SECURITIES AND EXCHANGE COMMISSION
Washington, DC. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1999 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 10,359,011 shares outstanding of the registrant's Common Stock as of August 9, 1999.

PART 1: FINANCIAL INFORMATION
MITEK SYSTEMS, INC
CONSOLIDATED BALANCE SHEETS
UNAUDITED

	JUNE 30, 1999	SEPTEMBER 30, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,444,431	$ 1,740,760
Accounts receivable-net	3,705,707	2,234,640
Note receivable	0	56,478
Inventories-net	38,754	123,909
Prepaid expenses and other assets	77,509	161,437
Total current assets	5,266,401	4,317,224
PROPERTY AND EQUIPMENT-net	265,784	192,135
OTHER ASSETS	625,860	1,626,413
TOTAL ASSETS	$ 6,158,045	$ 6,135,772
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 436,693	$ 650,206
Accrued payroll and related taxes	527,776	242,427
Unearned maintenance income	301,746	201,568
Other accrued liabilities	161,966	705,836
Total current liabilities	1,428,181	1,800,037
LONG-TERM LIABILITIES	53,313	54,187
Total liabilities	1,481,494	1,854,224
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS' EQUITY		
Common stock - $.001 par value; 20,000,000 shares authorized, 10,314,138 and 11,573,152 issued and outstanding, respectively	10,335	11,573
Additional paid-in capital	8,378,004	9,191,887
Accumulated deficit	(3,711,788)	(4,921,912)
Total stockholders' equity	4,676,551	4,281,548
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,158,045	$ 6,135,772

See notes to consolidated financial statements

MITEK SYSTEMS, INC
CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

	THREE MONTHS ENDED JUNE 30, 1999	THREE MONTHS ENDED JUNE 30, 1998	NINE MONTHS ENDED JUNE 30, 1999	NINE MONTHS ENDED JUNE 30, 1998
NET SALES	$ 2,428,501	$ 1,700,897	$ 6,709,487	$ 4,488,662
COST OF SALES	329,836	387,263	1,081,956	1,459,135
GROSS MARGIN	2,098,665	1,313,634	5,627,531	3,029,527
COSTS AND EXPENSES:				
Operations	157,195	111,562	425,995	318,923
General and administrative	366,315	393,925	1,263,130	1,066,136
Research and development	385,295	382,682	958,344	1,143,738
Selling and marketing	696,813	363,150	1,785,974	1,338,326
Other charges				689,000
Interest income - net	(8,651)	(19,228)	(26,036)	(57,582)
Total costs and expenses	1,596,967	1,232,091	4,407,407	4,498,541
OPERATING INCOME (LOSS)	501,698	81,543	1,220,124	(1,469,014)
OTHER EXPENSE - NET	0		0	(265,293)
INCOME (LOSS) BEFORE INCOME TAXES	501,698	81,543	1,220,124	(1,734,307)
PROVISION FOR INCOME TAXES		0	10,000	0
NET INCOME (LOSS)	$ 501,698	$ 81,543	$ 1,210,124	$ (1,734,307)
EARNINGS (LOSS) PER SHARE - BASIC	$ 0.05	$ 0.01	$ 0.11	$ (0.15)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC	10,321,012	11,552,794	10,788,694	11,548,486
EARNINGS (LOSS) PER SHARE - DILUTED	$ 0.05	$ 0.01	$ 0.11	$ (0.15)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND COMMON SHARE EQUIVALENTS OUTSTANDING - DILUTED	10,747,063	11,615,592	11,033,560	11,548,486

