

SECURITIES AND EXCHANGE COMMISSION
Washington, DC. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 1997 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)

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

(Former name, former address and former fiscal year, if changed since last
report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days.

Yes X No .

There were 11,552,376 shares outstanding of the registrant's Common Stock
as of January 23, 1998.

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

	December 31, 1997 ----	September 30, 1997 ----
ASSETS		

CURRENT ASSETS:		
Cash and cash equivalents	\$ 928,545	\$ 1,261,117
Accounts receivable-net	1,976,414	2,363,028
Note receivable	478,657	502,031
Inventories-net	210,000	415,973
Prepaid expenses and other assets	166,404	151,705
	-----	-----
Total current assets	3,760,020	4,693,854
	-----	-----
PROPERTY AND EQUIPMENT-at cost	1,165,998	1,150,122
Less accumulated depreciation and amortization	972,694	945,109
	-----	-----
Property and equipment-net	193,304	205,013
	-----	-----
OTHER ASSETS	1,653,522	2,289,428
	-----	-----
TOTAL	\$ 5,606,846	\$ 7,188,295
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Accounts payable	\$ 581,973	485,855
Accrued payroll and related taxes	225,706	272,603
Other accrued liabilities	619,269	652,440
Current portion of long-term liabilities	2,521	4,706
	-----	-----
Total current liabilities	1,429,469	1,415,604
	-----	-----
LONG-TERM LIABILITIES	42,093	21,761
	-----	-----
Total liabilities	1,471,562	1,437,365
COMMITMENTS (NOTE E)		
STOCKHOLDERS' EQUITY:		
Preferred stock - \$.001 par value; 1,000,000 shares authorized; no shares issued and outstanding		
Common stock - \$.001 par value; 20,000,000 shares authorized; 11,552,376 and 11,537,009 issued and outstanding, respectively	11,552	11,537
Additional paid-in capital	9,178,097	9,164,589
Accumulated deficit	(5,054,365)	(3,425,196)
	-----	-----
Total stockholders' equity	4,135,284	5,750,930
	-----	-----
TOTAL	\$ 5,606,846	\$ 7,188,295
	-----	-----

See notes to consolidated financial statements

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

	THREE MONTHS ENDED	
	December 31	
	1997	1996
	----	----
NET SALES	\$ 1,305,929	\$ 1,100,932
COST OF GOODS SOLD	598,312	400,993
	-----	-----
GROSS MARGIN	707,617	699,939
	-----	-----
COSTS AND EXPENSES:		
General and administrative	378,436	302,915
Research and development	452,598	304,196
Selling and marketing	538,440	425,611
Other charges (Note C)	988,549	
Interest income - net	(21,237)	(13,623)
	-----	-----
Total costs and expenses	2,336,786	1,019,099
	-----	-----
LOSS BEFORE INCOME TAXES	(1,629,169)	(319,160)
INCOME TAX BENEFIT	0	(32,000)
	-----	-----
NET LOSS	\$ (1,629,169)	\$ (287,160)
	-----	-----
	-----	-----
NET LOSS PER SHARE - BASIC	\$ (.14)	\$ (.03)
	-----	-----
	-----	-----
NET LOSS PER SHARE - DILUTED	\$ (.14)	\$ (.03)
	-----	-----
	-----	-----
WEIGHTED AVERAGE COMMON SHARES - BASIC	11,540,421	8,699,544
	-----	-----
	-----	-----
WEIGHTED AVERAGE COMMON SHARES - DILUTED	11,540,421	8,699,544
	-----	-----
	-----	-----

See notes to consolidated financial statements.

