SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20559

FORM 10-K

(Mark One)
(x) Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended September 30, 1998
or
( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-15235

MITEK SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	87-0418827
(State or other jurisdiction of incorporation or organization)	I.R.S Employer Identification No.)

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

(619) 635-5900
Registrant's telephone number, including area code

NONE
Securities registered pursuant to Section 12(b) of the Act

COMMON STOCK, PAR VALUE $.001 PER SHARE
Securities registered pursuant to Section 12(g) of the Act

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant was $5,499,170 as of December 1, 1998 (computed by reference to the last sale price of a share of the registrant's Common Stock on that date as reported by NASDAQ).

There were 11,573,152 shares outstanding of the registrant's Common Stock as of December 1, 1998.

Documents incorporated by reference in this report: Part II incorporates certain information by reference form the Annual Report to Stockholders for the year ended September 30, 1998. Part III incorporates certain information by reference from the Proxy Statement for the 1998 Annual Meeting of Stockholders.

ITEM 1. BUSINESS

GENERAL

Mitek Systems, Inc. (the "Company") was incorporated under the laws of the State of Delaware in 1986. The Company is primarily engaged in the development and sale of software products with particular focus on intelligent character recognition and forms processing technology, products and services for the document imaging markets.

The Company develops, markets and supports what it believes to be the most accurate Automated Document Recognition ("ADR") products commercially available for the recognition of hand printed characters. The Company's unique proprietary technology recognizes hand printed and machine generated characters with a level of accuracy that renders the Company's ADR products a viable alternative to manual data entry in certain applications. The Mitek solution allows customers that process large volumes of standardized hand printed documents to do so more quickly, with greater accuracy and at reduced costs.

PRODUCTS AND RELATED MARKETS

AUTOMATED INTELLIGENT CHARACTER RECOGNITION

Since 1992 the Company has developed and marketed ADR products which enable the automation of costly, labor intensive business functions such as check and remittance processing, forms processing and order entry. The Company's ADR products incorporate proprietary neural network software technology for the recognition and conversion of hand printed and machine generated characters into digital data. Neural networks are powerful tools for pattern recognition applications and consist of sets of coupled mathematical equations with adaptive parameters that self adjust to "learn" various forms and patterns. The Company's ADR products combine the Company's neural network software technology with an extensive database of character patterns, enabling them to make fine distinctions across a wide variety of patterns with high speed, accuracy and consistency. The Company leverages its core technology across a family of ADR products that the Company believes offers the highest accuracy commercially available for the recognition of hand printed characters.

The Company's ADR products incorporate the Company's proprietary intelligent character recognition (ICR) software engine QuickStrokes-Registered Trademark- API, and a licensed ICR software engine CheckScript-TM- (a trademark of Parascript LLC). QuickStrokes-Registered Trademark- API and CheckScript-TM- are sold to original equipment manufacturers (OEMs) such as BancTec, NCR, ABC Bull, and Unisys, and to systems integrators such as Captiva. Major end users include Chevron, GTE, European American Bank, NYNEX, Fleet Bank, National Westminster and British Telcom. QuickStrokes-Registered Tradmark- API can process many foreign character sets.

The CheckScript-TM- product, used in financial document processing, combines the Legal Amount Recognition (LAR) capabilities licensed from Parascript, LLC with the Company's proprietary QuickStrokes-Registered Tradmark- API Courtesy Amount Recognition (CAR) technology. This product provides unprecedented accuracy in remittance processing, proof of deposit, and lock box processing applications.

Leveraging its core technical competency in ICR, the Company has begun to address certain vertical markets through the introduction of its Premier Forms Processor Pro-TM- ("PFP Pro-TM-"). PFP Pro-TM- incorporates the Company's core ICR technology in an application designed to be marketed directly to end users in a broad variety of industries which require high volume automated data entry. PFP Pro-TM- operates on the Windows operating platform on stand alone or networked personal computers, features an intuitive graphical user interface ("GUI"), and is designed for easy installation and configuration by the end user. The Company's end user customers include Los Angeles Unified School District, Cognitronics UK, Woodgate, MSB International, Fluke, and Baltimore Sun. The Company also sells its PFP Pro-TM- products to systems integrators and Value Added Resellers.

The QuickFrame-TM- product is an advanced page segmentation system that separates the scanned image of a document into isolated regions, each containing a single information type. The system outputs the coordinates and type of each region and can produce "cut-out" images of isolated regions for easier processing. The QuickFrame- -TM- system is designed for document imaging and forms processing applications across a wide variety of industries.

QuickFX-TM- is a software toolkit that provides automatic form ID, form registration and form/template removal. It will significantly improve automatic data capture (ICR/OCR), forms processing, document imaging and storage performance. QuickFX-TM- reduces the image size by removing extraneous information such as pre-printed text, lines, and boxes; leaving only the filled-in data. It repairs the characters that are left, ensuring better recognition, enhanced throughput, and higher accuracy rates.

RESEARCH AND DEVELOPMENT

The Company believes that its future success depends in part on its ability to maintain and improve its core technologies, enhance its existing products and develop new products that meet an expanding range of customer requirements. The Company intends to expand its existing product offerings and to introduce new forms processing software solutions. In the development of new products and enhancements to existing products, the Company uses its own tools extensively. The Company performs all quality assurance and develops documentation internally. The Company intends to continue to support industry standard operating environments.

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

In order to improve the accuracy of its ADR products, the Company focuses research and development efforts on continued enhancement of its core technology and on its database of millions of character images that is used to "train" the neural network software that forms the core of the Company's ICR engine. In addition, the Company has expanded its research and development tasks to include pre- and post-processing of data subject to automated processing.

The Company's research and development organization included sixteen software engineers at September 30, 1998, including six with advanced degrees. In the fiscal year ended September 30, 1998, the Company spent approximately $1,343,000 on research and development and spent approximately $1,393,000 and $1,314,000 on research and development in each of the fiscal years 1997 and 1996. The 1998, 1997, and 1996 figures do not include $878,000, $458,000, and $411,000 respectively, that was spent in research and development related to contract development and was charged to cost of sales.

The Company balances its engineering resources between development of ICR technology and applications development. Of the sixteen software engineers, approximately four are involved in ICR research and development of the QuickStrokes-Registered Tradmark- API recognition engine. The remaining staff is involved in applications development, including the PFP Pro-TM-, QuickFX-TM-, and QuickFrame-TM- products, and customer services and support.

INTELLECTUAL PROPERTY

The Company's success and ability to compete is dependent in part upon its proprietary technology. The Company relies on a combination of patent, copyright and trade secret laws and non-disclosure agreements to protect its proprietary technology. The Company was recently notified that the U.S. Patent and Trademark Office has approved the issuance of a U.S. patent for its hierarchical character recognition systems. The patent will cover the multiple-pass, multiple-expert system that significantly increases the accuracy of forms processing and item processing applications. The Company may seek to file additional patents emanating from this patent to expand the scope of patent coverage. The Company may also file future patents to cover technologies under development. There can be no assurance that patents will be issued with respect to future patent applications or that the Company's patents will be upheld as valid or will prevent the development of competitive products.

The Company also seeks to protect its intellectual property rights by limiting access to the distribution of its software, documentation and other proprietary information. In addition, the Company enters into confidentiality agreements with its employees and certain customers, vendors and strategic partners. There can be no assurance that the steps taken by the Company in this regard will be adequate to prevent misappropriation of its technology or that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technologies.

The Company is also subject to the risk of adverse claims and litigation alleging infringement on the intellectual property rights of others. In this regard, there can be no assurance that third parties will not assert infringement claims in the future with respect to the Company's current or future products or that any such claims will not require the Company to enter into license arrangements or result in protracted and costly litigation, regardless of the merits of such claims. No assurance can be given that any necessary licenses will be available or that, if available, such licenses can be obtained on commercially reasonable terms.

SALES AND MARKETING

The Company markets its products and services primarily through its internal, direct sales organization. The Company employs a technically-oriented sales force with management assistance to identify the needs of existing and prospective customers. The Company's sales strategy concentrates on those companies that it believes are key users and designers of automated document processing systems for high-performance, large volume applications. The Company currently maintains sales offices in California, Virginia and Florida. In addition, the Company sells and supports its products through foreign resellers in Germany, France, Italy, the United Kingdom and Australia. The sales process is supported with a broad range of marketing programs which include trade shows, direct marketing, public relations and advertising.

The Company provides maintenance and support on a contractual basis after the initial product warranty has expired. The Company provides telephone support and on-site support. Customers with maintenance coverage receive software releases from the Company. Foreign distributors generally provide customer training, service and support for the products they sell. Additionally, the Company's products are supported internationally by periodic distributor and customer visits by Company management. These visits include attending imaging shows, as well as sales and training efforts. Technical support is provided by telephone as well as technical visits in addition to those previously mentioned.

The ability to support international markets has materially assisted the Company in its international sales effort. The Company believes that the competition has much less functionality in this regard. International sales accounted for approximately 23%, 41%, and 31% of the Company's net sales for the fiscal periods ended September 30, 1998, 1997, and 1996, respectively. The Company believes that a significant percentage of the products in its domestic sales are incorporated into systems that are delivered to end users outside the United States. International sales in the past twelve months were made in nineteen countries including Australia, Argentina, Brazil, Canada, Czechoslovakia, Denmark, United Kingdom, France, Finland, Germany, Italy, Japan, Mexico, Netherlands, Norway, Poland, Spain and Sweden. The Company sells its products in United States currency only. The Company relied on a significant portion of its revenues from one, three and two customers in fiscal periods 1998, 1997, and 1996, respectively. Sales from these customers aggregated 33%, 54%, and 33% of net sales for the fiscal periods 1998, 1997, and 1996, respectively.

MAINTENANCE AND SUPPORT

The Company has an internal customer service department that handles installation and maintenance requirements. The majority of inquiries are handled by telephone, with occasional visits to the customer's facilities. The Company believes that as the installed base of its products grows, the customer service function will become a source of recurring revenues. Costs incurred by the Company to supply maintenance and support services are charged to cost of sales.

COMPETITION

The market for the Company's ADR products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. The Company faces direct and indirect competition from a broad range of competitors who offer a variety of products and solutions to the Company's current and potential customers. The Company's principal competition comes from (i) customer-developed solutions; (ii) direct competition from companies offering ICR systems; and (iii) companies offering competing technologies capable of recognizing hand-printed and cursive characters.

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

The Company's QuickStrokes-Registered Tradmark- API product and licensed CheckScript-TM- product compete, to various degrees, with products produced by a number of substantial competitors such as Computer Gesellschaft Konstanz, a subsidiary of Siemens. Competition among product providers in this market generally focuses on price, accuracy, reliability and technical support. The Company believes its primary competitive advantages are its (i) recognition accuracy with regard to hand printed characters, (ii) flexibility, since it may operate on a broad range of computer operating platforms, (iii) scalability and (iv) object-oriented software designs which can be more readily modified, improved with added functionality, configured for new products, and ported to new operating systems and upgrades. Despite these advantages, QuickStrokes-Registered Tradmark- API and CheckScript-TM- competitors have existed longer and have far greater financial resources and industry connections than the Company.

The Company's PFP Pro-TM- products compete against complete proprietary systems offered by software developers, such as GTESS Corporation, RRI, and Cardiff Software, Inc. In addition, PFP Pro-TM- faces competition from providers of recognition systems that incorporate ADR technology such as Microsystems Technology, Inc., and Captiva. Because PFP Pro-TM- is based on the Company's proprietary QuickStrokes-Registered Tradmark- API engine, its competitive advantages reflect the advantages of the QuickStrokes-Registered Tradmark- engine. Competitors in this market offer both high and low cost systems. The Company's strategy is to position PFP Pro-TM- to compete successfully in a scalable midrange price while offering a higher degree of accuracy and greater flexibility than competing systems currently on the market.

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

EMPLOYEES AND LABOR RELATIONS

As of September 30, 1998, the Company employed a total of 32 full-time and two part-time persons plus six full-time temporary employees, consisting of seven in marketing, sales and support, 16 in research and development, seven in operations, and 10 in finance, administration and other capacities. The Company has never had a work stoppage. None of its employees are represented by a labor organization, and the Company considers its relations with its employees to be good.