See notes to consolidated financial statements

MITEK SYSTEMS, INC
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	NINE MONTHS ENDED JUNE 30, 1999	NINE MONTHS ENDED JUNE 30, 1998
Net income (loss)	$ 1,210,124	$ (1,734,307)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	241,805	360,006
Loss on sale of property and equipment	3,907	2,423
Gain on sale of Fax business	0	(34,256)
Asset impairment	0	489,000
Value of stock options granted to non-employee	9,181	0
Changes in assets and liabilities:		
Accounts receivable	(1,471,067)	745,910
Inventories, prepaid expenses, and other assets	169,083	43,540
Accounts payable, accrued payroll and related taxes, unearned maintenance income, and other accrued liabilities	(372,730)	(68,343)
Net cash used in operating activities	(209,697)	(196,027)
INVESTING ACTIVITIES		
Proceeds from note receivable	56,478	0
Purchases of property and equipment	(165,704)	(66,852)
Proceeds from sale of Fax business	0	420,000
Net cash provided by (used in) investing activities	(109,226)	353,148
FINANCING ACTIVITIES		
Repurchase of common stock	(14,150)	0
Repayment of notes payable and long-term liabilities	0	(4,706)
Proceeds from exercise of stock options and warrants	36,744	14,214
Net cash provided by financing activities	22,594	9,508
NET INCREASE (DECREASE) IN CASH	(296,329)	166,629
CASH AT BEGINNING OF PERIOD	1,740,760	1,261,117
CASH AT END OF PERIOD	$ 1,444,431	$ 1,427,746
Significant non-cash investing and financing activities:		
591,114 shares of unregistered common stock reacquired pursuant to settlement agreement - see Note 3	369,446	
763,922 shares of unregistered common stock reacquired pursuant to revised cross investment and licensing agreements - see Note 4	477,451	

See notes to consolidated financial statements

MITEK SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS

1. 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 June 30, 1999 and September 30, 1998 are not necessarily indicative of results which may be reported for any other interim period or for the year as a whole.

2. Inventories

Inventories are summarized as follows:

	June 30, 1999	September 30, 1998
Raw materials	$ 33,257	$ 14,177
Finished goods	5,497	109,732
Total	$ 38,754	$ 123,909

Inventories are recorded at the lower of cost (on the first-in, first-out basis) or market and are net of a $144,638 and $200,000 reserve for inventory obsolescence for the respective periods.

3. Acquisition and Settlement

On June 3, 1997, the Company purchased substantially all of the assets of Technology Solutions, Inc. ("TSI"), 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 did not result in an impairment of goodwill, and the reacquired common stock was 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.

4. Licensing Agreements

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 was accounted for on the cost method and was included in Other Assets 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 December 31, 1998 and the $477,451 value of the Company common stock reacquired on October 16, 1998 of $191,363, is included in Other Assets as prepaid license rights in the accompanying balance sheet at June 30, 1999, and is being amortized over 48 months as a component of cost of sales.

5. Commitments and contingencies

The Company signed an agreement to sub-lease approximately 1,131 square feet of office space in Sterling, Virginia, effective January 1, 1999 through December 31, 2003, for an initial annual base rent of $23,293 plus scheduled annual increases.

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 in October, 1998 and the costs of these settlements were included in the fiscal year ended September 30, 1998 financial statements. In October 1998 the company settled a lawsuit with two founders of Technology Solutions, Inc (see Note 3) and restructured their cross investment and licensing agreement with Parascript Limited Liability Company (see Note 4). In addition, the company agreed in October 1998 to settle a pending lawsuit with a customer and an employee-related lawsuit.

MANAGEMENTS' DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following cautionary statements are made pursuant to the Private Securities Litigation Reform Act of 1995 in order for the Company to avail itself of the "safe harbor" provisions of that Act. The discussion and information in Management's' Discussion and Analysis of Financial Condition and Result of Operations (the "MD&A") may contain both historical and forward-looking statements. To the extent that MD&A contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that the Company's actual financial condition, operating results and business performance may differ materially from that projected or estimated by the Company in forward-looking statements. The Company has attempted to identify, in context, certain of the factors that it currently believes may cause actual future experience and results to differ from the Company's current expectations. The difference may be caused by a variety of factors, including but not limited to adverse economic conditions, general decreases in demand for Company products and services, intense competition, including entry of new competitors, increased or adverse federal, state and local government regulation, inadequate capital, unexpected costs, lower revenues and net income than forecast, price increases for supplies, inability to raise prices, the risk of litigation and administrative proceedings involving the Company and its employees, higher than anticipated labor costs, the possible fluctuation and volatility of the Company's operating results and financial condition, adverse publicity and news coverage, inability to carry out marketing and sales plans, loss of key executives, changes in interest rates, inflationary factors, and other specific risks that may be alluded to in this MD&A.