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

	Three Months Ended December 31, 1997 ----	1996 ----
OPERATING ACTIVITIES:		
Net loss	\$(1,629,169)	\$ (287,160)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	197,156	104,477
Asset impairment	489,000	
Changes in assets and liabilities:		
Accounts and notes receivable	409,988	62,418
Inventories, prepaid expenses and other assets	172,524	183,809
Accounts payable and accrued expenses	36,382	(525,282)
	-----	-----
Net cash used in operating activities	(324,119)	(461,738)
	-----	-----
INVESTING ACTIVITIES:		
Purchases of property and equipment	(19,791)	(50,927)
	-----	-----
Net cash used in investing activities	(19,791)	(50,927)
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from borrowings	0	150,000
Repayment of notes payable and long-term liabilities	(2,185)	(152,294)
Proceeds from exercise of stock options and warrants	13,523	51,183
Net proceeds from sale of stock	0	4,352,590
	-----	-----
Net cash provided by financing activities	11,338	4,401,479
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(332,572)	3,888,814
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,261,117	210,413
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 928,545	\$4,099,227
	-----	-----

MITEK SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS

A. Basis of Presentation

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

Results for the three months ended December 31, 1997 and 1996 are not necessarily indicative of results which may be reported for any other interim period or for the year as a whole.

B. Inventories

Inventories are summarized as follows:

	December 31, 1997 -----	September 30, 1997 -----
Raw materials	\$ 78,677	\$ 75,082
Work in process	3,500	0
Finished goods	127,823	340,891
	-----	-----
Total	\$ 210,000	\$ 415,973
	-----	-----

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

C. Other Charges

Totaling \$989,000, consists of several charges to operations. The charges consist of the following components:

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 principle of Technology Solutions, Inc., opted to resign his employment. The unexpected departure, in the opinion of management, will 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 FAS 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 \$293,000.

License Fee impairment - In April, 1997 the Company entered into an exclusive software licensing agreement with Parascript LLC. In December, 1997, Parascript notified the Company of their dissatisfaction with the Company's progress in marketing the software affected by the license agreement, along with assertion of material breach of contract. The Company is strongly refuting the assertions. The proposed remedy by Parascript includes granting a non-exclusive software license. In addition, the Company over-estimated 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 by evaluating the expected future net cash flows (undiscounted and without interest charges), in accordance with FAS 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.

The Company has been notified of a wrongful termination of two former employees of its' Canadian subsidiary. The Company is strongly refuting the assertions. The former employees obtained a bench order demanding the amount of the dispute to be placed in escrow pending the outcome. In the opinion of management, the actions of the Canadian court indicate a high likelihood of

an adverse decision, which necessitated a reserve in the amount of \$134,000, plus costs, equaling a reserve of \$142,000.

In December, 1997, the Company entered into an employment agreement with Mr. Elliot Wassarman (see footnote G. - Subsequent events). The agreement included the commitment of the Company to pay certain recruitment and relocation costs aggregating \$166,000.

The Company has traditionally sold its QuickStrokes Application Programmer Interface products with various acceleration hardware boards. The decreasing prices coupled with the higher speeds of general hardware have rapidly altered the market need for these acceleration boards. The largest customer utilizing these acceleration boards has informed the Company of their intent to discontinue the offering of these products in the domestic market. As such the Company has recorded a reserve for inventory obsolescence in the amount of \$200,000.

D. Net Income (Loss) Per Share

The Company calculates net income (loss) per share in accordance with SFAS No. 128, "Earnings per Share". Net income (loss) per share-basic is based on the weighted average number of common shares outstanding during the quarter. Net income (loss) per share-diluted is based on the weighted average number of common shares in the quarter and taken into account the common equivalents affect of outstanding stock options and warrants (common equivalents) using the treasury stock method when the affect is dilutive

E. Commitments

The Company has signed an agreement to sub-lease approximately 8,824 square feet of office space adjacent to its primary offices, effective March 1, 1998 through June 30, 2002. The sub-lease will result in reduction of rent expense to the Company in the amount of \$471,527 over the term of the agreement.

F. Option Repricing

During the first quarter the Company undertook an option repricing program in which employees could elect to have their options repriced at an exercise price of \$.89. There were a total number of 762,052 options repriced under this program.

