of the nation's premier financial services companies, consisting of a collection of great banks in select high growth markets. Under local management teams and community identities, Zions operates over 400 full-service banking offices in Arizona, California, Colorado, Idaho, Nevada, New Mexico, Utah and Washington. In addition, Zions is a national leader in SBA lending, public finance advisory services, agricultural finance and electronic bond trading. The Company is included in the S&P 500 Index. Investor information and links to subsidiary banks can be accessed at www.zionsbancorporation.com.

Forward-Looking Information

This news release contains statements regarding the projected performance of Zions and its subsidiaries. These statements constitute forward-looking information within the meaning of the Private Securities Litigation Reform Act. Actual results of achievements may differ materially from the projections provided in this release since such projections involve significant known and unknown risks and uncertainties. Factors that might cause such differences include, but are not limited to: competitive pressures among financial institutions increasing significantly; economic conditions, either nationally or locally, in areas in which the Company conducts operations being less favorable than expected; and legislation or regulatory changes which adversely affect the ability of the combined Company to conduct business combinations or new operations. The Company disclaims any obligation to update such factors or to publicly announce the results of any revisions to any of the forward-looking statements included herein to reflect future events or developments.

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FINANCIAL HIGHLIGHTS

(Unaudited)

(In thousands, except per share and ratio data)	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2003	2002	% Change	2003	2002	% Change
EARNINGS						
Taxable-equivalent net interest income	\$ 282,776	\$ 266,660	6.04%	\$ 834,550	\$ 792,247	5.34%
Net interest income	277,079	261,306	6.04%	817,240	776,560	5.24%
Noninterest income	190,176	74,815	154.20%	387,342	270,246	43.33%
Provision for loan losses	18,260	22,309	(18.15)%	53,960	56,104	(3.82)%
Noninterest expense	245,506	219,158	12.02%	675,895	640,120	5.59%
Impairment loss on goodwill	75,628			75,628		
Income before income taxes and minority interest	127,861	94,654	35.08%	399,099	350,582	13.84%
Income taxes	66,511	31,772	109.34%	161,861	120,744	34.05%
Minority interest	(2,849)	(2,486)	14.60%	(6,745)	(3,211)	110.06%
Income from continuing operations	64,199	65,368	(1.79)%	243,983	233,049	4.69%
Loss on discontinued operations	(2,115)	(25,922)	91.84%	(1,770)	(31,897)	94.45%
Cumulative effect of change in accounting principle					(32,369)	100.00%
Net income	62,084	39,446	57.39%	242,213	168,783	43.51%
PER COMMON SHARE						
Net income (diluted)	0.68	0.43	58.14%	2.67	1.83	45.90%
Income from continuing operations (diluted)	0.71	0.71		2.69	2.52	6.75%
Loss on discontinued operations (diluted)	(0.03)	(0.28)	89.29%	(0.02)	(0.34)	94.12%
Dividends	0.30	0.20	50.00%	0.72	0.60	20.00%
Book value				27.66	25.86	6.96%
SELECTED RATIOS						
Return on average assets	0.86%	0.59%		1.16%	0.87%	
Return on average common equity	9.89%	6.51%		13.21%	9.68%	
Efficiency ratio	52.08%	74.23%		55.42%	64.57%	
Net interest margin	4.39%	4.53%		4.48%	4.61%	

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ZIONS BANCORPORATION AND SUBSIDIARIES

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FINANCIAL HIGHLIGHTS (Continued)

(Unaudited)

(In thousands, except share and ratio data)	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2003	2002	% Change	2003	2002	% Change
AVERAGE BALANCES						
Total assets	\$ 28,696,504	\$ 26,429,054	8.58 %	\$ 28,015,477	\$ 26,081,737	7.41 %
Securities	4,644,337	3,788,158	22.60 %	4,308,192	3,922,040	9.85 %
Net loans and leases	19,577,780	18,442,768	6.15 %	19,252,293	18,024,954	6.81 %
Goodwill	729,149	772,439	(5.60)%	729,769	747,888	(2.42)%
Core deposit and other intangibles	76,457	98,032	(22.01)%	79,148	102,559	(22.83)%
Total deposits	20,425,204	18,851,300	8.35 %	20,074,737	18,252,378	9.98 %
Minority interest	20,930	22,234	(5.86)%			
Net loss per share diluted	\$ (0.05)	\$ (0.08)	\$ (0.17)	\$ (0.22)		

Revenue Recognition

Revenue from sales of software licenses sold through direct and indirect channels is recognized upon shipment of the related product, if the requirements of FASB ASC Topic 985-605, *Software Revenue Recognition* (ASC 985-605) are met, including evidence of an arrangement, delivery, fixed or determinable fee, collectability and vendor specific objective evidence (VSOE) of the fair value of the undelivered element. If the requirements of ASC 985-605 are not met at the date of shipment, revenue is not recognized until such elements are known or resolved. Revenue from customer support services, or maintenance revenue, includes post-contract support and the rights to unspecified upgrades and enhancements. VSOE of fair value for customer support services is determined by reference to the price the customer pays for such element when sold separately; that is, the renewal rate offered to customers. Revenue derived from professional services primarily includes consulting, implementation, and training. Revenue from fixed fee service engagements is recognized after the services are performed using the completed performance method. Revenue from time and materials service engagements is generally recognized as the services are performed.