ITEM 2. PROPERTIES

The Company's principal executive offices, as well as its principal research and development facility, is located in approximately 21,000 square feet of leased office building space in San Diego, California, of which the Company subleases to a third party approximately 9,000 square feet. The lease and sub lease on these facilities expires June 30, 2002. The Company also leases a sales, customer services and support facility in Virginia. The Company believes that its existing facilities are adequate for its current needs.

ITEM 3. LEGAL PROCEEDINGS

In the general course of business, the Company, at various times, has been named in lawsuits. During fiscal 1998, the Company was involved in a number of legal proceedings. All of these proceedings were resolved (or in the process of complete resolution) by the end of the fiscal year or shortly thereafter and the costs of these settlements are included in the September 30, 1998 financials.

In October 1998 the Company settled a lawsuit with the two founders of Technology Solutions, Inc.("TSI"). The Company had acquired substantially all of the assets of TSI in June 1997 in exchange for 685,714 unregistered shares of the Company's common stock and $240,000 cash. Disputes arose between the Company, TSI, and the principals of TSI. Pursuant to the settlement agreement, the Company reacquired 591,114 shares of its common stock and a non-exclusive, non-transferable, perpetual, worldwide, royalty-free license to use key components of the TSI document imaging systems software; TSI and its principals reacquired ownership of their technology and software.

The Company agreed in October 1998 to settle a pending lawsuit with Adaptive Solutions, a Beaverton, Oregon based computer assisted data entry provider and also settled an employee related lawsuit.

In October 1998 the Company also revamped their agreement with Parascript Limited Liability Corporation (LLC), under which the Company licenses Parascript's Legal Amount Recognition (LAR) capabilities used in the CheckScript-TM- product. The Company and Parascript LLC agreed to undo their cross investment agreement and entered into a new licensing agreement. The new licensing agreement is not exclusive except for six major customers, and provides for a reduction in royalty percentages payable. The Company received all 763,922 shares of unregistered common stock of the Company previously held by Parascript LLC in exchange for returning its 10% interest in Parascript LLC, exclusivity for six customers, and reduced royalties.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to security holders during the fourth quarter ended September 30, 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market for Registrant's common equity and related stockholder matters is incorporated by reference from the Company's Annual Report to Stockholders for the year ended September 30, 1998.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for each of the years in the five-year period ended September 30, 1998 is incorporated by reference from the Company's Annual Report to Stockholders for the year ended September 30, 1998.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations is incorporated by reference from the Company's Annual Report to Stockholders for the year ended September 30, 1998.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and supplementary data and the Independent Auditor's Report is incorporated by reference from the Company's Annual Report to Stockholders for the year ended September 30, 1998.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors and executive officers of the Registrant and compliance with section 16(a) of the Securities Exchange Act is incorporated by reference from information contained in the Proxy Statement for the 1998 Annual Meeting of Stockholders under the heading "ELECTION OF DIRECTORS".

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the information contained in the Proxy Statement for the 1998 Annual Meeting of Stockholders under the heading "EXECUTIVE COMPENSATION".

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from the information contained in the Proxy Statement for the 1998 Annual Meeting of Stockholders under the heading "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT".

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACITONS.

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) The following documents are included in the Company's Annual Report to Stockholders for the year ended September 30, 1998:

Independent Auditors' Report

Consolidated Balance Sheets - For the Years Ended September 30, 1998 and 1997

Consolidated Statements of Operations - For the Years Ended September 30, 1998, 1997, and 1996

Consolidated Statements of Changes in Stockholders' Equity - For the Years Ended September 30, 1998, 1997, and 1996

Consolidated Statements of Cash Flows - For the Years Ended September 30, 1998, 1997, and 1996

Notes to Financial Statements For the years Ended September 30, 1998, 1997, and 1996

With the exception of the financial statements listed above and the information incorporated by reference herein, the Annual Report to Stockholders for the fiscal year ended September 30, 1998, is not to be deemed to be filed as part of this report.

(a)(2) Exhibits:

3.1	Certificate of Incorporation of Mitek Systems of Delaware Inc. (now Mitek Systems, Inc.), a Delaware corporation, as amended. (1)
3.2	Bylaws of Mitek Systems, Inc. as Amended and Restated. (1)
10.1	1986 Stock Option Plan (2)
10.2	1988 Non Qualified Stock Option Plan (2)
10.3	1996 Stock Option Plan
10.4	401(k) Plan (2)
10.5	$750,000 revolving line of credit Loan Agreement, Promissory Note, and Commercial Security Agreement (3)
10.6	$250,000 equipment line of credit Promissory Note and Commercial Security Agreement (3)
13.	Annual Report to Stockholders for the year ended September 30, 1998.
21.	Subsidiaries of the Registrant
23.1	Independent Auditors' Consent
27.	Financial Data Schedule

(1) Incorporated by reference to the exhibits to the Company' Annual Report on Form 10-K for the fiscal year ended September 30, 1997

(2) Incorporated by reference to the exhibits to the Company's Registration Statement on Form SB-2 originally filed with the SEC on July 9, 1996

(3) Incorporated by reference to the exhibits to the Company's Quarterly Report of Form 10-Q for the period ended June 30, 1998 filed on August 15, 1998

Upon request, the Registrant will furnish a copy of any of the listed exhibits for $0.50 per page.

(b) The following is a list of Current Reports on Form 8-K filed by the Company during or subsequent to the last quarter of the fiscal year ended September 30, 1998:

Report on Form 8-K filed on October 9, 1998

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: December 28, 1998 MITEK SYSTEMS, INC.

By: /s/ John M. Thornton

John M. Thornton,
Chairman of the Board,
President, Chief Executive Officer
and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ John M. Thornton John M. Thornton, Chairman of the Board President, Chief Executive Officer and Chief Financial Officer	December 28, 1998
/s/ Gerald I. Farmer Gerald I. Farmer, Director	December 28, 1998
/s/ Daniel E. Steimle Daniel E. Steimle, Director	December 28, 1998
/s/ Sally B. Thornton Sally B. Thornton, Director	December 28, 1998
/s/ James B. DeBello James B. DeBello, Director	December 28, 1998

MITEK SYSTEMS, INC.
INDEX TO EXHIBITS

EXHIBIT NO.	EXHIBIT
3.1	Certificate of Incorporation of Mitek Systems of Delaware, Inc. (now Mitek Systems, Inc.) a Delaware corporation, as amended. (1)
3.2	Bylaws of Mitek Systems, Inc. as Amended and Restated. (1)
10.1	1986 Stock Option Plan (2)
10.2	1988 Non Qualified Stock Option Plan (2)
10.3	1996 Stock Option Plan
10.4	401(k) Plan (2)
10.5	$750,000 revolving line of credit Loan Agreement, Promissory Note, and Commercial Security Agreement (3)
10.6	$250,000 equipment line of credit Promissory Note and Commercial Security Agreement (3)
13.	Annual Report to Stockholders for the year ended September 30, 1998.
21.	Subsidiaries of the Registrant
23.1	Independent Auditors' Consent
27.	Financial Data Schedule

(1) Incorporated by reference to the exhibits to the Company' Annual Report on Form 10-K for the fiscal year ended September 30, 1997

(2) Incorporated by reference to the exhibits to the Company's Registration Statement on Form SB-2 originally filed with the SEC on July 9, 1996

(3) Incorporated by reference to the exhibits to the Company's Quarterly Report of Form 10-Q for the period ended June 30, 1998 filed on August 15, 1998

EXHIBIT 10.3

MITEK SYSTEMS, INC.
AMENDED AND RESTATED 1996 STOCK OPTION PLAN

1. PURPOSE. This Stock Option Plan (the "Plan") is intended to serve as an incentive to, and to encourage stock ownership by certain eligible participants rendering services to Mitek Systems, Inc., a Delaware corporation, and certain affiliates as set forth below (the "Corporation"), so that they may acquire or increase their proprietary interest in the Corporation and to encourage them to remain in the service of the Corporation.

2. ADMINISTRATION.

2.1 COMMITTEE. The Plan shall be administered by the Board of Directors of the Corporation (the "Board of Directors"), or a committee of two or more directors appointed by the Board of Directors (the "Committee") who are Non-Employee Directors as defined in Rule 16b-3 promulgated under Section 16 of the Securities Exchange Act of 1934 and an outside director as defined in Treasury Regulation Section 1.162-27(e)(3). The Committee shall select one of its members as Chairman and shall appoint a Secretary, who need not be a member of the Committee. The Committee shall hold meetings at such times and places as it may determine and minutes of such meetings shall be recorded. Acts by a majority of the Committee in a meeting at which a quorum is present and acts approved in writing by a majority of the members of the Committee shall be valid acts of the Committee.

2.2 COMPLIANCE WITH RULE 16b-3. Each member of the Committee shall be a "non employee director" as that term is defined in Rule 16b-3 ("Rule 16b-3") promulgated pursuant to Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") meaning for purposes of this Plan, that no director may be a member of the Committee if that director, during the period of such director's service on the Committee (i) is an officer, employee or consultant of the Corporation, or (ii) engages in any related party transactions with the Corporation of a nature which would be required to be disclosed to shareholders under the provisions of the Exchange Act. The Board of Directors or the Committee may impose such conditions on the exercise of any option as may be required to satisfy the requirements of Rule 16b-3 or any successor provision in effect at the time. All grants under the Plan made to non employee directors shall be approved by the full Board of Directors or ratified by the shareholders of the Corporation.

2.3 TERM. If the Board of Directors selects a Committee, the members of the Committee shall serve on the Committee for the period of time determined by the Board of Directors and shall be subject to removal by the Board of Directors at any time. The Board of Directors may terminate the function of the Committee at any time and resume all powers and authority previously delegated to the Committee.

2.4 AUTHORITY. The Committee shall have sole discretion and authority to grant options under the Plan to eligible participants rendering services to the Corporation or any "parent" or "subsidiary" of the Corporation, as defined in Section 424 of the Internal Revenue Code of 1986, as amended (the "Code") ("Parent or Subsidiary"), at such times, under such terms and in such amounts as it may decide. For purposes of this Plan and any Stock Option Agreement (as defined below), the term "Corporation" shall include any Parent or Subsidiary, if applicable. Subject to the express provisions of the Plan, the Committee shall have complete authority to interpret the Plan, to prescribe, amend and rescind the rules and regulations relating to it, to determine the details and provisions of any Stock Option Agreement, to accelerate any options and to make all other determinations necessary and advisable for the administration of the Plan.

2.5 TYPE OF OPTION. The Committee shall have full authority and discretion to determine, and shall specify, whether the eligible individual will be granted options intended to qualify as incentive options under Section 422 of the Code ("Incentive Options") or options which are not intended to qualify under Section 422 of the Code ("Non-Qualified Options"); provided, however, that Incentive Options shall only be granted to employees of the Corporation, or a Parent or Subsidiary thereof, and shall be subject to the special limitations set forth herein attributable to Incentive Options.

2.6 INTERPRETATION. The interpretation and construction by the Committee of any provisions of the Plan or of any option granted under the Plan shall be final and binding on all parties having an interest in this Plan or any option granted hereunder. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any option granted under the Plan.

3. ELIGIBILITY.

3.1 GENERAL. All directors, officers, employees of and certain persons rendering services to the Corporation relative to the Corporation's management, operation or development shall be eligible to receive options under the Plan. The selection of recipients of options shall be within the sole and absolute discretion of the Committee. No person shall be granted an Incentive Option under this Plan unless such person is an employee of the Corporation on the date of grant. No person shall be granted an option under this Plan unless such person has executed, if requested by the Committee, the grant representation letter set forth on Exhibit "A," as such Exhibit may be amended by the Committee from time to time. No person shall be granted more than 500,000 options in any one year period.