G. Subsequent Events

The Company has entered into an Employment Agreement with Mr. Elliot Wassarman, effective as of January 5, 1998. Pursuant to the Agreement, Mr. Wassarman will serve as President and Chief Executive Officer of the Company for a base salary of \$220,000. In addition to base salary, Mr. Wassarman is entitled to participate in the Executive and Key Employee Bonus Plan. In the event that the Company terminates Mr. Wassarman's employment under certain circumstances, Mr. Wassarman will receive a severance payment equal to six months salary, payable over a six month period of time, and continuation of certain employee benefits. In addition, the Company has entered into a Nonqualified Stock Option Agreement with Mr. Wassarman providing him options to acquire up to 800,000 shares of the Company's common stock at \$1.25 per share, subject to certain vesting requirements. Of such options, 550,000 vest on a monthly basis at the rate of 15,278 per month for each month Mr. Wassarman remains in the employ of the Company. Upon change in control of the Company, the unvested portion of the 550,000 options will vest immediately, and Mr. Wassarman will be eligible to receive up to an additional 250,000 vested options.

On January 30, 1998 the Company sold its Fax Products assets in a cash transaction, resulting in an approximate gain of \$58,600. The gross proceeds of the sale were \$420,000 in cash, offset by the carrying value of the assets sold (\$293,900) and the estimated costs of the transaction (\$67,500).

The Company is establishing a plan of operations restructure at an estimated cost to the Company of \$200,000, to be executed in the second quarter. The restructure will be a realignment of the Company's expense structure, including expense and personnel reductions.

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

Comparison of Three Months Ended December 31, 1997 and 1996

NET SALES. Net sales for the three month period ended December 31, 1997 were \$1,306,000, compared to \$1,101,000 for the same period in 1996, an increase of \$205,000 or 18.6%. The increase was attributable to orders from OEM's.

GROSS MARGIN. Gross margins for the three month period ended December 31, 1997 were \$708,000, compared to \$700,000 for the same period in 1996, an increase of \$8,000 or 1.1%. As a percentage of net sales, gross margins decreased to 54.2% for the three month period ended December 31, 1997 compared to 63.6% for the same period in 1996. The decrease was primarily attributable to amortization of goodwill and prepaid license fees for a combined total of \$158,000.

GENERAL AND ADMINISTRATIVE. General and administrative expenses for the three month period ended December 31, 1997 were \$378,000 compared to \$303,000 for the same period ended in 1996, an increase of \$75,000 or 24.8%. As a percentage of net sales, general and administrative expenses increased to 29% for the three month period ended December 31, 1997 compared to 27.5% for the same period in 1996. The increase as compared to the same period in 1996 was attributable to executives and directors insurance, investor relations fees, and bad debt expenses.

RESEARCH AND DEVELOPMENT. Research and development expenses for the three month period ended December 31, 1997 were \$453,000 compared to \$304,000 for the same period ended in 1996, an increase of \$149,000 or 49%. As a percentage of net sales, research and development expenses increased to 34.6% for the three month period ended December 31, 1997 compared to 27.6% for the same period in 1996. The increase was primarily attributable to new product development of solutions products, the result of the Technology Solutions, Inc. acquisition in June, 1997.

SELLING AND MARKETING. Selling and marketing expenses for the three month period ended December 31, 1997 were \$538,000 compared to \$426,000 for the same period in 1996, an increase of \$112,000 or 26.3%. As a percentage of net sales, selling and marketing expenses increased to 41.2% for the three month period ended December 31, 1997 compared to 38.7% for the same period in 1996. The increase is primarily related to the increase in sales commissions due to increased revenues, and product promotion expenses..

OTHER CHARGES. Totaling \$989,000, consists of several non-recurring charges to operations. The charges consist of the following components:

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 principle of Technology Solutions, Inc., opted to resign his employment. The unexpected departure, in the opinion of management, will 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 FAS 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 \$293,000.