In those instances when objective and reliable evidence of fair value exists for the undelivered items but not for the delivered items, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items. Revenue from post-contract customer support is recognized ratably over the term of the contract. Certain customers

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable, net, is as follows:

	June 30, 2014	September 30, 2013
Accounts receivable	\$ 2,528,405	\$ 1,506,627
Less: Allowance for doubtful accounts	(8,800)	(12,000)
Accounts receivable, net	\$ 2,519,605	\$ 1,494,627

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

Capitalized Software Development Costs

Costs incurred for the development of software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. Software development costs consist primarily of compensation of development personnel and related overhead incurred to develop new products and upgrade and enhance the Company's current products, as well as fees paid to outside consultants. Capitalization of software development costs ceases and amortization of capitalized software development costs commences when the products are available for general release. For the three and nine months ended June 30, 2014 and 2013, no software development costs were capitalized because the time period and costs incurred between technological feasibility and general release for all software product releases were not material.

Fair Value of Equity Instruments

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

Deferred Income Taxes

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

Table of Contents*Comprehensive Loss*

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

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Net loss	\$ (1,632,601)	\$ (2,052,059)	\$ (5,293,919)	\$ (5,804,976)
Other comprehensive loss:				
Change in unrealized (losses) gain on marketable securities	(4,948)	(5,481)	897	(2,945)
Total comprehensive loss	\$ (1,637,549)	\$ (2,057,540)	\$ (5,293,022)	\$ (5,807,921)

Included on the balance sheet at June 30, 2014 is an accumulated other comprehensive gain of \$2,735, compared to an accumulated other comprehensive gain of \$1,838 at September 30, 2013, related to the Company's available-for-sale securities.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance codified in ASC 606, *Revenue Recognition - Revenue from Contracts with Customers*, which amends the guidance in former ASC 605, *Revenue Recognition*. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2018. The Company is currently evaluating the impact of the provisions of ASC 606.

2. INVESTMENTS

The following table summarizes investments by type of security as of June 30, 2014:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-sale securities:				
Corporate debt securities, short-term	\$ 15,587,478	\$ 5,186	\$ (1,095)	\$ 15,591,569
Corporate debt securities, long-term	1,625,052		(1,356)	1,623,696
Total	\$ 17,212,530	\$ 5,186	\$ (2,451)	\$ 17,215,265

The following table summarizes investments by type of security as of September 30, 2013:

Cost

		Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-sale securities:				
Corporate debt securities, short-term	\$ 5,729,034	\$ 2,378	\$ (540)	\$ 5,730,872
Corporate debt securities, long-term				
Total	\$ 5,729,034	\$ 2,378	\$ (540)	\$ 5,730,872

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, 2014 and September 30, 2013, 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.

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Available-for-sale marketable securities are carried at fair value as determined by quoted market prices for identical or similar assets, with unrealized gains and losses, net of tax, and reported as a separate component of stockholders equity. Management reviews the fair value of the portfolio at least monthly, and evaluates individual securities with fair value below amortized cost at the balance sheet date. For debt securities, in order to determine whether impairment is other than temporary, management must conclude whether 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, 2014 and 2013.

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 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.

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

	June 30, 2014	September 30, 2013
Short-term investments:		
Corporate debt securities		
Financial	\$ 9,462,537	\$ 3,411,661
Industrial	2,270,381	1,517,327

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Utility	760,988	401,984
Commercial paper		
Financial	2,297,660	
Industrial		399,900
Certificate of deposit financial	800,003	
Total short-term investments	\$ 15,591,569	\$ 5,730,872
Long-term investments:		
Corporate debt securities		
Financial	\$ 1,623,696	\$
Total long-term investments	\$ 1,623,696	\$

Table of Contents**3. STOCKHOLDERS EQUITY***Stock-Based Compensation Expense*

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Sales and marketing	\$ 221,323	\$ 102,672	\$ 657,014	\$ 277,976
Research and development	201,690	161,431	579,517	447,491
General and administrative	499,835	421,530	1,431,438	1,320,300
Stock-based compensation expense included in operating expenses	\$ 922,848	\$ 685,633	\$ 2,667,969	\$ 2,045,767

No stock options were granted to employees during the nine months ended June 30, 2014. The fair value calculations for stock-based compensation awards to employees for the nine months ended June 30, 2013 were based on the following assumptions:

	Nine Months Ended June 30, 2013
Risk-free interest rate	0.18 0.84%
Expected life (years)	5.05
Expected volatility	169%
Expected dividends	None

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

As of June 30, 2014, the Company had \$7,211,726 of unrecognized compensation expense related to outstanding stock options and RSUs expected to be recognized over a weighted-average period of approximately 2.3 years.

2012 Incentive Plan

In January 2012, the Company's board of directors adopted the Mitek Systems, Inc. 2012 Incentive Plan (the 2012 Plan), upon the recommendation of the compensation committee of the Company's board of directors. The total number of shares of the Company's common stock reserved for issuance under the 2012 Plan is 2,000,000 shares, plus

that number of shares of the Company's common stock that would otherwise return to the available pool of unissued shares reserved for awards under its 1999 Stock Option Plan, 2000 Stock Option Plan, 2002 Stock Option Plan, 2006 Stock Option Plan and 2010 Stock Option Plan (collectively, the Prior Plans). At the Company's annual meeting of stockholders held on February 19, 2014, the Company's stockholders approved an amendment to the 2012 Plan to increase the number of shares of the Company's common stock available for future grant under the 2012 Plan from 2,000,000 to 4,000,000. As of June 30, 2014, (i) stock options to purchase 1,109,961 shares of the Company's common stock and 647,292 RSUs were outstanding under the 2012 Plan, and 2,423,806 shares of the Company's common stock were reserved for future grants under the 2012 Plan and (ii) stock options to purchase an aggregate of 1,506,160 shares of the Company's common stock were outstanding under the Prior Plans.

