

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 1996 or  
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Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

Commission file number 0-15235  
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MITEK SYSTEMS, INC.  
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(Exact name of registrant as specified in its charter)

DELAWARE

87-0418827  
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(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

10070 CARROLL CANYON ROAD, SAN DIEGO, CALIFORNIA 92131  
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(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (619) 635-5900  
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(Former name, former address and former fiscal year, if changed since  
last report)

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 .  
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There were 10,075,874 shares outstanding of the registrant's Common  
Stock as of January 31, 1997.

PART I: FINANCIAL INFORMATION  
MITEK SYSTEMS, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	December 31, 1996	September 30, 1996
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash	\$ 4,099,227	\$ 210,413
Accounts receivable-net	2,196,123	2,258,541
Inventories	198,355	278,206
Prepaid expenses	136,406	240,364
	-----	-----
Total current assets	6,630,111	2,987,524
	-----	-----
PROPERTY AND EQUIPMENT-at cost	1,100,605	1,049,678
Less accumulated depreciation and amortization	932,449	902,790
	-----	-----
Property and equipment-net	168,156	146,888
	-----	-----
PREPAID LICENSE AND OTHER ASSETS	553,212	628,030
	-----	-----
 TOTAL	 \$ 7,351,479	 \$ 3,762,442
	-----	-----
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term liabilities	\$ 9,700	\$ 9,190
Accounts payable	221,533	472,755
Accrued payroll and related taxes	164,239	302,037
Other accrued liabilities	183,683	319,973
	-----	-----
Total current liabilities	579,155	1,103,955
	-----	-----
 LONG-TERM LIABILITIES	 3,371	 6,147
	-----	-----
 COMMITMENTS		
 STOCKHOLDERS' EQUITY:		
Preferred stock - \$.001 par value; 1,000,000 shares authorized; no shares issued and outstanding		
 Common stock - \$.001 par value; 20,000,000 shares authorized; 10,073,638 and 7,782,971 issued and outstanding, respectively	 10,073	 7,783
Additional paid-in capital	7,905,117	3,503,634
Accumulated deficit	(1,146,237)	(859,077)
	-----	-----
Total stockholders' equity	6,768,953	2,652,340
	-----	-----
TOTAL	\$ 7,351,479	\$ 3,762,442
	-----	-----
	-----	-----

MITEK SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	THREE MONTHS ENDED	
	December 31,	
	1996	1995
	-----	-----
NET SALES	\$ 1,100,932	\$ 1,825,452
COST OF GOODS SOLD	400,993	740,061
	-----	-----
GROSS MARGIN	699,939	1,085,391
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COSTS AND EXPENSES:		
Selling and marketing	425,611	303,554
General and administrative	302,915	355,016
Research and development	304,196	267,763
Interest - net	(13,623)	48,231
	-----	-----
Total costs and expenses	1,019,099	974,564
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INCOME (LOSS) BEFORE INCOME TAXES	(319,160)	110,827
PROVISION (BENEFIT) FOR INCOME TAXES	(32,000)	22,165
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NET INCOME (LOSS)	\$ (287,160)	\$ 88,662
	-----	-----
EARNINGS (LOSS) PER SHARE:		
Common and Common equivalent shares	\$ (.03)	\$ .01
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WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES	9,803,047	7,835,458
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See notes to financial statements.

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

	Three Months Ended 1996	December 31, 1995
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<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (287,160)	\$ 88,662
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	104,477	109,960
Change in operating assets and liabilities:		
(Increase) in accounts receivable	62,418	(390,692)
Decrease in inventory and prepaid expense	183,809	6,523
Decrease in accounts payable and accrued expenses	(525,282)	(50,572)
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Net cash used in operating activities	(461,738)	(236,119)
	-----	-----
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(50,927)	(12,726)
	-----	-----
Net cash used in investing activities	(50,927)	(12,726)
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<b>FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	150,000	549,435
Repayment of notes payable and long-term liabilities	(152,294)	(436,082)
Proceeds from note receivable	0	95,406
Proceeds from exercise of stock options, warrants and secondary offering	4,403,773	177
	-----	-----
Net cash provided by financing activities	4,401,479	208,936
	-----	-----
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>3,888,814</b>	<b>(39,909)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>210,413</b>	<b>103,895</b>
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<b>CASH AT END OF PERIOD</b>	<b>\$ 4,099,227</b>	<b>\$ 63,986</b>
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MITEK SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS

A. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnote disclosures that are otherwise required by Regulation S-X and that will normally be made in the Company's Annual Report on Form 10-K. The financial statements do, however, reflect all adjustments (solely of a normal recurring nature) which are, in the opinion of management, necessary for a fair statement of the results of the interim periods presented.

Results for the three months ended December 31, 1996 are not necessarily indicative of results which may be reported for any other interim period or for the year as a whole.

B. Inventories

Inventories are summarized as follows:

	December 31, 1996	September 30, 1996
Raw materials	\$ 88,195	\$ 55,366
Work in process	19,747	
Finished goods	90,413	222,840
Total	\$ 198,355	\$ 278,206

Inventories are recorded at the lower of cost (on the first-in, first-out basis) or market.

C. Earnings Per Share

Earnings per share amounts are computed based on the weighted average shares outstanding during the periods which include any delutive stock options and warrants.

D. Sale of Common Stock

In the first quarter of fiscal year 1997, the Company undertook a secondary public stock offering in which a total of 2,250,000 shares of common stock were sold at \$2.25 per share, providing the Company with net proceeds of \$4,352,590.

MITEK SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
Continued

E. Commitments

The Company's offices and manufacturing facilities are leased under non-cancellable operating leases. The primary facilities lease expires on April 30, 1998, at which time the lease is renewable at current market rates.