The Company developed a growth strategy for fiscal 1999 that focused on the elimination of non-core technologies, enhancement of core strengths, and increased sales and marketing efforts to bring the Company's products to new applications and markets. In particular, Mitek determined to expand into new markets by addressing the needs of new and different types of customers with a variety of application specific solutions. Mitek also sought to broaden the use of its products with current customers by identifying new and innovative applications of its existing technology. The Company doubled its sales force during the first quarter of fiscal 1999 that significantly contributed to the strong sales performance in subsequent quarters.

The Company believes that its results for the third quarter of fiscal 1999 are a continuation of the successful implementation of that growth strategy. In the three months ending June 30, 1999, revenues were $2,429,000, an increase of $728,000 or 43% over the $1,701,000 revenues in the same period last year. Gross margin for the quarter ended June 30, 1999 was $2,099,000, an increase of $785,000 or 60% over the $1,314,000 gross margin in the same period last year. The Company earned net income of $502,000 or $0.05 per share for the third quarter of fiscal 1999, compared with net income of $82,000 or $0.01 per share for the third quarter of fiscal 1998, as previously reported. In the nine months ending June 30, 1999, revenues were $6,709,000, an increase of $2,220,000 or 49% over the $4,489,000 revenues in the same period last year. Gross margin for the nine months ended June 30, 1999 was $5,628,000, an increase of $2,598,000 or 86% over the $3,030,000 gross margin in the same period last year. The Company earned net income of $1,210,000 or $0.11 per share for the nine month period ending June 30, 1999, compared with a net (loss) of ($1,734,000) or ($0.15) per share for the same period last year, as previously reported.

The Company maintained its cash position in the third quarter of fiscal 1999. At June 30, 1999 the Company had $1.4 million in cash and cash equivalents as compared to $1.7 million on September 30, 1998. The Company renewed its $750,000 revolving and $250,000 equipment lines of credit. There were no borrowings under the lines of credit as of June 30, 1999 or September 30, 1998.

During the third quarter of fiscal 1999 Mitek announced the first order from International Business Machines (IBM) for the shipment of recognition engines. The order from IBM represents the largest single site installation of recognition engines in Mitek's company history. IBM has licensed the CheckScript(TM) recognition engine from Mitek for use in IBM's ImagePlus Intelligent Forms Processing Solution (IFP) for Windows NT. CheckScript is a registered trademark of Parascript LLC.

The company also introduced CheckQuest, an affordable high-performance, image-enabled check processing system targeted for use by community banks, credit unions, utilities, and other businesses. CheckQuest is specifically designed to support low to medium volume applications such as Retail/Wholesale Lock Box, Remittance Processing, and Proof of Deposit. The company anticipates revenue from this product to begin in fiscal 1999. CheckQuest is a registered trademark of Mitek Systems, Inc..

The Company is pleased it experienced a growth in revenue and earnings in the third quarter of fiscal 1999 while maintaining a positive cash position with no borrowings against its lines of credit. The Company will continue to work very closely with its customers to meet their needs and the needs of their customers. The Company is looking for a continued upward trend in the fourth quarter of fiscal 1999, with growth in most areas of the Company.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

Comparison of Three Months and Nine Months Ended June 30, 1999 and 1998

NET SALES. Net sales for the three-month period ended June 30, 1999 were $2,429,000, compared to $1,701,000 for the same period in 1998, an increase of $728,000, or 43%. Net sales for the nine-month period ended June 30, 1999 were $6,709,000, compared to $4,489,000 for the same period in 1998, an increase of $2,220,000 or 49%. The increase was primarily attributable to penetrating target markets and successfully executing the Company's growth plan.

GROSS MARGIN. Gross margin for the three-month period ended June 30,1999 was $2,099,000, compared to $1,314,000 for the same period in 1998, an increase of $785,000 or 60%. Stated as a percentage of net sales, gross margin increased to 86% for the three-month period ended June 30, 1999 compared to 77% for the same period in 1998. Gross margins for the nine-month period ended June 30, 1999 were $5,628,000, compared to $3,030,000 for the same period in 1998, an increase of $2,598,000 or 86%. Stated as a percentage of net sales, gross margins increased to 84% for the nine-month period ended June 30, 1999, compared to 67% for the same period in 1998. Goodwill and license amortization charged to cost of sales was $51,000 (2% of net sales) for the three months ended June 30, 1999 and $52,000 (3% of net sales) for the same period in 1998. Goodwill and license amortization charged to cost of sales was $152,000 (2% of net sales) for the nine months ended June 30, 1999 and $270,000 (6% of net sales) for the same period in 1998. The increase in gross margin resulted primarily from increased sales, changes in product mix, and a decrease in goodwill and license amortization charged to cost of sales. The increase in gross margin stated as a percentage of sales resulted primarily from product mix and decreased goodwill and license amortization charged to cost of sales.