Director Restricted Stock Unit Plan

In January 2011, the Company's board of directors adopted the Mitek Systems, Inc. Director Restricted Stock Unit Plan, as amended and restated (the Director Plan). The total number of shares of the Company's common stock reserved for issuance under the Director Plan is 1,000,000 shares. Under the Director Plan, RSUs may be granted to both employee and non-employee members of the board of directors of the Company. As of June 30, 2014, (i) 565,000 RSUs were outstanding under the Director Plan and (ii) 435,000 shares of the Company's common stock were reserved for future grants under the Director Plan.

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The following table summarizes stock option activity under the Company's equity plans during the nine months ended June 30, 2014:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in Years)
Outstanding, September 30, 2013	2,824,964	\$ 4.09	7.29
Granted			
Exercised	(103,223)	\$ 1.22	
Cancelled	(105,620)	\$ 4.33	
Outstanding, June 30, 2014	2,616,121	\$ 4.19	6.34

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The following table summarizes significant ranges of outstanding and exercisable options as of June 30, 2014:

Range of Exercise Prices	Number of Options Outstanding	Weighted- Average Remaining Contractual Life (in Years)	Weighted- Average Exercise Price	Number of Exercisable Options	Weighted- Average Exercise Price of Exercisable Options	Number of Unvested Options
\$0.09 to \$0.79	336,762	5.50	\$ 0.73	336,762	\$ 0.73	
\$0.80 to \$1.10	350,000	1.64	\$ 0.93	350,000	\$ 0.93	
\$2.34 to \$2.60	757,057	6.95	\$ 2.51	455,700	\$ 2.54	301,357
\$3.33 to \$9.97	873,178	7.63	\$ 5.93	447,973	\$ 6.64	425,205
\$11.05 to \$11.68	299,124	7.50	\$ 11.08	185,682	\$ 11.08	113,442
	2,616,121	6.34	\$ 4.19	1,776,117	\$ 3.81	840,004

The Company recognized \$542,929 and \$1,662,245, respectively, in stock-based compensation expense related to outstanding stock options in the three and nine months ended June 30, 2014. During the three and nine months ended June 30, 2013, the Company recognized \$494,608 and \$1,478,226, respectively, in stock-based compensation expense related to outstanding stock options. As of June 30, 2014, the Company had \$3,265,815 of unrecognized compensation expense related to outstanding stock options expected to be recognized over a weighted-average period of approximately 2.0 years. As of June 30, 2013, the Company had \$5,006,752 of unrecognized compensation expense related to outstanding stock options expected to be recognized over a weighted average period of approximately 2.8 years.

Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the weighted-average exercise price, multiplied by the number of options outstanding and exercisable. The total intrinsic value of options exercised during the nine months ended June 30, 2014 and 2013 was \$468,489 and \$3,832,374, respectively. As of June 30, 2014, there were 2,616,121 options outstanding with a weighted-average remaining contractual term, weighted-average exercise price and aggregate intrinsic value of 6.3 years, \$4.19 and \$2,331,604, respectively. As of June 30, 2013, there were 2,670,743 options outstanding with a weighted average remaining contractual term, weighted average exercise price and aggregate intrinsic value of 7.4 years, \$4.01 and \$7,282,518, respectively.

Restricted Stock Units

The following table summarizes RSU activity under the Company's equity plans during the nine months ended June 30, 2014:

	Number of Shares	Weighted- Average Fair Market Value Per Share
Outstanding, September 30, 2013	692,504	\$ 4.85
Granted	612,639	\$ 4.86

Settled	(28,334)	\$	8.96
Cancelled	(64,517)	\$	4.66
Outstanding, June 30, 2014	1,212,292	\$	4.77

The cost of RSUs is determined using the fair value of the Company's common stock on the award date, and the compensation expense is recognized ratably over the vesting period. The Company recognized \$379,919 and \$1,005,724, respectively, in stock-based compensation expense related to outstanding RSUs in the three and nine months ended June 30, 2014. The Company recognized \$191,025 and \$567,541, respectively, in stock-based compensation expense related to the outstanding RSUs in the three and nine months ended June 30, 2013. As of June 30, 2014, the Company had \$3,945,911 of unrecognized compensation expense related to outstanding RSUs expected to be recognized over a weighted-average period of approximately 3.1 years. As of June 30, 2013, the Company had \$2,249,388 of unrecognized compensation expense related to outstanding RSUs expected to be recognized over a weighted-average period of approximately 3.3 years.

4. INCOME TAXES

The Company's deferred tax assets are primarily comprised of federal and state net operating loss carryforwards. Such federal and state net operating loss carryforwards begin to expire in the fiscal years ending September 30, 2018 and September 30, 2014, respectively. The Company carries a deferred tax valuation allowance equal to 100% of the net deferred tax assets. In recording this allowance, management has considered a number of factors, particularly the Company's recent history of sustained operating losses. Management has concluded that a valuation allowance is required for 100% of the net deferred tax assets as it is more likely than not that the deferred tax assets will not be realized.