Year ending September 30:

1997	\$ 97,965
1998	58,457
1999	2,153
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Total	\$ 158,575
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

Comparison of Three Months Ended December 31, 1996 and 1995

**NET SALES.** Net sales for the three month period ended December 31, 1996 were \$1,101,000 compared to \$1,825,000 for the same period in 1995, a decrease of \$724,000 or 39.7%. The decrease is the result of order delays certain customers experienced in finalizing contracts.

**GROSS MARGIN.** Gross margin for the three month period ended December 31, 1996 was \$700,000 compared to \$1,085,000 for the same period in 1995, a decrease of \$385,000, or 35.5%. The decrease relates to reductions in revenues. As a percentage of sales, gross margin increased from 59.5% of sales in the three month period ended December 31, 1995 to 63.6% of sales in the same period in 1996. This increase is attributable to a change in sales product mix.

**RESEARCH AND DEVELOPMENT.** Research and development expenses for the three months ended December 31, 1996 were \$304,000 compared to \$268,000 for the same period in 1995, an increase of \$36,000 or 13.4%. This increase is primarily due to reduction of time spent on revenue generating government contract work, as well as additions to staff for new product development. As a percentage of net sales, research and development expenses increased to 27.6% for the three months of fiscal 1996 compared to 14.7% for the three months of fiscal 1995. The increase was primarily due to the decrease net sales, as the actual dollar amount spent on research and development increased insignificantly.

**SELLING AND MARKETING.** Selling and marketing expenses for the three months ended December 31, 1996 were \$426,000 compared to \$304,000 for the same period in 1995, an increase of \$122,000, or 40.1%. As a percentage of net sales, selling and marketing expenses increased to 38.7% for the three months ended December 31, 1996 compared to 16.6% for the three months ended December 31, 1995. The increase relates to additions to staff, opening of two sales offices, as well as increased product promotion and advertising campaigns.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses for the three months ended December 31, 1996 were \$303,000 compared to \$355,000 for the same period in 1995, a decrease of \$52,000, or 14.6%. As a percentage of net sales, general and administrative expenses increased to 27.5% for the first three months of fiscal 1997 compared to 19.5% for the first three months of fiscal 1995. The increase was primarily due to reduction in revenues, as costs relating to consulting and bad debt expenses were significantly lower than in the same period in the prior period.

**INTEREST EXPENSE (INCOME)** Interest expense (income) for the three months ended December 31, 1996 was \$(14,000) compared to \$48,000 for the same period in 1995, a decrease of \$62,000, or 129.2%. The decrease was due to interest earned on cash raised in the secondary common stock public offering as mentioned in item D. in the Notes to Financial Statements section.

**PROVISION FOR INCOME TAXES.** The provision for income tax benefit or expense for federal and state income taxes is based on the estimated effective tax rates applied to year to date loss or income before income tax and projected utilization of tax credits from prior periods.

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1996, stockholders' equity was \$6,769,000, an increase of \$4,117,000 from September 30, 1996. The Company's working capital and current ratio was \$6,051,000 and 11.45 to 1 at December 31, 1996 compared to \$1,884,000 and 2.71 to 1 at September 30, 1996, respectively.

At December 31, 1996, the total liabilities to equity ratio was 0.086 to 1 compared to .419 to 1 at September 30, 1996. As of December 31, 1996, the Company's total liabilities were \$528,000 less than September 30, 1996.

Components of working capital with significant changes during the three months ended December 31, 1996 were: Cash, Inventory and Accounts Payable. Compared to September 30, 1996, the components changed as follows:

Cash - Increased \$3,889,000 primarily because of proceeds received from the secondary public common stock offering.

Inventory - Decreased \$80,000 due to adequate inventory levels at Sept. 30, 1996 to support shipments in the first quarter.

Accounts Payable - Decreased by \$251,000 because of payments made in the first quarter with cash generated from financing activities combined with reductions on procurement of inventory materials.

In March, 1996 the Company achieved a line of credit financing with a bank in the amount of \$400,000, with interest rate charges of 2.5% over prime lending rates. This financing arrangement was renewed on February 3, 1997 and expires February 3, 1998. As of December 31, 1996, there was no outstanding balance on the line of credit.

The Company believes it will have sufficient cash flow generated from financing activities, operations and existing credit facilities to meet its operational needs in the coming year.



PART II - OTHER INFORMATION

Item 4. The annual meeting of stockholders was held on February 11, 1997. Brought to vote were the election of Directors for the ensuing year. With 91.20% of shares represented at the meeting, all Directors from the prior year were re-elected. They are: John M. Thornton, Chairman, John F. Kessler, Daniel E. Steimle, James B. DeBello, Gerald I. Farmer and Sally B. Thornton.

Item 6. Exhibits and Reports on Form 8-K

- a. The exhibits are on Form 8-K: None
- b. Reports on Form 8-K: 1996 Stock Option Plan

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.

MITEK SYSTEMS, INC.  
(Registrant)

Date: February 12, 1997

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John Kessler, President and  
Chief Executive Officer

Date: February 12, 1997

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Gerald I. Farmer, Executive Vice  
President and Assistant Treasurer



3-MOS

SEP-30-1996		
OCT-01-1996		
DEC-31-1996		
	4,099,227	
	0	
	2,196,123	
	0	
	198,355	
6,630,111	1,100,605	
	932,449	
	7,351,479	
579,155		
	3,371	
10,073		
	0	
	0	
	0	
7,351,479		
	1,100,932	
1,100,932		
	400,993	
	1,032,722	
	0	
	0	
(13,623)		
(319,160)		
	(32,000)	
(287,160)		
	0	
	0	
		0
	(287,160)	
	(.03)	
	(.03)	