3.2 TERMINATION OF ELIGIBILITY.

3.2.1 If an optionee ceases to be employed by the Corporation, is no longer an officer or member of the Board of Directors of the Corporation, or no longer performs services for the Corporation for any reason (other than for "cause," as hereinafter defined, or such optionee's death), any option granted hereunder to such optionee shall expire three months after the occurrence giving rise to such termination of eligibility (or 1 year in the event an optionee is "disabled," as defined in Section 22(e)(3) of the Code) or upon the date it expires by its terms, whichever is earlier. Any option that has not vested in the optionee as of the date of such termination shall immediately expire and shall be null and void. The Committee shall, in its sole and absolute discretion, decide, utilizing the provisions set forth in Treasury Regulations Section 1.421-7(h), whether an authorized leave of absence or absence for military or governmental service, or absence for any other reason, shall constitute termination of eligibility for purposes of this Section.

3.2.2 If an optionee ceases to be employed by the Corporation, is no longer an officer or member of the Board of Directors of the Corporation, or no longer performs services for the Corporation and such termination is as a result of "cause," as hereinafter defined, then all options granted hereunder to such optionee shall expire on the date of the occurrence giving rise to such termination of eligibility or upon the date it expires by its terms, whichever is earlier, and such optionee shall have no rights with respect to any unexercised options. For purposes of this Plan, "cause" shall mean an optionee's personal dishonesty, misconduct, breach of fiduciary duty, incompetence, intentional failure to perform stated obligations, willful violation of any law, rule, regulation or final cease and desist order, or any material breach of any provision of this Plan, any Stock Option Agreement or any employment agreement.

3.3 DEATH OF OPTIONEE AND TRANSFER OF OPTION. In the event an optionee shall die, an option may be exercised (subject to the condition that no option shall be exercisable after its expiration and only to the extent that the optionee's right to exercise such option had accrued at the time of the optionee's death) at any time within six months after the optionee's death by the executors or administrators of the optionee or by any person or persons who shall have acquired the option directly from the optionee by bequest or inheritance. Any option that has not vested in the optionee as of the date of death or termination of employment, whichever is earlier, shall immediately expire and shall be null and void. No option shall be transferable by the optionee other than by will or the laws of intestate succession.

3.4 LIMITATION ON INCENTIVE OPTIONS. No person shall be granted any Incentive Option to the extent that the aggregate fair market value of the Stock (as defined below) to which such options are exercisable for the first time by the optionee during any calendar year (under all plans of the Corporation as determined under Section 422(d) of the Code) exceeds $100,000.

4. IDENTIFICATION OF STOCK. The Stock, as defined herein, subject to the options shall be shares of the Corporation's authorized but unissued or acquired or reacquired common stock (the "Stock"). The aggregate number of shares subject to outstanding options shall not exceed 2,000,000 shares of Stock (subject to adjustment as provided in Section 6). If any option granted hereunder shall expire or terminate for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for purposes of this Plan.

5. TERMS AND CONDITIONS OF OPTIONS. Any option granted pursuant to the Plan shall be evidenced by a Stock Option Agreement in such form as the Committee shall from time to time determine, which agreement shall comply with and be subject to the following terms and conditions:

5.1 NUMBER OF SHARES. Each option shall state the number of shares of Stock to which it pertains.

5.2 OPTION EXERCISE PRICE. Each option shall state the option exercise price, which shall be determined by the Committee; provided, however, that (i) the exercise price of any Incentive Option shall not be less than the fair market value of the Stock, as determined by the Committee, on the date of grant of such option, (ii) the exercise price of any Incentive Option granted to an employee who owns more than 10% of the total combined voting power of all classes of the Corporation's stock, as determined for purposes of Section 422 of the Code, shall not be less than 110% of the fair market value of the Stock, as determined by the Committee, on the date of grant of such option, and (iii) the exercise price of any Non-Qualified Option shall not be less than the fair market value of the Stock, as determined by the Committee, on the date of grant of such option.

5.3 TERM OF OPTION. The term of an option granted hereunder shall be determined by the Committee at the time of grant, but shall not exceed ten years from the date of the grant. The term of any Incentive Option granted to an employee who owns more than 10% of the total combined voting power of all classes of the Corporation's stock, as determined for purposes of Section 422 of the Code, shall in no event exceed five years from the date of grant. All options shall be subject to early termination as set forth in this Plan. In no event shall any option be exercisable after the expiration of its term.

5.4 METHOD OF EXERCISE. An option shall be exercised by written notice to the Corporation by the optionee (or successor in the event of death) and execution by the optionee of an exercise representation letter in the form set forth on Exhibit "B," as such Exhibit may be amended by the Committee from time to time. Such written notice shall state the number of shares with respect to which the option is being exercised and designate a time, during normal business hours of the Corporation, for the delivery thereof ("Exercise Date"), which time shall be at least 30 days after the giving of such notice unless an earlier date shall have been mutually agreed upon. At the time specified in the written notice, the Corporation shall deliver to the optionee at the principal office of the Corporation, or such other appropriate place as may be determined by the Committee, a certificate or certificates for such shares. Notwithstanding the foregoing, the Corporation may postpone delivery of any certificate or certificates after notice of exercise for such reasonable period as may be required to comply with any applicable listing requirements of any securities exchange. In the event an option shall be exercisable by any person other than the optionee, the required notice under this Section shall be accompanied by appropriate proof of the right of such person to exercise the option.

5.5 MEDIUM AND TIME OF PAYMENT. The option exercise price shall be payable in full on or before the option Exercise Date in any one of the following alternative forms:

5.5.1 Full payment in cash or certified bank or cashier's check;

5.5.2 A Promissory Note (as defined below);

5.5.3 Full payment in shares of Stock of the Corporation having a fair market value on the Exercise Date in the amount equal to the option exercise price;

5.5.4 Through a special sale and remittance procedure pursuant to which the optionee shall concurrently provide irrevocable written instruction to (a) a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

5.5.5 A combination of the consideration set forth in Sections 5.4.1, through 5.4.4 equal to the option exercise price; or

5.5.6 Any other method of payment complying with the provisions of Section 422 of the Code with respect to Incentive Options, provided the terms of payment are established by the Committee at the time of grant and any other method of payment established by the Committee with respect to Non-Qualified Options.

5.6 FAIR MARKET VALUE. The fair market value of a share of Stock on any relevant date shall be determined in accordance with the following provisions:

5.6.1 If the Stock of the Corporation at the time is neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market, then the fair market value shall be determined by the Committee after taking into account such factors as the Committee shall deem appropriate.

5.6.2 If the Stock of the Corporation is not at the time listed or admitted to trading on any stock exchange but is traded in the over-the-counter market, the fair market value shall be the mean between the highest bid and lowest asked prices (or, if such information is available, the closing selling price) of one share of Stock of the Corporation on the date in question in the over-the-counter market, as such prices are reported by the National Association of Securities Dealers through its NASDAQ system or any successor system. If there are no reported bid and asked prices (or closing selling price) for the Stock of the Corporation on the date in question, then the mean between the highest bid price and lowest asked price (or the closing selling price) on the last preceding date for which such quotations exist shall be determinative of fair market value.

5.6.3 If the Stock of the Corporation is at the time listed or admitted to trading on any stock exchange, then the fair market value shall be the closing selling price of one share of Stock of the Corporation on the date in question on the stock exchange determined by the Committee to be the primary market for the Stock of the Corporation, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no reported sale of Stock of the Corporation on such exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

5.7 PROMISSORY NOTE. Subject to the requirements of applicable state or Federal law or margin requirements, and if provided in the Stock Option Agreement, payment of all or part of the purchase price of the Stock may be made by delivery of a full recourse promissory note ("Promissory Note"). The Promissory Note shall be executed by the optionee, made payable to the Corporation and bear interest at such rate as the Committee shall determine, but in no case less than the minimum rate which will not cause under the Code (i) interest to be imputed, (ii) original issue discount to exist, or (iii) any other similar results to occur. Unless otherwise determined by the Committee, interest on the Note shall be payable in quarterly installments on March 31, June 30, September 30 and December 31 of each year. A Promissory Note shall contain such other terms and conditions as may be determined by the Committee; provided, however, that the full principal amount of the Promissory Note and all unpaid interest accrued thereon shall be due not later than five years from the date of exercise. The Corporation may obtain from the optionee a security interest in all shares of Stock issued to the optionee under the Plan for the purpose of securing payment under the Promissory Note and may retain possession of the stock certificates representing such shares in order to perfect its security interest.

5.8 RIGHTS AS A SHAREHOLDER. An optionee or successor shall have no rights as a shareholder with respect to any Stock underlying any option until the date of the issuance to such optionee of a certificate for such Stock. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such Stock certificate is issued, except as provided in Section 6.

5.9 MODIFICATION, EXTENSION AND RENEWAL OF OPTIONS. Subject to the terms and conditions of the Plan, the Committee may modify, extend or renew outstanding options granted under the Plan, or accept the surrender of outstanding options (to the extent not exercised) and authorize the granting of new options in substitution therefor.

5.10 VESTING AND RESTRICTIONS. The Committee shall have complete authority and discretion to set the terms, conditions, restrictions, vesting schedules and other provisions of any option in the applicable Stock Option Agreement. In addition, the Committee shall have complete authority to require conditions and restrictions on any Stock issued pursuant to this Plan.

5.11 OTHER PROVISIONS. The Stock Option Agreements shall contain such other provisions as the Committee shall deem advisable.

6. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION.

6.1 SUBDIVISION OR CONSOLIDATION. Subject to any required action by shareholders of the Corporation, the number of shares of Stock covered by each outstanding option, and the exercise price thereof, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Stock of the Corporation resulting from a subdivision or consolidation of shares or the payment of a stock dividend (but only on the Stock) or any other increase or decrease in the number of such shares effected without receipt of consideration by the Corporation. Any fraction of a share subject to option that would otherwise result from an adjustment pursuant to this Section shall be rounded downward to the next full number of shares without other compensation or consideration to the holder of such option.

6.2 CAPITAL TRANSACTIONS. Upon a sale or exchange of all or substantially all of the assets of the Corporation, a merger or consolidation in which the Corporation is not the surviving corporation, a merger, reorganization or consolidation in which the Corporation is the surviving corporation and shareholders of the Corporation exchange their stock for securities or property, a liquidation of the Corporation, or similar transaction as determined by the Committee ("Capital Transaction"), this Plan and each option issued under this Plan, whether vested or unvested, shall terminate immediately prior to such Capital Transaction; provided, however, that unless the outstanding options are assumed by a successor corporation in a merger or consolidation, subject to terms approved by the Committee, all optionees will have the right, during the 15 days prior to such Capital Transaction, to exercise all vested options. The Committee may (but shall not be obligated to) (i) accelerate the vesting of any option or (ii) apply the foregoing provisions, including but not limited to termination of this Plan and options granted pursuant to the Plan, in the event there is a sale of 51% or more of the stock of the Corporation in any two year period or a transaction similar to a Capital Transaction.

6.3 ADJUSTMENTS. To the extent that the foregoing adjustments relate to stock or securities of the Corporation, such adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.

6.4 ABILITY TO ADJUST. The grant of an option pursuant to the Plan shall not affect in any way the right or power of the Corporation to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

6.5 NOTICE OF ADJUSTMENT. Whenever the Corporation shall take any action resulting in any adjustment provided for in this Section, the Corporation shall forthwith deliver notice of such action to each optionee, which notice shall set forth the number of shares subject to the option and the exercise price thereof resulting from such adjustment.

6.6 LIMITATION ON ADJUSTMENTS. Any adjustment, assumption or substitution of an Incentive Option shall comply with Section 425 of the Code, if applicable.

7. NONASSIGNABILITY. Options granted under this Plan may not be sold, pledged, assigned or transferred in any manner other than by will or by the laws of intestate succession, and may be exercised during the lifetime of the optionee only by such optionee. Any transfer in violation of this provision shall void such option, and any Stock Option Agreement entered into by the optionee and the Corporation regarding such option shall be void and have no further force or effect. No option shall be pledged or hypothecated in any way, nor shall any option be subject to execution, attachment or similar process.