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There can be no assurance that the Company will ever realize the benefit of any or all of the federal and state net operating loss carryforwards or the credit carryforwards, either due to ongoing operating losses or due to ownership changes, which may limit the usefulness of the net operating loss carryforwards. Due to the 100% valuation allowance on the net deferred tax assets, the Company does not anticipate that future changes in the Company's unrecognized tax benefits will impact its effective tax rate.

The Company's policy is to classify interest and penalties related to income tax matters as income tax expense. The Company had no accrual for interest or penalties as of June 30, 2014 or September 30, 2013, and has not recognized interest and/or penalties in the statements of operations for the three and nine months ended June 30, 2014 and 2013.

5. COMMITMENTS AND CONTINGENCIES

Legal Matters

USAA

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

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

The courts consolidated the foregoing cases in the U.S. District Court for the Western District of Texas, and on November 19, 2012, the Company answered USAA's various claims and counterclaims, moved to dismiss USAA's Lanham Act cause of action and filed a counterclaim against USAA for violation of the Lanham Act. On February 15, 2013, the court granted the Company's motion and dismissed USAA's Lanham Act claim. On July 29, 2014, the Court dismissed the Company's infringement claims against USAA. The Company's claims for defamation and Lanham Act violations are expected to go to trial on September 8, 2014.

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

Top Image Systems Ltd.

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

On January 7, 2013, TISA answered the Company's complaint by denying the allegations and raising several affirmative defenses. On January 11, 2013, the Company amended its complaint to add its sixth patent, which had recently been issued and also relates to image capture on mobile devices. On January 28, 2013, TISA responded to the Company's amended complaint by again denying the allegations and raising the same affirmative defenses that they raised in their answer to the Company's initial complaint.

Other Legal Matters

In addition to the foregoing, the Company is subject to various claims and legal proceedings arising in the ordinary course of its business. While any legal proceeding has an element of uncertainty, the Company believes that the disposition of such matters, in the aggregate, will not have a material effect on the Company's financial condition or results of operations.

Facility Lease

The Company's principal executive offices, as well as its research and development facility, are located in approximately 22,523 square feet of office space in San Diego, California. The term of the lease for the Company's offices continues through June 30, 2019. The annual base rent under the lease is approximately \$471,000 per year and is subject to annual increases of approximately 3% per year. In connection with the lease, the Company received tenant improvement allowances totaling \$675,690. These lease incentives

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are being amortized as a reduction of rent expense over the term of the lease. As of June 30, 2014, the unamortized balance of the lease incentives was \$524,523, of which \$104,905 has been included in other current liabilities and \$419,618 has been included in other non-current liabilities. Under the terms of the lease, the Company issued a standby letter of credit to the landlord that allows for one or more draws of up to \$210,000 over the term of the lease. The Company believes its existing properties are in good condition and are sufficient and suitable for the conduct of its business.

6. REVENUE AND VENDOR CONCENTRATIONS*Revenue Concentration*

For the three months ended June 30, 2014, the Company derived revenue of \$2,140,009 from three customers, accounting for 19%, 16% and 11%, respectively, of the Company's total revenue, compared to revenue for the three months ended June 30, 2013 of \$1,720,637 derived from two customers, accounting for 24% and 20%, respectively, of the Company's total revenue. For the nine months ended June 30, 2014, the Company derived revenue of \$3,999,442 from one customer, accounting for 29% of the Company's total revenue, compared to revenue for the nine months ended June 30, 2013 of \$2,606,739 derived from one customer, accounting for 25% of the Company's total revenue. The corresponding accounts receivable balances of customers from which revenues were in excess of 10% of total revenue were \$1,413,670 and \$81,142, respectively, at June 30, 2014 and 2013.

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

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

During the three and nine months ended June 30, 2014, international sales accounted for approximately 1% and 5%, respectively, of the Company's total revenue. International sales accounted for approximately 2% of the Company's total revenue for both the three and nine months ended June 30, 2013. The Company sells its products in U.S. currency only.

Vendor Concentration

The Company purchases its integrated software components from multiple third-party software providers at competitive prices. For the three and nine months ended June 30, 2014 and 2013, the Company did not make purchases from any one vendor comprising 10% or more of the Company's total purchases. The Company has entered into contractual relationships with some of its vendors; however, the Company does not believe it is substantially dependent upon nor exposed to any significant concentration risk related to purchases from any of its vendors, given the availability of alternative sources for its necessary integrated software components.

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

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

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Forward-looking statements can be identified by the use of words such as estimate, plan, project, forecast, intend, expect, anticipate, believe, seek, target or similar expressions. Forward-looking statements reflect our judgment based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Part II, Item 1A Risk Factors in this Form 10-Q and in our other filings with the U.S. Securities and Exchange Commission (the SEC), including our Annual Report on Form 10-K for the fiscal year ended September 30, 2013, filed with the SEC on December 12, 2013 (the Form 10-K). Additionally, there may be other factors that could preclude us from realizing the predictions made in the forward-looking statements. We operate in a continually changing business environment and new factors emerge from time to time. We cannot predict such factors or assess the impact, if any, of such factors on our financial position or results of operations. All forward-looking statements included in this Form 10-Q speak only as of the date of this Form 10-Q and you are cautioned not to place undue reliance on any such forward-looking statements. Except as required by law, we undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect any events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

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

Overview

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

We apply our patented technology in image capture, correction and intelligent data extraction in the mobile financial and business applications markets. Our technology allows users to remotely deposit checks, pay bills, transfer credit card balances, open accounts and get insurance quotes by taking pictures of various documents with their camera-equipped smartphones and tablets instead of using the device keyboard. Our products use advanced algorithms to correct image distortion, extract relevant data, route images to their desired location and process transactions through users' financial institutions. As of June 30, 2014, we have been granted 20 patents and have an additional 23 patent applications pending.