OPERATIONS. Operations expenses for the three-month period ended June 30, 1999 were $157,000, compared to $112,000 for the same period in 1998, an increase of $45,000 or 40%. Stated as a percentage of net sales, operations expenses was 6% for the three-month period ended June 30, 1999, as compared to 7% for the three-month period ended June 30, 1998. The increase in expenses is primarily attributable to staff additions, while the decrease as a percentage of net sales is primarily attributable to increased revenues. Operations expenses for the nine-month period ended June 30, 1999 were $426,000, compared to $319,000 for the same period in 1998, an increase of $107,000 or 34%. Stated as a percentage of net sales, operations expenses decreased to 6% for the nine-month period ended June 30, 1999, compared to 7% for the same period in 1998. The increase in expenses is primarily attributable to staff additions, while the decrease in the percentage of net sales is primarily attributable to increased revenues

GENERAL AND ADMINISTRATIVE. General and administrative expenses for the three-month period ended June 30, 1999 were $366,000, compared to $394,000 for the same period in 1998, a decrease of $28,000 or 7%. Stated as a percentage of net sales, general and administrative expenses decreased to 15% for the three month period ended June 30, 1999, compared to 23% for the same period in 1998. The decrease in expenses for the three months were primarily attributable to costs associated with outside professional services, legal fees and staff additions, while the decrease in the percentage of net sales is primarily attributable to increased revenues. General and administrative expenses for the nine-month period ended June 30, 1999 were $1,263,000, compared to $1,066,000 for the same period in 1998, an increase of $197,000 or 18%. Stated as a percentage of net sales, general and administrative expenses decreased to 19% for the nine-month period ended June 30, 1999, compared to 24% for the same period in 1998. The increases in expenses for the nine months were primarily attributable to costs associated with outside professional services, legal fees and staff additions, while the decrease in the percentage of net sales is primarily attributable to increased revenues.

RESEARCH AND DEVELOPMENT. Research and development expenses for the three-month period ended June 30, 1999 were $385,000, compared to $383,000 for the same period in 1998, a decrease of $2,000 or 1%. The amounts for the three months ended June 30, 1999 and 1998 do not include $5,000 and $142,000, respectively, that was spent on research and development related contract development and charged to cost of sales. Research and development expenses before charges to cost of sales were $390,000 and $525,000 for the three months ended June 30, 1999 and 1998, respectively. The decrease in expenses is the result of engineering staff reductions and the elimination of certain engineering projects. Stated as a percentage of net sales, research and development expenses before charges to cost of goods sold decreased to 16% for the three-month period ended June 30, 1999, compared to 31% for the same period in 1998. The decrease as a percentage of net sales for the three-month period is primarily attributable to both the decrease in absolute dollar expenditures as well as the increase in revenues. Research and development expenses for the nine-month period ended June 30, 1999 were $958,000, compared to $1,144,000 for the same period in 1998, a decrease of $186,000 or 16%. The amounts for the nine months ended June 30, 1999 and 1998 do not include $67,000 and $648,000, respectively, that was spent on research and development related contract development and charged to cost of sales. Research and development expenses before charges to cost of sales were $1,025,000 and $1,792,000 for the nine months ended June 30, 1999 and 1998, respectively. The decrease in expenses is the result of engineering staff reductions and the elimination of certain engineering projects. Stated as a percentage of net sales, research and development expenses before charges to cost of goods sold decreased to 15% for the nine-month period ended June 30, 1999, compared to 40% for the same period in 1998. The decrease as a percentage of net sales for the nine-month period is primarily attributable to both the decrease in absolute dollar expenditures as well as the increase in revenues.