8. NO RIGHT OF EMPLOYMENT. Neither the grant nor exercise of any option nor anything in this Plan shall impose upon the Corporation or any other corporation any obligation to employ or continue to employ any optionee. The right of the Corporation and any other corporation to terminate any employee shall not be diminished or affected because an option has been granted to such employee.

9. TERM OF PLAN. This Plan is effective on the date the Plan is adopted by the Board of Directors and options may be granted pursuant to the Plan from time to time within a period of ten (10) years from such date, or the date of any required shareholder approval required under the Plan, if earlier. Termination of the Plan shall not affect any option theretofore granted.

10. AMENDMENT OF THE PLAN. The Board of Directors of the Corporation may, subject to any required shareholder approval, suspend, discontinue or terminate the Plan, or revise or amend it in any respect whatsoever with respect to any shares of Stock at that time not subject to options.

11. APPLICATION OF FUNDS. The proceeds received by the Corporation from the sale of Stock pursuant to options may be used for general corporate purposes.

12. RESERVATION OF SHARES. The Corporation, during the term of this Plan, shall at all times reserve and keep available such number of shares of Stock as shall be sufficient to satisfy the requirements of the Plan.

13. NO OBLIGATION TO EXERCISE OPTION. The granting of an option shall not impose any obligation upon the optionee to exercise such option.

14. APPROVAL OF BOARD OF DIRECTORS AND SHAREHOLDERS. The Plan shall not take effect until approved by the Board of Directors of the Corporation. This Plan shall be approved by a vote of the Shareholders within 12 months from the date of approval by the Board of Directors. In the event such shareholder vote is not obtained, all Incentive Options granted hereunder, whether vested or unvested, shall become Non-Qualified Options.

15. WITHHOLDING TAXES. Notwithstanding anything else to the contrary in this Plan or any Stock Option Agreement, the exercise of any option shall be conditioned upon payment by such optionee in cash, or other provisions satisfactory to the Committee, of all local, state, federal

or other withholding taxes applicable, in the Committee's judgment, to the exercise or to later disposition of shares acquired upon exercise of an option.

16. PARACHUTE PAYMENTS. Any outstanding option under the Plan may not be accelerated to the extent any such acceleration of such option would, when added to the present value of other payments in the nature of compensation which becomes due and payable to the optionee would result in the payment to such optionee of an excess parachute payment under Section 280G of the Code. The existence of any such excess parachute payment shall be determined in the sole and absolute discretion of the Committee.

17. SECURITIES LAWS COMPLIANCE. Notwithstanding anything contained herein, the Corporation shall not be obligated to grant any option under this Plan or to sell, issue or effect any transfer of any Stock unless such grant, sale, issuance or transfer is at such time effectively (i) registered or exempt from registration under the Securities Act of 1933, as amended (the "Act"), and (ii) qualified or exempt from qualification under the California Corporate Securities Law of 1968 and any other applicable state securities laws. As a condition to exercise of any option, each optionee shall make such representations as may be deemed appropriate by counsel to the Corporation for the Corporation to use any available exemption from registration under the Act or qualification under any applicable state securities law.

18. RESTRICTIVE LEGENDS. The certificates representing the Stock issued upon exercise of options granted pursuant to this Plan will bear the following legends giving notice of restrictions on transfer under the Act and this Plan, as follows:

(a) THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ISSUED OR TRANSFERRED IN A TRANSACTION WHICH WAS NOT REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION AFFORDED BY SUCH ACT. NO SALE OR TRANSFER OF THESE SHARES SHALL BE MADE, NO ATTEMPTED SALE OR TRANSFER SHALL BE VALID, AND THE ISSUER SHALL NOT BE REQUIRED TO GIVE ANY EFFECT TO ANY SUCH TRANSACTION UNLESS (A) SUCH TRANSACTION SHALL HAVE BEEN DULY REGISTERED UNDER THE ACT OR (B) THE ISSUER SHALL HAVE FIRST RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO IT THAT SUCH REGISTRATION IS NOT REQUIRED.

(b) Any other legends required by applicable state securities laws as determined by the Committee.

19. NOTICES. Any notice to be given under the terms of the Plan shall be addressed to the Corporation in care of its Secretary at its principal office, and any notice to be given to an

optionee shall be addressed to such optionee at the address maintained by the Corporation for such person or at such other address as the optionee may specify in writing to the Corporation.

As adopted by the Board of Directors on _____________, 1998.

MITEK SYSTEMS, INC., a Delaware corporation

By:

                    , President

EXHIBIT A

____________, 1998

Mitek Systems, Inc.
10070 Carroll Canyon Road
San Diego, California 92131

Re: AMENDED AND RESTATED 1996 STOCK OPTION PLAN

To Whom It May Concern:

This letter is delivered to Mitek Systems, Inc., a Delaware corporation (the "Corporation"), in connection with the grant to _________________________ (the "Optionee") of an option (the "Option") to purchase _____ shares of common stock of the Corporation (the "Stock") pursuant to the Mitek Systems, Inc. Amended and Restated 1996 Stock Option Plan dated October __, 1996 (the "Plan"). The Optionee understands that the Corporation's receipt of this letter executed by the Optionee is a condition to the Corporation's willingness to grant the Option to the Optionee.

In addition, the Optionee makes the following representations and warranties with the understanding that the Corporation will rely upon them in the Corporation's determination of whether the grant of the Option meets the requirements of the "private offering" exemption provided in Section 25102(f) of the California Corporations Code and certain exemptions provided under the Securities Act of 1933, as amended.

1. The Optionee acknowledges receipt of a copy of the Plan and Agreement. The Optionee has carefully reviewed the Plan and Agreement.

2. The Option and the Stock will be acquired by the Optionee for investment only, for the Optionee's own account, and not with a view to or for sale in connection with any distribution of the Option or the Stock. The Optionee will not take, or cause to be taken, any action which would cause the Optionee, or any entity or person affiliated with the Optionee, to be deemed an underwriter with respect to the Option or the Stock.

3. The Optionee either:

a. has a preexisting personal or business relationship with the Corporation or any of its officers, directors or controlling persons of a nature and duration as would allow the Optionee to be aware of the character, business acumen, general business and financial circumstances of the Corporation or of the person with whom such relationship exists; or

b. by reason of the Optionee's business or financial experience, or the business or financial experience of the Optionee's professional advisor who is unaffiliated with and is not compensated by the Corporation or any affiliate or selling agent of the Corporation, directly or indirectly, the Optionee has the capacity to protect the Optionee's interests in connection with the grant of the Option and the purchase of the Stock.

4. The Optionee acknowledges that an investment in the Corporation represents a speculative investment and a high degree of risk. The Optionee acknowledges that the Optionee has had the opportunity to obtain and review all information from the Corporation necessary to make a reasonably informed investment decision and that the Optionee has had all questions asked of the Corporation answered to the reasonable satisfaction of the Optionee. The Optionee is able to bear the economic risk of an investment in the Option and the Stock.

5. The grant of the Option has not been accompanied by the publication of any advertisement.

6. The Optionee understands and acknowledges that the Stock has not been, and will not be, registered under the Securities Act of 1933, as amended, or qualified under the California Corporate Securities Law of 1968. The Optionee understands and acknowledges that the Stock may not be sold without compliance with the registration requirements of federal and applicable state securities laws unless an exemption from such laws is available. The Optionee understands that the Certificate representing the Stock shall bear the legends set forth in the Plan.

7. The Optionee understands and acknowledges that the Option and the Stock are subject to the terms and conditions of the Plan.

8. The Optionee understands and agrees that, at the time of exercise of any part of the Option for Stock, the Optionee may be required to provide the Corporation with additional representations, warranties and/or covenants similar to those contained in this letter.

9. The Optionee is a resident of the State of __________.

10. The Optionee will notify the Corporation immediately of any change in the above information which occurs before the Option is exercised in full by the Optionee.

The foregoing representations and warranties are given on ______________, 1998 at ____________________.

OPTIONEE:

EXHIBIT B

____________, 1998

Mitek Systems, Inc.
10070 Carroll Canyon Road
San Diego, California 92131

Re: AMENDED AND RESTATED 1996 STOCK OPTION PLAN

To Whom It May Concern:

I (the "Optionee") hereby exercise my right to purchase _____ shares of common stock (the "Stock") of Mitek Systems, Inc., a Delaware corporation (the "Corporation"), pursuant to, and in accordance with, the Mitek Systems, Inc. Amended and Restated 1996 Stock Option Plan dated ____________, 1998 (the "Plan") and Stock Option Agreement (the "Agreement") dated _______________, 1998. As provided in such Plan, I deliver herewith payment as set forth in the Plan in the amount of the aggregate option exercise price. Please deliver to me at my address as set forth above stock certificates representing the subject shares registered in my name (and (SPOUSE) , as (STYLE OF VESTING)).

The Optionee hereby represents as follows:

1. The Optionee acknowledges receipt of a copy of the Plan and Agreement. The Optionee has carefully reviewed the Plan and Agreement.

2. The Optionee either:

(a) has a preexisting personal or business relationship with the Corporation or any of its officers, directors or controlling persons of a nature and duration as would allow the undersigned to be aware of the character, business acumen, general business and financial circumstances of the Corporation or of the person with whom such relationship exists; or

(b) by reason of the Optionee's business or financial experience or the business or financial experience of the Optionee's professional advisor(s) who is (are) unaffiliated with and is (are) not compensated by the Corporation or any affiliate or selling agent of the Corporation, directly or indirectly, has the capacity to protect the Optionee's interests in connection with the purchase of nonqualified stock options of the Corporation and Stock issuable upon the exercise thereof.

3. The Optionee is able to bear the economic risk of his investment in the stock options of the Corporation and an investment in the Stock issuable upon exercise thereof.

4. The Optionee acknowledges that an investment in the Corporation represents a speculative investment and a high degree of risk. The Optionee acknowledges that the Optionee has had the opportunity to obtain and review all information from the Corporation necessary to make a reasonably informed investment decision and that the Optionee has had all questions asked of the Corporation answered to the reasonable satisfaction of the Optionee.

5. The grant of Options for Stock and the exercise of the Options has not been accompanied by the publication of any advertisement.

6. The Optionee understands and acknowledges that the Stock has not, and will not, be registered under the Securities Act of 1933, as amended, or qualified under the California Securities Law of 1968. The Optionee understands and acknowledges that the Stock may not be sold without compliance with the registration and qualification requirements of federal and applicable state securities laws unless exemptions from such laws are available. The Optionee understands that the certificates representing the Stock shall bear the legends set forth in the Plan.

7. The Optionee is a resident of the State of __________.

8. The Optionee hereby is purchasing for the Optionee's own account and not with a view to or for sale in connection with any distribution of the stock options of the Corporation or any Stock issuable upon exercise thereof.

The foregoing representations and warranties are given on ___________________________ at ______________________.

OPTIONEE:

Elliott Wasserman, President

LETTER TO SHAREHOLDERS

The Company's performance in the fiscal year ending September 30, 1998 improved materially in the second half of the year. Significant write-offs and internal reorganization occurred in the first half of the fiscal year. Sales and profits expanded in the last two quarters. Mitek's operations have been streamlined by cost reductions and greater focus, which we believe will allow the Company to bring more value to our customers with more competitive, feature-rich products and solutions.

FINANCIAL POSITION - At fiscal year end, the Company had cash reserves, no debt other than normal trade payables and leases, and unused $750,000 working capital and $250,000 equipment lines of credit. This strong position is a result of increased profits in the second half of 1998, collection of accounts and notes receivable, and execution of operations within budget.

MAJOR EVENTS - The Company faced a number of management and operational challenges at the beginning of the year, which burdened the Company in terms of time and expense. The Company also reexamined and restructured several of its strategic relationships during the year. Management believes that each challenge was resolved on favorable terms.

In the general course of business, the Company, at various times, has been named in lawsuits. During fiscal 1998, the Company was involved in a number of legal proceedings. All of these proceedings were resolved (or in the process of complete resolution) by the end of the fiscal year or shortly thereafter and the costs of these settlements are included in the September 30, 1998 financials.