Our Mobile Deposit[®] product is software that allows users to remotely deposit a check using their camera-equipped smartphone or tablet. As of June 30, 2014, 2,571 financial institutions have signed agreements to deploy Mobile Deposit[®] and 2,143 of these financial institutions have deployed Mobile Deposit[®] to their customers, including all of the top ten, and nearly all of the top 50, U.S. retail banks, as ranked by SNL Financial for the first quarter of calendar year 2014. Other mobile imaging software solutions we offer include Mobile Photo Bill Pay[®], a mobile bill payment product that allows users to pay their bills using their bank account and any camera-equipped smartphone or tablet, Mobile Photo Payments, a product that allows users to pay their bills directly to the biller using their camera-equipped smartphone or tablet, Mobile Balance Transfer, a product that allows credit card issuers to provide an offer to users and transfer an existing credit card balance by capturing an image of the user's current credit card statement, Mobile Photo Account Opening, a product that enables users to open a checking, savings or credit card account by capturing an image of the front and back of their driver's license with their camera-equipped smartphone or tablet, and Mobile Photo Quoting, a product that enables users to receive insurance quotes by using their camera-equipped smartphone or tablet to take a picture of their driver's license and insurance card. Our mobile imaging software solutions can be accessed by smartphones and tablets using iOS and Android operating systems. In February 2014, we launched the Mitek Developers Network. The program will extend use of our Mobile Imaging Platform to developers interested in creating new mobile applications using camera-equipped smartphones and tablets.

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

Market Opportunities, Challenges and Risks

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

To sustain our growth in 2014 and beyond, we believe we must continue to offer imaging technology for mobile applications that address a growing market for mobile banking and mobile imaging solutions sold into other vertical markets. Factors adversely affecting the pricing of or demand for our mobile applications, such as competition from other products or technologies, any decline in the demand for mobile applications, or negative publicity or obsolescence of the software environments in which our products operate, could result in lower revenues or gross margins. Further, because most of our revenues are from a single type of technology, our product concentration may make us especially vulnerable to market demand and competition from other technologies, which could reduce our revenues.

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The implementation cycles for our software and services by our channel partners and customers can be lengthy, often a minimum of three to six months and sometimes longer for larger customers, and require significant investments. For example, as of June 30, 2014, we executed agreements indirectly through channel partners or directly with customers covering 2,571 Mobile Deposit[®] customers, 2,143 of whom have completed implementation and launched Mobile Deposit[®] to their customers. If implementation of our products by our channel partners and customers is delayed or otherwise not completed, our business, financial condition and results of operations may be adversely affected.

We derive revenue predominately from the sale of licenses to use the products covered by our patented technologies, such as our Mobile Deposit[®] product, and to a lesser extent by providing maintenance and professional services for the products we offer. The revenue we derive from the sale of such licenses is primarily derived from the sale to our channel partners of licenses to sell the applications we offer. Revenues related to most of our licenses for mobile products are required to be recognized up front upon satisfaction of all applicable revenue recognition criteria. The recognition of future revenues from these licenses is dependent upon a number of factors, including, but not limited to, the type and term of our license agreements, 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.

During each of the last several quarters, sales of licenses to one or more channel partners have comprised a significant part of our revenue each quarter. This is attributable to the timing of renewals 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-users that purchased products from the channel partner we lost. However, in that case, we or another channel partner must establish a relationship with the end-users, which could take time to develop, if it develops at all.

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

Results of Operations**Comparison of the Three Months Ended June 30, 2014 and 2013**

The following table summarizes certain aspects of our results of operations for the three months ended June 30, 2014 and 2013 (*in thousands, except percentages*):

	June 30, 2014	June 30, 2013	Change \$	Change %
Revenue				
Software	\$ 3,177	\$ 2,694	\$ 483	18%

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Maintenance and professional services	1,483	1,188	295	25%
Total revenue	\$ 4,660	\$ 3,882	\$ 778	20%
Cost of revenue	\$ 608	\$ 469	\$ 139	30%
% of revenue	13%	12%		
Selling and marketing	\$ 1,810	\$ 1,462	\$ 348	24%
% of revenue	39%	38%		
Research and development	\$ 1,590	\$ 1,976	\$ (386)	-20%
% of revenue	34%	51%		
General and administrative	\$ 2,303	\$ 2,032	\$ 271	13%
% of revenue	49%	52%		
Other income (expense), net	\$ 18	\$ 6	\$ 12	200%
% of revenue	0%	0%		

Table of Contents*Revenue*

Total revenue increased \$777,697, or 20%, to \$4,659,724 in the three months ended June 30, 2014 compared to \$3,882,027 in the three months ended June 30, 2013. The increase was primarily due to an increase in sales of software licenses of \$482,466, or 18%, to \$3,176,686 in the three months ended June 30, 2014 compared to \$2,694,220 in the three months ended June 30, 2013. The increase in software license revenue primarily relates to increases in sales of our Mobile Deposit[®] product due to an increase in the number of large software licenses purchased by partners and customers and the timing of license renewals in the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Maintenance and professional services revenue increased \$295,231, or 25%, to \$1,483,038 in the three months ended June 30, 2014 compared to \$1,187,807 in the three months ended June 30, 2013 primarily due to the sale of additional software license arrangements, which typically include recurring maintenance contracts, as well as an increase in professional services engagements.