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management,

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INTEREST INCOME. Interest income for the three month period ended December 31, 1997 was \$21,000 compared to interest income of \$14,000 for the same period in 1996, an increase of \$7,000 or 50%. Interest income was generated from invested funds received from the secondary public offering in the quarter ended December 31, 1996, combined with no bank borrowings in the quarters ended December 31, 1997 and 1996.

INCOME TAX EXPENSE (BENEFIT): The provision for income tax benefit in quarter ended December 31, 1996 for federal and state income taxes is based on the estimated effective tax rates applied to year to date loss or income before income tax and projected utilization of tax credits from prior periods.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1997, stockholders' equity was \$4,135,000, an increase of \$1,616,000 from September 30, 1997. The Company's working capital and current ratio was \$2,331,000 and 2.63 to 1 at December 31, 1997 compared to \$3,278,000 and 3.321 to 1 at September 30, 1997, respectively.

At December 31, 1997, the total liabilities to equity ratio was .36 to 1 compared to .25 to 1 at September 30, 1997. As of December 31, 1997, the Company's total liabilities were \$34,000 greater than September 30, 1997.

Components of working capital with significant changes during the three months ended December 31, 1997 were: Cash, Inventory and Accounts Payable. Compared to September 30, 1997, the components changed as follows:

Cash - Decreased \$333,000 which reflects the increases in operating costs and expenses.

Accounts Receivable - Decreased \$387,000 because of cash receipts on current portion of receivables.

Inventory-net - Decreased \$206,000 because of reserves recognition in the amount of \$200,000 as stated in the MD&A under Other Expense, while gross inventory decreased \$6,000.

Accounts Payable - Increased by \$96,000 primarily because of executive insurance and relocation expenses recognized in the last month of the quarter.

In March, 1996, the Company established a \$400,000 line of credit with Rancho Santa Fe Bank ("Bank") for working capital purposes. Borrowings under this line bear interest at the rate of 1 1/2% over the Bank's Prime Rate and the line of credit expires on May 6, 1998. The company has requested the Bank increase the credit line and add a capital equipment lease line. The line of credit is secured by a lien on substantially all of the Company's assets. There were no borrowings against the line of credit on December 31, 1997.

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 operation for the next twelve months.

PART II - OTHER INFORMATION

Item 4. The annual meeting of stockholders was held on February 11, 1998. Brought to vote were the election of Directors for the ensuing year. With 88.20% of shares represented at the meeting, the following were elected to the Board of Directors: John M. Thornton, Chairman, Elliot Wassarman, Daniel E. Steimle, James B. DeBello, Gerald I. Farmer and Sally B. Thornton.

Also voted on, and approved, was the appointment of Deloitte & Touche LLP as the Company's 1998 auditors.

Item 6. Exhibits and Reports on Form 8-K

- a. The exhibits are on Form 8-K: None
- b. Reports on Form 8-K: Filed on January 6, 1998 - Appointment of Elliot Wassarman as Chief Executive Officer and President, and Director of the Company. Resignation of John F. Kessler from the position of Chief Executive Officer and President, and Director, and the appointment of John F. Kessler to the position of Chief Financial Officer.

SIGNATURES

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

MITEK SYSTEMS, INC.
(Registrant)

Date: February 12, 1998

/s/ Elliot Wassarman

Elliot Wassarman, President and
Chief Executive Officer

Date: February 12, 1998

/s/ John M. Thornton

John M. Thornton
Chairman

3-MOS		
	SEP-30-1997	
	DEC-31-1997	
		928,545
		0
	1,976,414	
		0
	210,000	
	3,760,020	
		1,165,998
	972,694	
	5,606,846	
1,429,469		
		42,093
	0	
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		11,552
		0
5,606,846		
		1,305,929
	1,305,929	
		598,312
	2,358,023	
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	(21,237)	
	(1,629,169)	
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