In October 1998 the Company settled a lawsuit with the two founders of Technology Solutions, Inc. ("TSI"). The Company had acquired substantially all of the assets of TSI in June 1997 in exchange for 685,714 unregistered shares of the Company's common stock and $240,000 cash. Disputes arose between the Company, TSI, and the principals of TSI. Pursuant to the settlement agreement, the Company reacquired 591,114 shares of its common stock and a non-exclusive, non-transferable, perpetual, worldwide, royalty-free license to use key components of the TSI document imaging systems software. TSI and its principals reacquired ownership of their technology and software.

The Company agreed in October 1998 to settle a pending lawsuit with Adaptive Solutions, a Beaverton, Oregon based computer assisted data entry provider, and also settled an employee related law suit.

In October 1998 the Company revamped their agreement with Parascript Limited Liability Corporation (LLC), under which the Company licenses Parascript's Legal Amount Recognition (LAR) capabilities used in the CheckScript-TM- product. The Company and Parascript LLC agreed to undo their cross investment agreement and entered into a new licensing agreement. The new licensing agreement is not exclusive except for six major customers, and reduces the royalty percentages payable by the Company. The Company reacquired 763,922 shares of its common stock previously held by Parascript LLC in exchange for returning its 10% interest in Parascript LLC, exclusivity for six customers, and reduced royalties.

The Company sold the assets of its Fax Products Division in cash transaction in January 1998.

At year-end, Mitek was also able to secure complete ownership of the Premier Forms Processor Pro-TM- (PFP Pro-TM-) source code, key to one of our core products.

These events have enabled the Company to concentrate on its core business, which seeks to capitalize on its QuickStrokes-Registered Trademark-, CheckScript-TM- and PFP Pro-TM- product lines.

PRODUCT DEVELOPMENT - The Company plans to continue to advance its core technologies and add new features to its products, which should enable greater sales through additional markets and improved product performance. The Company released new and improved products during the year including PFP Pro-TM-, QuickFX-TM- v1.0, and FaxShare-TM- v3.1.

STRATEGIC GROWTH PLAN - Management believes the Company is positioned to meet the challenges of the coming year and beyond as a direct result of the Company's innovative product capabilities being introduced to forms processing markets and Mitek's increased penetration of its proprietary technology in the item processing marketplace. Management has a detailed a growth plan for fiscal 1999 that includes penetrating three target markets due to our strong proprietary position and numerous competitive advantages, including proven product performance, superior results, recognition technology ownership, custom recognition capabilities and unsurpassed value. Armed with our technological advantages, we expect to be able to break new ground and open new markets which will position Mitek as a market leader and drive our financial performance for the current fiscal year

The first market includes the $250 million software and services segment of the forms processing market growing annually at 20% for structured documents and 80% for unstructured documents. To address this market, the Company's PFP Pro-TM- product offers a proven automated forms processing solution through Mitek's leading edge, high-speed character recognition engine. PFP Pro-TM-, backed by Mitek's comprehensive systems integration, training and maintenance programs, is expected to significantly penetrate the forms processing (for both structured and unstructured documents) market.

Mitek's second target is the $60 million core check recognition engine segment of the item processing market with an expected annual growth rate of 10%. The Company's CheckScript-TM- product provides superior results for the item processing market and offers advanced Courtesy Amount/Legal Amount Recognition (CAR/LAR) technology. CheckScript-TM- delivers recognition accuracy in excess of 80% within a variety of formats and a combination of cursive and printed script for remittance processing.

The third target is the emerging lower tier of the $100 million Proof of Deposit (POD) segment of the item processing market. Mitek is pursuing the development of a POD product for the low to middle tier financial institutions such as community banks and credit unions. The Company's development activity will be minimal because this product is based on Mitek's existing form processing platform and leverages the competitive advantages of its CheckScript-TM- product. The combined Proof of Deposit and forms processing platform product offering captures check and deposit-slip images at the branch and assures that the amounts on these documents balance and that data will then be available for upload to either corporate headquarters or a service bureau to complete the processing.

As a complement to the Company's proprietary product base, Mitek has formed a professional services organization charged with the responsibility of insuring successful product installation and promoting a satisfied customer experience. In addition, Mitek is planning a 100%

increase in the number of sales representatives in the coming year. The Company is targeting experienced, senior level personnel with direct knowledge and established contacts in the image document processing marketplace who will complement its existing sales base and provide additional leverage in its target markets.

Our goals for 1999 are to continue the growth in revenue and profits we have experienced in recent quarters and build shareholder value by achieving milestones throughout the current fiscal year, including additional product launches, growing our sales force, increasing market penetration, rapid top-line growth, bottom-line improvements, and continued technological innovation. The prospects of achieving these goals are both challenging and inviting.

We appreciate your continued support.

John M. Thornton
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NET SALES

Net sales were $6,501,000, $4,842,000, and $8,154,000 for fiscal 1998, 1997, and 1996, respectively. The increase in net sales in fiscal 1998 compared to fiscal 1997 is the result of increases in new and existing products, services, and customers. The decrease in net sales in fiscal 1997 as compared to fiscal 1996 resulted from the loss of certain Original Equipment Manufacturer (OEM) business, combined with the transition of the product line from hardware-based products with a higher retail cost but lower gross margins, to software-based products with lower retail costs and higher gross margins.

GROSS MARGIN AND OPERATIONS RECLASSIFICATION

The Company has evolved to a primarily software products company from a hardware/software products company. Therefore, cost of operations has been reclassified from cost of goods sold to costs and expenses for fiscal 1998, 1997, and 1996.

GROSS MARGIN

Gross margins were $4,503,000, $3,084,000, and $5,673,000, for fiscal 1998, 1997, and 1996, respectively. Stated as a percentage of net sales, gross margin for the corresponding periods were 69%, 64%, and 70%, respectively. The fluctuations in gross margins are the result of sales mix, proprietary versus royalty products sold, and amortization of prepaid licenses and goodwill.

OPERATIONS

Operations expenses were $430,000, $418,000 and $301,000 for fiscal 1998, 1997 and 1996, respectively. Stated as a percentage of sales, operations expenses were 7%, 9% and 4%, respectively. For fiscal 1998 and 1997, the absolute amounts are relatively constant and changes in operating expenses as a percentage of net sales corresponds to changes in net sales in those periods. The increase in absolute amounts in fiscal 1997 from fiscal 1996 results primarily from additional operations staff.

GENERAL AND ADMINISTRATIVE

General and administrative expenses were $1,622,000, $1,428,000, and $1,186,000 for fiscal 1998, 1997 and 1996, respectively. Stated as a percentage of net sales, general and administrative expenses for the corresponding periods were 25%, 29%, and 15%, respectively. The increase in absolute amounts in the current year resulted primarily from additional costs for legal fees related to settlements (primarily Technology Solutions, Inc. acquisition matter, an employee related lawsuit, and a customer dispute), and outside services. Subsequent to the end of fiscal 1998, the Company completed settlement agreements in connection with each dispute. The increase in absolute amounts for fiscal 1997 over fiscal 1996 was attributed to costs associated with the addition of directors and officers liability insurance and an increase in bad debts. The decrease in general and administrative expenses as a percentage of sales in fiscal 1998 from fiscal 1997 and as an increase as a percentage of sales in fiscal 1997 from fiscal 1996 results from increased sales in fiscal 1998 from fiscal 1997, and decreased sales in fiscal 1997 from fiscal 1996.

RESEARCH AND DEVELOPMENT

Research and development expenses were $1,343,000, $1,393,000, and $1,314,000 for fiscal 1998, 1997, and 1996, respectively. The 1998, 1997, and 1996 amounts do not include $878,000, $458,000, and $411,000, respectively, that was spent in research and development related to contract development and charged to cost of sales. Research and development expenses before charges to cost of sales were $2,221,0000, $1,851,000, and $1,725,000 for fiscal 1998, 1997, and 1996, respectively. Stated as a percentage of net sales, research and development expenses before charges to cost of sales for the corresponding periods were 34%, 38%, and 21%, respectively. The increase in the in the absolute amount of expenses and the increase in amounts charged to cost of sales in fiscal 1998 versus fiscal 1997 is primarily a result of the Technology Solutions, Inc. (TSI) acquisition; TSI engineering staff were primarily engaged in contract development, which expenses are charged to cost of sales.

SELLING AND MARKETING

Selling and marketing expenses were $1,671,000, $2,102,000, and $1,414,000, for fiscal 1998, 1997 and 1996, respectively. Stated as a percentage of net sales, selling and marketing expenses for the corresponding periods were 26%, 43%, and 17%, respectively. The decrease in selling and marketing expenses as an absolute amount and as a percentage of sales in the current year is primarily attributed to a reduction of the sales force due to the reorganization of the Company in the first half of fiscal 1998. The increase in selling and marketing expenses as a percentage of sales in fiscal 1997 versus fiscal 1996 was primarily attributed to marketing and promotion efforts, staff additions and reclassification of key employee.

OTHER CHARGES

Other charges in fiscal 1998 resulted from a $293,000 goodwill impairment, $196,000 prepaid license/support fee impairment, and a $200,000 inventory obsolescence reserve.

INTEREST (INCOME) EXPENSE

Net interest (income) expense was ($73,000), ($94,000), and $91,000 for fiscal 1998, 1997 and 1996, respectively. Stated as a percentage of net sales, net interest (income) expense for the corresponding periods was (1%), (2%), and 1%, respectively. The decrease in interest (income) in the current year is primarily the result of lower invested funds during the first half of the year. The decrease in interest expense and increase in interest (income) for fiscal 1997 versus fiscal 1996 is primarily the result of funds received from the secondary public offering, which generated interest income, combined with no bank borrowings. The interest expense in fiscal 1996 reflects borrowings from a factoring institution and a bank.

OTHER EXPENSES - NET

Other expenses in the current year results from reserves for the recruitment and employment ($166,000) and resignation ($204,000) of Elliot Wassarman as President and Chief Executive Officer of the company during fiscal 1998, $35,000 to settle an employee related law suit, $53,000 to settle Technology Solutions, Inc. acquisition legal matters, and $45,000 to settle a customer dispute. These reserves were reduced by a reversal of $175,000 reserved for TEMPEST in fiscal 1997, and a $34,000 gain from the sale of the Company's fax business in January 1998 in a cash transaction. The gross proceeds of the sale were $420,000 in cash, offset by the carrying value of the assets sold of ($308,000) and costs related to the transaction of ($78,000).

Other expenses in fiscal 1997 is the result of a $175,000 reserve for claims asserted against the company by the purchaser of the Company's TEMPEST business in March 1995 and the write off of purchased research and development costs in the amount of $228,000.

INCOME TAXES

For fiscal 1998 and 1997, the Company did not record an income tax provision or benefit for income taxes. For fiscal 1996, the Company recorded an income tax provision of $137,000.

NET INCOME (LOSS)

In fiscal 1998 and fiscal 1997, the Company recorded a net loss of ($1,497,000) and ($2,566,000), respectively. In fiscal 1996, the Company recorded net income of $1,229,000.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its cash needs primarily from increased profits in the second half of 1998, collection of accounts and notes receivable, and execution of operations within budget.

Net cash used by operating activities during the year ended September 30, 1998 was $203,000. The primary use of cash from operating activities was a decrease in inventory, prepaid expenses and other assets of $204,000. The primary source of cash from operating activities was a decrease in accounts receivable of $128,000 and an increase in accounts payable and accrued expenses of $425,000. Lower inventory resulted primarily from a $200,000 reserve taken principally on acceleration hardware board components as decreasing prices coupled with the higher speeds of general hardware rapidly altered the need for these acceleration boards. The decrease in accounts receivable resulted from improved management of receivables. Accounts receivable decreased even though sales increased by approximately 34% over the prior fiscal year. The increase in accounts payable and accrued expenses resulted primarily from the increase in reserves for litigation and dispute settlements of $391,000.

The Company's working capital and current ratio was $2,517,000 and 2.40 at September 30, 1998, and $3,278,000 and 3.32 at September 30, 1997. At September 30, 1998, total liabilities to equity ratio was .43 to 1 compared to .25 to 1 a year earlier. As of September 30, 1998, total liabilities were greater by $417,000 than on September 30, 1997.