Cost of Revenue

Cost of revenue includes the costs of royalties for third party products embedded in our products and personnel costs related to software support and billable professional services engagements. Cost of revenue increased \$138,141, or 29%, to \$607,586 in the three months ended June 30, 2014 compared to \$469,445 in the three months ended June 30, 2013. The increase in cost of revenue is primarily due to the increase in license and maintenance revenue. As a percentage of revenue, cost of revenue increased to 13% in the three months ended June 30, 2014 compared to 12% in the three months ended June 30, 2013 primarily due to a relatively higher mix of sales of products containing third-party software on which we pay royalties.

Selling and Marketing Expenses

Selling and marketing expenses include payroll, employee benefits and other headcount-related costs associated with sales and marketing personnel, non-billable time for professional services personnel and advertising, promotions, trade shows, seminars and other programs. Selling and marketing expenses increased \$348,187, or 24%, to \$1,810,084 in the three months ended June 30, 2014 compared to \$1,461,897 in the three months ended June 30, 2013. The increase is primarily due to higher personnel-related costs, including stock-based and other incentive compensation expense related to an increase in headcount associated with the growth of our business. As a percentage of revenue, selling and marketing expenses increased to 39% in the three months ended June 30, 2014 compared to 38% in the three months ended June 30, 2013, primarily due to higher personnel-related costs.

Research and Development Expenses

Research and development expenses include payroll, employee benefits, consultant expenses and other headcount-related costs associated with software engineering, mobile imaging science and product management. These costs are incurred to develop new software products and to maintain and enhance existing products. We retain what we believe to be sufficient staff to sustain our existing product lines and develop new, feature-rich products. We also employ research personnel, whose efforts are instrumental in ensuring product development from current technologies to anticipated future generations of products within our markets.

Research and development expenses decreased \$386,499, or 20%, to \$1,589,521 in the three months ended June 30, 2014 compared to \$1,976,020 in the three months ended June 30, 2013. The decrease is primarily due to a decrease in outside contract services and decreased recruitment costs. As a percentage of revenue, research and development expenses decreased to 34% in the three months ended June 30, 2014 compared to 51% in the three months ended June 30, 2013, primarily due to decreased outside contract services.

General and Administrative Expenses

General and administrative expenses include payroll, employee benefits, and other headcount-related costs associated with finance, administration and information technology, as well as legal, accounting and other administrative fees. General and administrative expenses increased \$270,657, or 13%, to \$2,302,973 in the three months ended June 30, 2014 compared to \$2,032,316 in the three months ended June 30, 2013. The increase is primarily due to an increase in legal fees related to intellectual property litigation and higher personnel-related costs, including stock-based and other incentive compensation expense. As a percentage of revenue, general and administrative expenses decreased to 49% in the three months ended June 30, 2014 compared to 52% in the three months ended June 30, 2013, primarily due to the increase in revenue.

Other Income (Expense), Net

Other income (expense), net increased \$12,342, or 221%, to \$17,934 for the three months ended June 30, 2014 compared to \$5,592 for the three months ended June 30, 2013, primarily due to an increase in returns on our investment portfolio.

Table of Contents**Comparison of the Nine Months Ended June 30, 2014 and 2013**

The following table summarizes certain aspects of our results of operations for the nine months ended June 30, 2014 and 2013 (*in thousands, except percentages*):

	June 30, 2014	June 30, 2013	Change \$	Change %
Revenue				
Software	\$ 9,469	\$ 7,440	\$ 2,029	27%
Maintenance and professional services	4,138	2,976	1,162	39%
Total revenue	\$ 13,606	\$ 10,416	\$ 3,190	31%
Cost of revenue	\$ 1,627	\$ 1,227	\$ 400	33%
% of revenue	12%	12%		
Selling and marketing	\$ 5,608	\$ 4,143	\$ 1,465	35%
% of revenue	41%	40%		
Research and development	\$ 4,746	\$ 5,020	\$ (274)	-5%
% of revenue	35%	48%		
General and administrative	\$ 6,968	\$ 5,849	\$ 1,119	19%
% of revenue	51%	56%		
Other income (expense), net	\$ 51	\$ 19	\$ 32	168%
% of revenue	0%	0%		

Revenue

Total revenue increased \$3,190,432, or 31%, to \$13,606,386 in the nine months ended June 30, 2014 compared to \$10,415,954 in the nine months ended June 30, 2013. The increase was primarily due to an increase in sales of software licenses of \$2,028,859, or 27%, to \$9,468,663 in the nine months ended June 30, 2014 compared to \$7,439,804 in the nine months ended June 30, 2013. The increase in software license revenue primarily relates to increases in sales of our Mobile Deposit[®] product due to an increase in the number of large software licenses purchased by partners and customers and the timing of license renewals in the nine months ended June 30, 2014 compared to the nine months ended June 30, 2013. Maintenance and professional services revenue increased \$1,161,573, or 39%, to \$4,137,723 in the nine months ended June 30, 2014 compared to \$2,976,150 in the nine months ended June 30, 2013 primarily due to the sale of additional software license arrangements, which typically include recurring maintenance contracts, as well as an increase in billable professional services engagements.