SELLING AND MARKETING. Selling and marketing expenses for the three-month period ended June 30, 1999 were $697,000, compared to $363,000 for the same period in 1998, an increase of $334,000 or 92%. Stated as a percentage of net sales, selling and marketing expenses increased to 29% from 21% for the same period in 1998. The increase in expenses and the increase as a percentage of net sales is primarily attributable to the addition of personnel and increased marketing efforts on certain products. Selling and marketing expenses for the nine-month period ended June 30, 1999 were $1,786,000, compared to $1,338,000 for the same period in 1998, an increase of $448,000 or 33%. Stated as a percentage of net sales, selling and marketing expenses decreased to 27% from 30% for the same period in 1998. The increase in expenses is primarily attributable to the addition of personnel and increased marketing efforts on certain products. The decrease as a percentage of net sales is primarily attributable to the increase in revenues.

OTHER CHARGES. For the nine-month period ended June 30, 1998, other charges totaling $689,000, consist 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, would 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 FAS121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVEDASSETS TO BE DISPOSED OF. The evaluation indicates the carrying value of the goodwill exceeded its fair value, resulting in an impairment loss of $293,000. See Note 3.

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 its dissatisfaction with the Company's progress in marketing the software affected by the license agreement, along with assertion that the Company had committed material breach of contract. The Company has strongly and vigorously denied the claims. A proposed solution to the dispute by Parascript included converting the Company's exclusive to a non-exclusive software license. 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 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 and Parascript reworked their licensing and cross investment agreement in October 1998. See Note 4.

The Company has traditionally sold its QuickStrokes Application Programmer Interface products with various acceleration hardware boards. 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 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 during the nine-month period ended June 30, 1998.

INTEREST INCOME. Interest income for the three-month period ended June 30,1999 was $9,000, compared to interest income of $19,000 for the same period in 1998, a decrease of $10,000 or 53%. Interest income for the nine-month period ended June 30, 1999 was $26,000, compared to interest income of $58,000 for the same period in 1998, a decrease of $32,000 or 55%. 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 June 30, 1999 and 1998. The decline in interest income reflects the use of invested funds.

OTHER EXPENSES NET. Other expense-net for the nine months ended June 30, 1998 results from reserves for an employee related lawsuit ($134,000) and certain executive recruiting and relocations costs pursuant to an executive employment agreement ($166,000).

LIQUIDITY AND CAPITAL

The Company has financed its cash needs primarily from increased profits in the fourth quarter of fiscal 1998 and the first, second and third quarters of fiscal 1999, collection of accounts and notes receivable, and execution of operations within budget.

Net cash used by operating activities during the nine months ended June 30, 1999 was $210,000. The primary use of cash from operating activities was an increase in accounts receivable of $1,471,000 and a decrease in accounts payable and accrued expenses of $373,000. The primary source of cash from operating activities was net income of $1,210,000 plus depreciation and amortization of $242,000. Higher receivables resulted primarily from increased sales. The decrease in accounts payable and accrued expenses resulted primarily from payment for litigation settlements.

The Company's working capital and current ratio was $3,838,000 and 3.69 at June 30, 1999, and $2,517,000 and 2.4 at September 30, 1998. At June 30, 1999, total liabilities to equity ratio was .32 to 1 compared to .43 to 1 at September 30, 1998. As of June 30, 1999, total liabilities were less by $373,000 than on September 30, 1998.

During the third quarter of 1999, the Company renewed its line of credit from its bank, in the amount of $750,000, which now expires on June 8, 2000. Interest is payable at prime plus 1.5 percentage points. In addition, the Company renewed its 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 June 30, 1999 or September 30, 1998. The Company believes that together with existing cash, credit available under the credit lines, 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 Awareness phases (4th Quarter 1998) Assessment phases (4th Quarter 1998) Remediation phases (4th Quarter 1998) Testing (2nd Quarter 1999) and Implementation (3rd Quarter 1999) 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 September 1999.

The Company has completed its assessment of the potential for Year 2000 problems with embedded microprocessors in its equipment, and has remedied all non-compliant equipment as of June 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 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.

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.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits: None

b. Reports on Form 8-K: None

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.

Date: August 9, 1999

/s/ John Thornton

John Thornton, Chairman, President and Chief Executive Officer

6-MOS
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APR-01-1999
JUN-30-1999
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