In June 1998, the Company obtained an increase in its working capital line of credit from its Bank, Rancho Santa Fe Bank ("Bank") from $400,000 to $750,000. The line of credit expires on June 8, 1999 and interest is payable at prime plus 1.5 percentage points. In addition, the Company obtained an equipment credit line in the amount of $250,000 under similar terms and conditions. There were no borrowings under the working capital or equipment lines of credit as of September 30, 1998. The Company believes that together with existing cash, credit available under the extended credit line, and cash generated from operations, funds will be sufficient to finance its operations for the next twelve months. All cash in excess of working capital requirements will be kept in short term, investment grade securities.

YEAR 2000

Historically, most computer databases, as well as embedded microprocessors in computer systems and industrial equipment, were designed with date data fields which used only two digits of the year. Most computer programs, computers, and embedded microprocessors controlling equipment were programmed to assume that all two digit dates were preceded by "19", causing "00" to be interpreted as the year 1900. This formerly common practice now could result in a computer system or embedded microprocessor which fails to recognize properly a year that begins with "20", rather than "19". This in turn could result in computer system miscalculations or failures, as well as failures of equipment controlled by date-sensitive microprocessors, and is generally referred to as the "Year 2000 problem."

1. THE COMPANY'S STATE OF YEAR 2000 READINESS. In 1997 the Company began to formulate a plan to address its year 2000 issues. The Company's Year 2000 plan now contemplates five phases: Awareness, Assessment, Remediation, Testing, and Implementation.

AWARENESS INVOLVES ensuring that employees who deal with the Company's computer assets, and all managers, executives and directors, understand the nature of the Year 2000 problem and the adverse effects on the business operations of the Company that would result from the failure to become and remain Year 2000 ready. ASSESSMENT INVOLVES the identification and inventorying of all computer assets of the Company (both information technology systems and embedded microprocessors) and the determination as to whether such assets will properly recognize a year that begins with "20", rather than "19". Computer hardware, software and firmware, and embedded microprocessors, that, among other things, properly recognize a year beginning with "20" are said to be "Year 2000 ready". REMEDIATION INVOLVES the repair or replacement of computer assets that are not Year 2000 ready. TESTING INVOLVES the validation of the actions taken in the remediation phase. IMPLEMENTATION is the installation and integration of remediated and tested computer assets into an overall information technology and embedded microprocessor system that is Year 2000 ready.

These phases have substantial overlap. The Company has completed the Awareness and Assessment phases (4th Quarter 1998) and has commenced the Remediation (4th Quarter 1998) and Testing (4th Quarter 1998) phases. The Company has assigned Noel Flynn, Vice President of Operations/Customer Support, the responsibility for overseeing the timely completion of each phase of the Company's Year 2000 plan.

The Company believes that all employees who deal with the Company's computer assets, and all levels of the Company's management, appreciate the importance of Year 2000 readiness and understand that achieving such readiness is primarily a business problem, not merely a technology problem. The Company has also communicated directly with its vendors of goods and services in an attempt to assure that its key vendors are aware of the importance the Company places on Year 2000 readiness.

The Company began its assessment of its internal computer systems in 1997. Computers and applications were identified, assessed and ranked for critical importance to the operations of the Company. Since then, the Company has modified and tested such applications and replaced the one system that was not Year 2000 compliant. The Company currently plans to have addressed all computer systems that are critical to its operations by March 1999.

The Company is in the process of completing its assessment of the potential for Year 2000 problems with embedded microprocessors in its equipment, and will have remedied all non-compliant equipment by February 1999.

The Company has mailed information concerning Year 2000 readiness to vendors of goods and services. The Company is not presently dependent upon any single source and supply for critical components or services for its products, and believes it can acquire such products from a number of suppliers. The Company expects to continue discussions with all of its vendors of goods and services during 1998 and 1999 to attempt to ensure the uninterrupted supply of such goods and services and to develop contingency plans in the event of the failure of any vendors to become and remain Year 2000 ready.

The Company currently estimates the total cost of completing all five phases of its Year 2000 plan, will not exceed $85,000. This estimate is based on currently available information and will be updated as the Company completes its assessment.

2. THE RISKS OF THE COMPANY'S YEAR 2000 ISSUES. If any computer hardware, software applications, or embedded microprocessors critical to the Company's operations have been overlooked in the assessment or remediation phases, if any of the Company's remediated or replaced internal computer systems fail the testing phase, there could be a material adverse effect on the Company's results of operations, liquidity and financial condition of a magnitude which the Company has not yet fully analyzed.

In addition, the Company has not yet been assured that (1) the computer systems of all of its "key" or "mission critical" vendors of goods and services will be Year 2000 ready in a timely manner or that (2) the computer systems of third parties with which the Company's computer systems exchange data will be Year 2000 ready both in a timely manner and in a manner compatible with continued data exchange with the Company's computer systems.

If the vendors of the Company's most important goods and services, or the suppliers of the Company's necessary energy, telecommunications and transportation needs, fail to provide the Company with (1) the materials and services which are necessary to produce, distribute and sell its product, (2) the electrical power and other utilities necessary to sustain its operations, or (3) reliable means of transporting supplies to its customers, such failure could have a material adverse effect on the results of operations, liquidity and financial condition of the Company.

The Company's customers are primarily banks and financial institutions or entities that provide financial services to those industries. The banking industry has indicated it may experience severe problems associated with the Year 2000 problem. Banks and other financial institutions are spending significant capital resources to remedy their own Year 2000 issues. These expenditures may reduce budgeted funds that would otherwise be available to acquire new technologies and systems from the Company and other suppliers. To the extent that those customers experience or continue to experience significant capital costs for Year 2000 compliance, the demand for the Company's products may be reduced because of budgetary constraints.

3. THE COMPANY'S CONTINGENCY PLAN. The Company is collecting the information necessary to develop a business contingency plan to address both unavoided and unavoidable Year 2000 risks and expects to have it completed by July 1999.

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 1998 AND 1997

	1998	1997
ASSETS		
CURRENT ASSETS		
Cash	$ 1,740,760	$ 1,261,117
Accounts receivable - net	2,234,640	2,363,028
Note receivable	56,478	502,031
Inventories	123,909	415,973
Prepaid expenses and other assets	161,437	151,705
Total current assets	4,317,224	4,693,854
PROPERTY AND EQUIPMENT - net	192,135	205,013
OTHER ASSETS	1,626,413	2,289,428
TOTAL ASSETS	$ 6,135,772	$ 7,188,295
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term liabilities	$ -	$ 4,706
Accounts payable	650,206	485,855
Accrued payroll and related taxes	242,427	272,603
Unearned maintenance income	201,568	336,712
Other accrued liabilities	705,836	315,728
Total current liabilities	1,800,037	1,415,604
LONG-TERM LIABILITIES	54,187	21,761
Total liabilities	1,854,224	1,437,365
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY		
Common stock - $.001 par value; 20,000,000 shares authorized, 11,573,152 and 11,537,009 issued and outstanding in 1998 and 1997, respectively	11,573	11,537
Additional paid-in capital	9,191,887	9,164,589
Accumulated deficit	(4,921,912)	(3,425,196)
Total stockholders' equity	4,281,548	5,750,930
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,135,772	$ 7,188,295

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997, AND 1996

	1998	1997	1996
NET SALES	$ 6,500,968	$ 4,841,555	$ 8,153,628
COST OF SALES	1,997,907	1,757,820	2,480,831
GROSS MARGIN	4,503,061	3,083,735	5,672,797
COSTS AND EXPENSES:			
Operations	430,123	418,295	301,373
General and administrative	1,621,940	1,427,525	1,186,170
Research and development	1,343,422	1,392,817	1,313,951
Selling and marketing	1,670,677	2,101,615	1,414,125
Other charges	689,000	0	0
Interest (income) expense - net	(72,645)	(93,910)	91,344
Total costs and expenses	5,682,517	5,246,342	4,306,963
OPERATING INCOME(LOSS)	(1,179,456)	(2,162,607)	1,365,834
OTHER EXPENSES - NET	(317,260)	(403,512)	0
INCOME (LOSS) BEFORE INCOME TAXES	(1,496,716)	(2,566,119)	1,365,834
PROVISION FOR INCOME TAXES	0	0	136,825
NET INCOME (LOSS)	$(1,496,716)	$(2,566,119)	$ 1,229,009
EARNINGS (LOSS) PER SHARE - BASIC	$ (0.13)	$ (0.25)	$ 0.16
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC	11,564,239	10,093,007	7,747,915
EARNINGS (LOSS) PER SHARE - DILUTED	$ (0.13)	$ (0.25)	$ 0.15
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND COMMON SHARE EQUIVALENTS OUTSTANDING - DILUTED	11,564,239	10,093,007	8,202,753

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997, AND 1996

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
Balance, September 30, 1995	$ 7,728	$ 3,423,072	$ (2,088,086)	$ 1,342,714
Stock warrants issued for services rendered	0	17,131	0	17,131
Exercise of stock options	45	48,441	0	48,486
Exercise of warrants	10	14,990	0	15,000
Net income	0	0	1,229,009	1,229,009
Balance, September 30, 1996	7,783	3,503,634	(859,077)	2,652,340
Issuance of common stock for cash, net of costs	2,250	4,087,066	0	4,089,316
Exercise of stock options	34	38,688	0	38,722
Exercise of warrants	20	29,980	0	30,000
Issuance of common stock in connection with acquisition and investment	1,450	1,505,221	0	1,506,671
Net loss	0	0	(2,566,119)	(2,566,119)
Balance, September 30, 1997	11,537	9,164,589	(3,425,196)	5,750,930
Exercise of stock options	36	27,298	0	27,334
Net loss	0	0	(1,496,716)	(1,496,716)
Balance, September 30, 1998	$ 11,573	$ 9,191,887	$ (4,921,912)	$ 4,281,548

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997, AND 1996
OPERATING ACTIVITIES

	1998	1997	1996
Net income (loss)	$ (1,496,716)	$ (2,566,119)	$ 1,229,009
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	488,518	680,370	420,194
(Gain) loss on sale of property and equipment	1,847	(140)	2,822
Goodwill and license fee impairment	489,000	0	0
Gain on sale of FAX business	(34,256)	0	0
Write off of IID investment	0	228,512	0
Changes in assets and liabilities:			
Accounts receivable	128,387	(606,518)	(638,655)
Inventories, prepaid expenses, and other assets	(203,841)	(757,846)	(590,959)
Accounts payable, accrued payroll and related taxes, unearned maintenance income, and other accrued liabilities	424,508	313,535	110,786
Net cash provided by (used in) operating activities	(202,553)	(2,708,206)	533,197
INVESTING ACTIVITIES			
Purchases of property and equipment	(109,285)	(150,079)	(143,361)
Acquisition of Technology Solutions, Inc. - net	0	(240,000)	0
Proceeds from note receivable	348,753	0	158,335
Proceeds from sale of property and equipment	100	140	0
Proceeds from sale of Fax business	420,000	0	0
Net cash provided by (used in) investing activities	659,568	(389,939)	14,974
FINANCING ACTIVITIES			
Proceeds from borrowings	0	150,000	1,796,816
Repayment of notes payable and long-term liabilities	(4,706)	(159,189)	(2,301,955)
Proceeds from exercise of stock options and warrants	27,334	68,722	63,486
Net proceeds from sales of stock	0	4,089,316	0
Net cash provided by (used in) financing activities	22,628	4,148,849	(441,653)
NET INCREASE IN CASH	479,643	1,050,704	106,518
CASH AT BEGINNING OF YEAR	1,261,117	210,413	103,895
CASH AT END OF YEAR	$ 1,740,760	$ 1,261,117	$ 210,413
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$ -	$ 3,165	$ 101,377
Income tax refund received	$ -	$ 30,185	$ 2,712
Cash paid for income taxes	$ -	$ 13,500	$ 21,263

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED SEPTEMBER 30, 1998, 1997 AND 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business - Mitek Systems, Inc. (the "Company") is a designer, manufacturer and marketer of advanced character recognition products for intelligent forms processing applications ("Character Recognition") and, in fiscal 1998, started emphasizing document imaging system products and solutions systems integration services.