Cost of Revenue

Cost of revenue increased \$400,965, or 33%, to \$1,627,497 in the nine months ended June 30, 2014 compared to \$1,226,532 in the nine months ended June 30, 2013. The increase in cost of revenue is primarily due to the increase in revenue and increased professional services activity on billable engagements. As a percentage of revenue, cost of revenue was 12% in both the nine months ended June 30, 2014 and the nine months ended June 30, 2013.

Selling and Marketing Expenses

Selling and marketing expenses increased \$1,464,213, or 35%, to \$5,607,559 in the nine months ended June 30, 2014 compared to \$4,143,346 in the nine months ended June 30, 2013. The increase is primarily due to higher personnel-related costs, including stock-based and other incentive compensation expense related to an increase in headcount associated with the growth of our business. As a percentage of revenue, selling and marketing expenses increased to 41% in the nine months ended June 30, 2014 compared to 40% in the nine months ended June 30, 2013, primarily due higher personnel-related costs.

Research and Development Expenses

Research and development expenses decreased \$274,404, or 5%, to \$4,745,723 in the nine months ended June 30, 2014 compared to \$5,020,127 in the nine months ended June 30, 2013. The decrease is primarily due to a decrease in outside contract services and decreased recruitment costs. As a percentage of revenue, research and development expenses decreased to 35% in the nine months ended June 30, 2014 compared to 48% in the nine months ended June 30, 2013, primarily due to decreased outside contract services.

Table of Contents*General and Administrative Expenses*

General and administrative expenses increased \$1,119,367, or 19%, to \$6,968,419 in the nine months ended June 30, 2014 compared to \$5,849,052 in the nine months ended June 30, 2013. The increase is primarily due to an increase in legal fees related to intellectual property litigation. As a percentage of revenue, general and administrative expenses decreased to 51% in the nine months ended June 30, 2014 compared to 56% in the nine months ended June 30, 2013, primarily due to the increase in legal fees.

Other Income (Expense), Net

Other income (expense), net increased \$32,192, or 170%, to \$51,119 for the nine months ended June 30, 2014 compared to \$18,927 for the nine months ended June 30, 2013, primarily due to an increase in returns on our investment portfolio.

Liquidity and Capital Resources

On June 30, 2014, we had \$26,356,391 in cash and cash equivalents and investments compared to \$29,025,328 on September 30, 2013, a decrease of \$2,668,937, or 9%. The decrease in cash and cash equivalents and investments was primarily due to cash used in operating activities.

Net Cash (Used in) Provided by Operating Activities

Net cash used in operating activities during the nine months ended June 30, 2014 was \$2,307,882 and resulted primarily from hiring additional personnel and making other investments associated with the growth of our business. In addition to the net loss, cash used in operating activities included a decrease in working capital balances of \$334,776, primarily due to increases in accounts receivable and deferred revenue. The primary non-cash adjustments to operating activities were stock-based compensation expense, depreciation and amortization, and accretion and amortization on debt securities totaling \$2,667,969, \$355,320, and \$300,724, respectively.

Net cash provided by operating activities during the nine months ended June 30, 2013 was \$1,623,815. Cash provided by operating activities increased due to non-cash adjustments to operating activities for stock-based compensation expense, depreciation and amortization and accretion and amortization on debt securities totaling \$2,045,767, \$209,257, and \$154,010, respectively. Cash provided by operating activities also increased due to increases in accounts payable of \$1,624,875, other liabilities of \$1,476,228 and deferred revenue of \$1,053,998, all associated with the growth of our business.

Net Cash (Used In) Provided by Investing Activities

Net cash used in investing activities was \$11,890,300 during the nine months ended June 30, 2014, which consisted of \$20,691,725 related to the purchase of investments and \$132,199 related to the purchase of property and equipment, partially offset by cash provided by the sales and maturities of investments of \$8,933,624.

Net cash provided by investing activities was \$3,364 during the nine months ended June 30, 2013, which consisted of \$5,340,734 related to the sales and maturities of investments, partially offset by purchases of investments of \$4,059,036 and \$1,278,334 related to the purchase of property and equipment.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was \$44,852 during the nine months ended June 30, 2014, which included net proceeds of \$58,834 from the exercise of stock options and settlement of restricted stock units, partially offset by principal payments on capital lease obligations of \$13,982.

Net cash provided by financing activities was \$14,616,363 during the nine months ended June 30, 2013, which included net proceeds of \$13,877,447 from the public offering of shares of our common stock that closed on June 28, 2013, including the exercise of the overallotment option, and net proceeds of \$751,440 from the exercise of stock options, partially offset by principal payments on capital lease obligations of \$12,524.

Other Liquidity Matters

On June 30, 2014, we had investments of \$17,215,265, designated as available-for-sale marketable securities, which consisted of commercial paper and corporate issuances, carried at fair value as determined by quoted market prices for identical or similar assets, with unrealized gains and losses, net of tax, and reported as a separate component of stockholders' equity. All securities whose maturity or sale is expected within one year are classified as current on the balance sheet. All other securities are classified as long-term on the balance sheet. At June 30, 2014, we had \$15,591,569 of our available-for-sale securities classified as current and \$1,623,696 were classified as long-term. At September 30, 2013, all of our available-for-sale securities were classified as current.

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We had working capital of \$21,128,447 at June 30, 2014 compared to \$25,363,197 at September 30, 2013.