Basis of Consolidation - The consolidated financial statements include accounts of Mitek Systems, Inc. and its wholly-owned subsidiary, Mitek Systems Canada, Incorporated on June 21, 1995. All intercompany transactions and balances are eliminated in consolidation. The business of the Canadian corporation was sold in January, 1998 - see note 3.

Cash and Cash Equivalents - Cash equivalents are defined as highly liquid financial instruments with original maturities of three months or less. A substantial portion of the Company's cash and cash equivalents is deposited with one financial institution. The Company monitors the financial condition of the financial institution and does not believe that the deposit is subject to a significant degree of risk.

Accounts Receivable - Accounts receivable are net of an allowance for doubtful accounts of $125,000 and $181,000 on September 30, 1998 and 1997, respectively. The provision for bad debts was $ 92,877, $ 210,566, and $99,500 for the years ended September 30, 1998, 1997 and 1996, respectively.

Inventories - Inventories are recorded at the lower of cost (on a first-in, first-out basis) or market. The Company recorded a $200,000 reserve for inventory obsolescence during the first quarter of fiscal 1998. Major classes of inventories on September 30, 1998 and 1997 were as follows:

	1998	1997
Raw materials	$ 14,177	$ 75,082
Finished Goods	109,732	340,891
Total	$ 123,909	$415,973

Property and Equipment - Following is a summary of property and equipment as of September 30, 1998 and 1997.

	1998	1997
Property and equipment - at cost:		
Equipment	$1,038,974	$1,034,707
Furniture and fixtures	92,118	62,430
Leasehold improvements	52,984	52,985
	1,184,076	1,150,122
Less: accumulated depreciation and amortization	991,941	945,109
Total	$ 192,135	$ 205,013

Other Assets - Other assets consisted of the following at September 30, 1998 and 1997:

	1998	1997
Goodwill - net	$ 537,832	$1,071,790
Prepaid software rights - PFP Pro - net	200,000	0
Prepaid license/support fees - net	202,476	531,534
Investment in Parascript	668,814	668,814
Other - net	17,291	17,290
Total - net	$1,626,413	$2,289,428

The Company monitors events or changes in circumstances that may indicate that the carrying amount of goodwill and intangible assets may not be recoverable. If these factors indicate that such asset is not recoverable, as determined based upon undiscounted cash flows before interest charges of the asset over the remaining amortization period, the carrying value of the asset will be reduced.

Goodwill impairment -In June, 1997 the Company purchased substantially all of the assets of Technology Solutions, Inc. a software developer and solution provider of document image processing systems. One of the key employees of the Company, a former principal of Technology Solutions, Inc., resigned his employment in December, 1997. The unexpected departure, in the opinion of management, could detrimentally impact the future cash flows of the Company. The Company determined the fair value of the goodwill by evaluating the expected future net cash flows (undiscounted and without interest charges), in accordance with SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The evaluation indicated the carrying value of the goodwill exceeded the fair value, resulting in an impairment loss of $293,000 in the first quarter of fiscal 1998, included in Other Charges in the accompanying consolidated statements of operations. Subsequent to September 30, 1998, the Company settled a pending lawsuit with the two founders of Technology Solutions, Inc. -- see Note 2. This settlement did not result in an additional impairment of goodwill.

License Fee impairment - In April 1997 the Company entered into an exclusive software licensing agreement with Parascript Limited Liability Company (Parascript). In December 1997, Parascript notified the Company of its dissatisfaction with the Company's progress in marketing the software affected by the license agreement, along with an assertion that the Company had committed material breach of contract. The Company strongly and vigorously denied the claims. In addition, the Company over-estimated the availability and the performance of the product and anticipated prices for the software affected by the agreement. The adversarial condition of the relationship coupled with the decreased expectations, in the opinion of management, will detrimentally impact the future cash flows of the Company. The Company determined the fair value of the goodwill represented by the license fee paid for the exclusive license by evaluating the expected future net cash flows (undiscounted and without interest charges), in accordance with SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The evaluation indicates the carrying value of the goodwill exceeded the fair value, resulting in an impairment loss of $196,000 in the first quarter of fiscal 1998, included in Other Charges in the accompanying consolidated statements of operations. Subsequent to September 30, 1998 the Company entered into a new agreement with Parascript - see Note 10.

The Company traditionally sold its QuickStrokes-Registered Trademark-Application Programmer Interface products with various acceleration hardware boards. Decreasing prices coupled with the higher speeds of general hardware rapidly altered the market need for these acceleration boards. The largest customer utilizing these acceleration boards informed the Company of its intent to discontinue the offering of these products in the domestic market. As a result, the Company recorded a reserve for inventory obsolescence in the amount of $200,000 in the first quarter of fiscal 1998, included in Other Charges in the accompanying consolidated statements of operations. At September 30, 1998 the reserve remains at $200,000 and the Company is attempting to sell its remaining acceleration hardware boards.

Depreciation and Amortization - Depreciation and amortization of property and equipment, goodwill, prepaid license/support fees and prepaid software rights are provided using the straight-line method over estimated useful lives ranging from three to five years. Depreciation and amortization of property and equipment totaled $114,502, $127,622, and $124,736 for the years ended September 30, 1998, 1997 and 1996, respectively. Amortization of prepaid license/support fees and prepaid software rights totaled $374,016, $552,748, and $295,458 for the years ended September 30, 1998, 1997 and 1996, respectively.

Warranty - The Company previously accrued a warranty cost for acceleration hardware boards sold. During early fiscal 1998 the decreasing prices and increasing performance of general computing hardware rapidly altered the market need for these acceleration boards. The Company currently sells primarily software only and discontinued accruing warranty cost. On September 30, 1998 and 1997, other accrued liabilities included an accrued warranty liability of $10,000 and $10,000, respectively. Warranty expenses were $-0-, $18,814, and $2,642 the years ended September 30, 1998, 1997 and 1996, respectively.

Revenue Recognition - The Company recognizes revenues in accordance with the American Institute of Certified Public Accountants Statement of Position No. 97-2, Software Revenue Recognition. Accordingly, software product revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the Company's fees are fixed and determinable, and collectibility is probable. Product maintenance revenues are amortized over the length of the maintenance contract, which is usually twelve months. Unearned contract maintenance revenue is included in Current Liabilities as unearned income in the accompanying balance sheet at September 30, 1998.

Research and Development - Research and development costs are expensed in the period incurred.

Income Taxes - The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 Accounting for Income Taxes, which requires the use of the liability method for deferred income taxes - see Note 6.

Earnings (Loss) Per Share - The Company calculates earnings (loss) per share in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share. Basic earnings per share is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share also gives effect to all potential dilutive common shares outstanding during the period, such as options and warrants.

Consolidated Statements of Cash Flows - Significant non-cash investing and financing activities were comprised of the following:

	YEAR ENDED SEPTEMBER 30,		
	1998	1997	1996
Shares exchanged for the assets of Technology Solutions, Inc. (Note 2)	0	837,857	0
Shares exchanged for investment in Parascript LLC	0	668,814	0

Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Stock Based Compensation - Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, was effective for the

Company beginning October 1, 1996. SFAS No. 123 requires expanded disclosures of stock-based compensation arrangements with employees and encourages (but does not require) compensation cost to be measured based on the fair value of the equity instrument awarded. Corporations are permitted, however, to continue to apply Accounting Principles Board ("APB") Opinion No. 25, which recognizes compensation cost based on the intrinsic value of the equity instrument awarded. The Company will continue to apply APB Opinion No. 25 to its stock-based compensation awards to employees and disclose the required pro forma effect on net income and earnings per share.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income" ("SFAS 130"), and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", ("SFAS 131"). SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. SFAS No. 131 establishes standards of reporting by publicly-held business enterprises and disclosure of information about operating segments in annual financial statements and, to a lesser extent, in interim financial reports issued to shareholders. SFAS Nos. 130 and 131 are effective for fiscal years beginning after December 15, 1997. As both SFAS Nos. 130 and 131 deal with financial statement disclosure, the Company does not anticipate the adoption of these new standards will have a material impact on its financial position, results of operations or cash flows. The Company has not yet determined what its reporting segments will be, if any, under SFAS 131.

Reclassifications - Certain prior years balances have been reclassified to conform to the 1998 presentation.

2. ACQUISITIONS

On October 11, 1996, the Company purchased certain technologies from Instant Information Deutschland (IID), a Munich, Germany based value-added distributor of Mitek Networks. The purchase price was $257,000; $87,000 payable in cash and the relief of all debt owed to Mitek by IID in the amount of $170,000. As part of the purchase, the Company has exclusive licensing rights to use copyrights associated with the purchased technology. The licensing rights are freely transferable, worldwide and royalty-free. The purchase will enable the Company to sell certain technologies directly into the German marketplace which were previously distributed by IID. The carrying value was written off in fiscal 1997.

On September 30, 1998, the Company purchased the software rights (source code) to its PFP Pro Product, previously licensed from VALIData Sistemas de Captura, S.A. de C.V., for $200,000 in cash paid in October, 1998. This $200,000 is included as prepaid software rights - PFP Pro in other assets at September 30, 1998 and will be amortized over 48 months as a component of cost of sales.

On June 3, 1997, the Company purchased substantially all of the assets of Technology Solutions, Inc., a Chantilly, Virginia based software developer and solution provider of document image processing systems. The purchase price consisted of issuing 685,714 unregistered shares of the Company's common stock and $240,000 cash payment. The purchase resulted in $1,065,107 of goodwill, to be amortized over 60 months as a component of cost of sales. A $293,000 goodwill impairment was recorded in the first quarter of fiscal 1998. Disputes arose between the Company, TSI, and the principals of TSI. On October 20,1998, the Company entered into an agreement with TSI and its principals in settlement of all claims and cross-claims. Pursuant to this agreement, the Company reacquired 591,114 shares of its unregistered common stock and a non-exclusive, non-transferable, perpetual, worldwide, royalty-free license to use key components of the TSI document imaging systems software. TSI and its principals reacquired ownership of their technology and software. This settlement will not result in an impairment of goodwill, and the reacquired common stock will be recorded as treasury stock in the amount of $369,466. The goodwill balance after this transaction of $168,366 is applicable to the software rights retained and will be amortized over 48 months, as a component of cost of sales.

3. SALE OF FAX BUSINESS

On January 30, 1998, the Company sold its Fax Products assets in a cash transaction, resulting in a gain of $34,000 included in Other Expenses - net on the Consolidated Statements of Operations. The gross proceeds of the sale were $420,000 in cash, offset by the net carrying value of the assets sold of ($308,000) and costs related to the transaction of ($78,000).

4. STOCKHOLDERS' EQUITY

OPTIONS - The Company has stock option plans for executives and key individuals who make significant contributions to the Company. The 1986 plan provides for the purchase of up to 630,000 shares of common stock through incentive and non-qualified options. The 1988 plan provides for the purchase of up to 650,000 shares of common stock through non-qualified options For both plans, options must be granted at fair market value and for a term of not more than six years. Employees owning in excess of 10% of the outstanding stock are excluded from the plans. The 1986 plan expired on September 30, 1996 and the 1998 plan expired on September 13, 1998; no additional options may be granted under these plans.

The 1996 plan provides for the purchase of up to 2,372,547 shares of common stock through incentive and non-qualified options. Options must be granted at fair market value and for a term of not more that ten years. Employees owning in excess of 10% of the outstanding stock are included in the plan on the same terms except that the options must be granted for a term of not more than five years.