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

Critical Accounting Policies

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

Revenue Recognition

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

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

Persuasive evidence of an arrangement exists;

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

The fees are fixed or determinable;

Collection of the contractual fee is probable; and

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

Each of the relevant factors is analyzed to determine its impact, individually and collectively with other factors, on the revenue to be recognized for any particular contract with a customer. Management is required to make judgments regarding the significance of each factor in applying the revenue recognition standards, as well as whether or not each

factor complies with such standards. Any misjudgment or error by management in its evaluation of the factors and the application of the standards, especially with respect to complex or new types of transactions, could have a material adverse effect on our future revenues and operating results.

Accounts Receivable

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

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Investments

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

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

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

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

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

Fair Value of Equity Instruments

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

Deferred Income Taxes

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

Capitalized Software Development Costs

Research and development costs are charged to expense as incurred. However, the costs incurred for the development of computer software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. Software development costs consist primarily of compensation of development personnel, related overhead incurred to develop new products and upgrade and enhance our current products, and fees paid to outside consultants. Capitalization of costs ceases and amortization of capitalized software development costs commences

when the products are available for general release. For the three and nine months ended June 30, 2014 and 2013, no software development costs were capitalized because the time period and cost incurred between technological feasibility and availability for general release for all software product releases was immaterial.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The primary objective of our investment activities is to preserve principal while at the same time maximizing after-tax yields without significantly increasing risk. To achieve this objective, we maintain our investment portfolio of cash equivalents and marketable securities in a variety of securities, including corporate debt securities, commercial paper and certificates of deposit. We have not used derivative financial instruments in our investment portfolio, and none of our investments are held for trading or speculative purposes. Short-term and long-term marketable securities are generally classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of estimated tax. As of June 30, 2014, our marketable securities had remaining maturities between approximately one and 16 months and a fair market value of \$17,215,265, representing approximately 55% of our total assets.

The fair value of our cash equivalents and marketable securities is subject to change as a result of changes in market interest rates and investment risk related to the issuers' creditworthiness. We do not utilize financial contracts to manage our investment portfolio's exposure to changes in market interest rates. A hypothetical 100 basis point increase or decrease in market interest rates would not have a material impact on the fair value of our cash equivalents and marketable securities due to the relatively short

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maturities of these investments. While changes in market interest rates may affect the fair value of our investment portfolio, any gains or losses will not be recognized in our results of operations until the investment is sold or if the reduction in fair value was determined to be an other-than-temporary impairment.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we conducted an evaluation of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). We recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of June 30, 2014.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For information regarding our legal proceedings, see Note 5 to our financial statements included in this Form 10-Q and Item 3 Legal Proceedings in the Form 10-K. Other than as set forth below, as of June 30, 2014, there have been no material developments in our historical legal proceedings since September 30, 2013.

USAA

As previously disclosed in the Form 10-K, on March 29, 2012, United Services Automobile Association (USAA) filed a complaint in the U.S. District Court for the Western District of Texas San Antonio Division against us seeking, among other things, a declaratory judgment that USAA does not infringe certain of our patents relating to Mobile Deposit®, and that such patents are not enforceable against USAA. In addition, USAA alleges that it disclosed confidential information to us and that we used such information in our patents and Mobile Deposit® product in an

unspecified manner. USAA seeks damages and injunctive relief. USAA subsequently amended its pleadings to assert a claim for false advertising and reverse palming off under the Lanham Act, and to seek reimbursement under the parties' license agreement.

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

The courts consolidated the foregoing cases in the U.S. District Court for the Western District of Texas, and on November 19, 2012, we answered USAA's various claims and counterclaims, moved to dismiss USAA's Lanham Act cause of action and filed a counterclaim against USAA for violation of the Lanham Act. On February 15, 2013, the court granted our motion and dismissed USAA's Lanham Act claim. On July 29, 2014, the Court dismissed the Company's infringement claims against USAA. Our claims for defamation and Lanham Act violations are expected to go to trial on September 8, 2014.

We believe that USAA's claims are without merit and intend to vigorously defend against those claims and pursue our claims against USAA. We do not believe that the results of USAA's claims will have a material adverse effect on our financial condition or results of operations.

Table of Contents**ITEM 1A. RISK FACTORS.**

While we attempt to identify, manage, and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of the Form 10-K describes some of the risks and uncertainties associated with our business, which we strongly encourage you to review. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results, and future prospects. There have been no material changes in our risk factors from those disclosed in the Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit No.	Description	Incorporated by Reference from Document
3.1	Restated Certificate of Incorporation of Mitek Systems, Inc.	(1)
3.2	Certificate of Amendment of the Restated Certificate of Incorporation of Mitek Systems, Inc.	(2)
3.3	Amended and Restated Bylaws of Mitek Systems, Inc.	(3)
4.1	Form of debenture issued on December 10, 2009.	(4)
4.2	Form of warrant issued on December 10, 2009.	(4)

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31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.	*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.	*
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
101	Financial statements from the Quarterly Report on Form 10-Q of Mitek Systems, Inc. for the quarter ended June 30, 2014, formatted in XBRL: (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Cash Flows, (iv) the Notes to the Financial Statements.	*

* Filed herewith.

- (1) Incorporated by reference to the Company's Registration Statement on Form S-3 (File No. 333-177965) filed with the SEC on November 14, 2011.
- (2) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on February 14, 2013.
- (3) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1987.
- (4) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on December 16, 2009.

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SIGNATURES

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

August 8, 2014

MITEK SYSTEMS, INC.

By: /s/ James B. DeBello
James B. DeBello
President and Chief Executive Officer

(Principal Executive Officer)

By: /s/ Russell C. Clark
Russell C. Clark
Chief Financial Officer

(Principal Financial and Accounting Officer)