Information concerning stock options granted by the Company under all plans for the years ended September 30, 1998, 1997 and 1996 are as follows:

	SHARES	PRICE RANGE
Balance, September 30, 1995	555,500	.656 - 2.250
Granted	292,250	1.375 - 3.680

Exercised	(45,012)	.670 - 1.380
Cancelled	(61,154)	1.219 - 2.750
Balance, September 30, 1996	741,584	.656 - 2.250
Granted	630,250	1.030 - 3.375
Exercised	(34,402)	.656 - 1.438
Cancelled	(359,766)	1.219 - 3.750
Balance, September 30, 1997	977,666	.656 - 3.750
Granted	1,798,802	.89 - 1.250
Exercised	(35,693)	.656 - 1.38
Cancelled	(1,187,359)	.656 - 3.68
Balance, September 30, 1998	1,553,416	.67 - 2.125

The weighted average remaining contractual life was 1.5 years for the outstanding stock options at September 30, 1998, with a weighted average exercise price of $1.04. At September 30, 1998, options for 1,136,828 shares remained available for granting under the 1996 option plan. At September 30, 1998, options for 473,687 shares were exercisable with a weighted average exercise price for these options of $1.05.

All stock options are granted at fair market value of the Company's common stock at the grant date. The weighted average fair value of the stock options granted during fiscal 1998 was $0.59. The fair value of each stock option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1998: risk-free interest rate of 5.5%; expected dividend yield of 0%; expected life of 3 years; and expected volatility of 82%. Stock options generally expire six years from the grant date. Stock options generally vest over a three year period, with one thirty sixth becoming exercisable on each of the monthly anniversaries of the grant date.

The Company accounts for its options in accordance with Accounting Principles Board Opinion No. 25, under which no compensation cost has been recognized for stock option awards. Had compensation cost been determined consistent with SFAS No. 123, the Company's pro forma net income and earnings per share for fiscal 1996 would have been $1,168,987 and $.14, respectively, the Company's pro forma net loss and net loss per share for fiscal 1997 would have been ($2,715,014) and ($.26), respectively, and the Company's pro forma net loss and net loss per share for fiscal 1998 would have been ($2,005,401) and ($.17), respectively. Because the SFAS No. 123 method of accounting has not been applied to options granted prior to October 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

Sale of Common stock - In the first quarter of fiscal 1997, the Company undertook a secondary public 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 $4,089,316.

5. NOTES PAYABLE - BANK

In June 1998, the Company obtained an increase in its working capital line of credit from its Bank, Rancho Santa Fe Bank ("Bank") from $400,000 to $750,000. The line of credit expires on June 8, 1999 and interest is payable at prime plus 1.5 percentage points. In addition, the Company obtained an equipment credit line in the amount of $250,000 under similar terms and conditions. There were no borrowings under the working capital or equipment lines of credit as of September 30, 1998. The Company believes that together with existing cash, credit available under the extended credit line, and cash generated from operations, funds will be sufficient to finance its operations for the next twelve months. All cash in excess of working capital requirements will be kept in short term, investment grade securities.

6. INCOME TAXES

For the years ended September 30, 1998, 1997 and 1996, the Company's provision for income taxes were as follows:

	1998	1997	1996
Federal - current	$-0-	$-0-	$98,588
State - current	$-0-	$-0-	38,237
Total	$-0-	$-0-	$136,825

There was no provision for deferred income taxes in 1998, 1997, or 1996. Under FAS No. 109, deferred income tax liabilities and assets 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. Significant components of the Company's net deferred tax liabilities and assets as of September 30, 1998 and 1997 are as follows:

	1998	1997
Deferred tax assets:		
Reserves not currently deductible	$ 58,000	$ 83,000
Book depreciation and amortization in excess of tax	119,000	32,000
Research credit carryforwards	529,000	529,000
AMT credit carryforward	19,000	29,000
Net operating loss carryforwards	1,280,000	949,000
Capitalized research and development costs	230,000	85,000
Uniform capitalization	9,000	15,000
Other	311,000	330,000
Total deferred tax assets	2,555,000	2,052,000
Valuation allowance for net deferred tax assets	(2,555,000)	(2,052,000)
Total	$ 0	$ 0

The Company has provided a valuation allowance against deferred tax assets recorded as of September 30, 1998 and 1997 due to uncertainties regarding the realization of such assets.

The research credit and net operating loss carryforwards expire during the years 2005 to 2011. The federal net operating loss carryforward at September 30, 1998 totaled $3,245,249.

The differences between the provision (benefit) for income taxes and income taxes computed using the U.S. federal income tax rate were as follows for the year ended September 30:

	1998
Amount computed using statutory rate (34%)	$(508,900)
Net change in valuation reserve for deferred tax assets	503,000
Non-deductible items	8,757
State income taxes	0
Other	(2,857)
Provision (benefit) for income taxes	$ 0

7. LONG-TERM LIABILITIES

As of September 30, 1998 and 1997, long term liabilities were as follows:

	1998	1997
Capital lease obligations	$ 0	$ 4,715
Deferred rent payable - see Note 8	50,187	21,752
Non current deposit	4,000	0
	54,187	26,467
Less current portion	0	(4,706)
Total	$54,187	$21,761

The following property and equipment is leased under non-cancelable capital leases as of September 30, 1997:

	1997
Equipment	$ 26,254
Less accumulated depreciation	(25,208)
Total	$ 1,046

8. COMMITMENTS AND CONTINGENCIES

LEASES - The Company's offices and manufacturing facilities are leased under non-cancelable operating leases. The primary facilities lease expires on June 30, 2002. In addition, the Company leases office space in Chantilly, VA which expires July 31, 2002. The lease payments are expensed on a straight-line basis over the lease term.

The Company signed an agreement to sub-lease office space adjacent to its primary offices, effective May 1, 1998 through June 30, 2002.

Future annual minimum rental payments payable by the Company and annual minimum sub-lease amounts payable to the Company under non-cancelable leases are as follows:

	OPERATING LEASES	SUB-LEASE (INCOME)
YEAR ENDING SEPTEMBER 30:		
1999	$252,311	$(105,526)
2000	259,694	(109,410)
2001	269,596	(112,062)
2002	216,672	(87,354)
Total	$998,273	$(414,352)

Rent expense for operating leases for the years ended September 30, 1998, 1997 and 1996 totaled $271,502, $196,323, and $159,249, respectively.

9. PRODUCT REVENUES AND SALES CONCENTRATIONS

Product Revenues - During fiscal years 1998 , 1997 and 1996, the Company's revenues were derived primarily from the Character Recognition Product line. Revenues by product line as a percentage of net sales are summarized as follows:

	YEAR ENDED SEPTEMBER 30,		
	1998	1997	1996
Character recognition	85%	87%	94%
Other	15%	13%	6%

Sales Concentrations - For the years ended September 30, 1998, 1997 and 1996, the Company had the following sales concentrations:

	YEAR ENDED SEPTEMBER 30,		
	1998	1997	1996
Customers to which sales were in excess of 10% of total sales			
* Number of customers	1	3	2
* Aggregate percentage of sales	33%	54%	33%
Foreign Sales - primarily Europe	23%	41%	31%

10. LICENSING AGREEMENT

In April 1997 the Company entered into an exclusive software licensing agreement with Parascript Limited Liability Company (Parascript). The terms of the agreement required the Company to pay Parascript $650,000 cash, and lend Parascript $250,000 cash to be repaid in part from the royalties due Parascript (the $250,000 loan was repaid during the year ended September 30, 1998). In addition, the entities entered into a cross investment agreement providing Parascript with 763,922 shares of unregistered common stock of the Company valued at $668,814 in exchange for a 10% interest in Parascript. The investment in Parascript is accounted for on the cost method and is included in Other Assets in the accompanying Balance Sheet at September 30, 1998.

On October 16, 1998 the Company and Parascript agreed to undo their cross investment agreement and entered into a new licensing agreement. The new licensing agreement is not exclusive except for six major customers, and provides for a reduction in royalty percentages payable. The Company received 763,922 shares of unregistered common stock of the Company previously held by Parascript valued at $477,451 in exchange for returning its 10% interest in Parascript, exclusivity for six customers, and reduced royalties. The difference between the carrying value of the investment in Parascript of $668,814 at September 30, 1998 and the $477,451 value on October 16, 1998 of $191,363 will be recorded as prepaid license rights and amortized over 48 months as a component of cost of sales.

* * * * * *

INDEPENDENT AUDITORS' REPORT

Mitek Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Mitek Systems, Inc. (the "Company") as of September 30, 1998 and 1997, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at September 30, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1998, in conformity with generally accepted accounting principles.

San Diego, California
November 6, 1998

SUPPLEMENTAL INFORMATION

CORPORATE OFFICE
Mitek Systems, Inc.
10070 Carroll Canyon Road
San Diego, California 92131
(619)635-5900

REGIONAL OFFICE
4506 Daly Drive, Suite 500
Chantilly, Virginia 20151

CORPORATE OFFICERS
John M. Thornton, Chairman, President, Chief Executive Officer and Chief Financial Officer

TRANSFER AGENT
Chase Mellon Shareholder Services
400 S. Hope Street, Fourth Floor, Los Angeles, California 90071

AUDITORS
Deloitte & Touche, LLP
701 B Street, Suite 1900, San Diego, California 92101

DIRECTORS
John M. Thornton (1), (2), Chairman, President, Chief Executive Officer and Chief Financial Officer
Sally B. Thornton (1), Investor
Daniel E. Steimle (1), (2), Chief Financial Officer, Transmeta Corporation
James B. DeBello (2), Vice President, Assistant General Manager, Qualcomm Eudora Internet E-Mail Software Division
Gerald I. Farmer, Ph.D.

NOTES
(1) Compensation Committee
(2) Audit Committee

FORM 10-K REPORT
Copies of the Company's Form 10-K report to the Securities and Exchange Commission, are available free to stockholders and may be obtained by writing or calling Secretary, Mitek Systems, Inc., 10070 Carroll Canyon Road, San Diego, California 92131, phone (619) 635-5900.

STOCKHOLDERS:
As of December 1, 1998, there were 576 holders of record of Mitek Systems, Inc. Common Stock.

DIVIDENDS
Mitek Systems, Inc. has paid no dividends on its common stock since its incorporation and currently intends to retain all earnings for use in its business. Payment of dividends is restricted by the terms of outstanding debt obligations.

COMMON STOCK MARKET (1)

PRICE RANGE (2)

FISCAL QUARTER	1998		1997	
	LOW	HIGH	LOW	HIGH
1ST	.875	1.75	1.50	4.2187
2ND	.53125	1.40625	1.4687	2.6875
3RD	.84375	1.25	1.125	2.0937
4TH	.4375	1.125	.844	1.5625

(1) The Company's common stock is traded on NASDAQ Small Cap Market under the symbol "MITK" and the closing bid price on December 1, 1998 was $0.625.

(2) Bid quotations compiled by National Association of Securities Dealers, Inc., represents inter-dealer quotations and not necessarily actual transactions.

SELECTED FINANCIAL DATA

The table below sets forth selected financial data for each of the years in the five-year period ended September 30, 1998.

($000 EXCEPT PER SHARE DATA)	1998	1997	1996	1995	1994
Sales	$6,501	$4,842	$8,154	$6,633	$10,163
Net income (loss)	(1,497)	(2,566)	1,229	(69)	(1,058)
Net income (loss) per share	(0.13)	(0.25)	0.16	(0.01)	(0.15)
Total assets	6,136	7,188	3,762	2,864	3,074
Long-term liabilities	55	22	6	57	367
Stockholders' equity	4,282	5,751	2,652	1,343	809

Exhibit 21.

MITEK SYSTEMS CANADA INC.

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-3888 of Mitek Systems, Inc. on Form S-8 of our report dated November 6, 1998, appearing in the Annual Report on Form 10-K of Mitek Systems, Inc. for the year ended September 30, 1998.

Deloitte & Touche LLP
San Diego, California
December 28, 1998

YEAR
SEP-30-1998
OCT-01-1997
SEP-30-1998
1,740,760
0
2,416,118
125,000
123,909
4,317,224
1,184,076
991,941
6,135,772
1,800,037
54,187
0
0
11,573
4,269,975
4,281,548
6,500,968
6,500,968
1,997,907
5,755,162
317,260
92,877
(72,645)
(1,496,716)
0
(1,496,716)
0
0
0
(1,496,716)
(0.13)
(0.13)