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, 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)

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 11,553,152 shares outstanding of the registrant's Common Stock as of July 23, 1998.

PART I: FINANCIAL INFORMATION

MITEK SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 1998	September 30, 1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,427,746	$ 1,261,117
Accounts receivable-net	1,910,689	2,363,028
Note receivable	208,460	502,031
Inventories-net	163,922	415,973
Prepaid expenses and other assets	125,935	151,705
Total current assets	3,836,752	4,693,854
PROPERTY AND EQUIPMENT-at cost	1,145,728	1,150,122
Less accumulated depreciation and amortization	972,130	945,109
Property and equipment-net	173,598	205,013
OTHER ASSETS	1,478,658	2,289,428
TOTAL	$ 5,489,008	$ 7,188,295
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 528,640	485,855
Accrued payroll and related taxes	194,859	272,603
Other accrued liabilities	679,047	652,440
Current portion of long-term liabilities		4,706
Total current liabilities	1,402,546	1,415,604
LONG-TERM LIABILITIES	55,625	21,761
Total liabilities	1,458,171	1,437,365
COMMITMENTS (NOTE F)		
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; 11,553,152 and 11,537,009 issued and outstanding, respectively	11,553	11,537
Additional paid-in capital	9,178,787	9,164,589
Accumulated deficit	(5,159,503)	(3,425,196)
Total stockholders' equity	4,030,837	5,750,930
TOTAL	$ 5,489,008	$ 7,188,295

See notes to consolidated financial statements

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

	THREE MONTHS ENDED June 30,		NINE MONTHS ENDED June 30,	
	1998	1997	1998	1997
NET SALES	$ 1,700,897	$ 700,853	$ 4,488,662	$ 3,677,032
COST OF GOODS SOLD	323,593	284,863	1,251,537	906,189
GROSS MARGIN	1,377,304	415,990	3,237,125	2,770,843
COSTS AND EXPENSES:				
Operations	101,303	74,163	304,374	285,059
General and administrative	467,854	410,671	1,288,283	1,135,874
Research and development	382,682	407,128	1,143,738	1,031,659
Selling and marketing	363,150	590,947	1,338,326	1,526,037
Other charges (Note C)			988,549	
Interest income - net	(19,228)	(26,792)	(57,582)	(76,093)
Total costs and expenses	1,295,761	1,456,117	5,005,688	3,902,536
INCOME (LOSS) BEFORE INCOME TAXES	81,543	(1,040,127)	(1,768,563)	(1,131,693)
OTHER INCOME (Note D)			34,256	
INCOME TAX BENEFIT		104,012		113,169
NET INCOME (LOSS)	$ 81,543	$ (936,115)	$ (1,734,307)	$ (1,018,524)
NET INCOME (LOSS) PER SHARE - BASIC	$ .01	$ (.09)	$ (.15)	$ (.11)
NET INCOME (LOSS) PER SHARE - DILUTED	$ .01	$ (.09)	$ (.15)	$ (.11)
WEIGHTED AVERAGE COMMON SHARES - BASIC	11,552,794	10,288,853	11,548,486	9,687,654
WEIGHED AVERAGE COMMON SHARES - DILUTED	11,615,592	10,288,853	11,548,486	9,687,654

See notes to consolidated financial statements.

MITEK SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED JUNE 30, 1998	NINE MONTHS ENDED JUNE 30, 1997
OPERATING ACTIVITIES:		
Net income (loss)	$ (1,734,307)	$ (1,018,524)
Gain on sale of Fax business	(34,256)	
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	360,006	415,638
Loss on disposal of property	2,423	
Asset impairment	489,000	
Changes in assets and liabilities:		
Accounts & notes receivable	745,910	(116,488)
Inventory, prepaid expense and other assets	43,540	(956,835)
Accounts payable and accrued expenses	(68,343)	(90,563)
Net cash used in operating activities	(196,027)	(1,766,772)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(66,860)	(173,181)
Proceeds from sale of Fax business	420,000	
Acquisition of TSI - net		(205,867)
Proceeds from sale of property and equipment	8	
Net cash provided by (used in) investing activities	353,148	(379,048)
FINANCING ACTIVITIES:		
Proceeds from borrowings		150,000
Repayment of notes payable and long-term liabilities	(4,706)	(156,843)
Proceeds from exercise of stock options and warrants	14,214	68,722
Net proceeds from sales of stock		4,089,316
Net cash provided by financing activities	9,508	4,151,195
NET INCREASE IN CASH AND CASH EQUIVALENTS	166,629	2,005,375
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,261,117	210,413
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,427,746	$ 2,215,788

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 and nine months ended June 30, 1998 and 1997 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:

	June 30, 1998	September 30, 1997
Raw materials	$ 46,278	$ 75,082
Work in process	9,575	0
Finished goods	108,069	340,891
Total	$ 163,922	$ 415,973

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

C. Other Charges

Several charges to operations, totaling $989,000, 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, 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 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 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 has strongly and vigorously denied the claims. A proposed solution to the dispute by Parascript included converting the Company's software license from exclusive to non-exclusive. 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 believes that as a result of continuing discussions with Parascript, the Company and Parascript will be able to work together in a positive manner, eliminating the need for recording any further reserve for this situation at this time.

The Company was sued earlier this year for wrongful termination by two former employees of its Canadian subsidiary. The Company has strongly defended

the action. The former employees obtained a bench order requiring the amount of
the dispute to be deposited in escrow pending the outcome of the case. In the
initial

opinion of management, the actions of the Canadian court indicated a high likelihood of an adverse decision, which necessitated the recording of a reserve in the amount of $134,000, plus costs, equaling a reserve of $142,000. Based upon subsequent findings, the Company offered a $34,000 settlement, which was rejected. The Company believes it has a very strong position in this dispute and that the outcome will have no material effect on the Company.

In December 1997, the Company entered into an employment agreement with Mr. Elliot Wassarman (see footnote H. - Restructure). 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. 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 has recorded a reserve for inventory obsolescence in the amount of $200,000.

D. 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. The gross proceeds of the sale were $420,000 in cash, offset by the carrying value of the assets sold ($308,000) and costs related to the transaction ($78,000).

E. 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 period. Net income (loss) per share-diluted is based on the weighted average number of common shares in the period and takes into account the common equivalents affect of outstanding stock options and warrants (common share equivalents) using the treasury stock method when the affect is dilutive.

F. Commitments

The Company has signed an agreement to sub-lease approximately 8,824 square feet of office space adjacent to its primary offices, effective May 1, 1998 through June 30, 2002. The sub-lease will result in reduction of rent expense to the Company in the amount of $389,176 over the term of the agreement.

G. 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.

H. Restructure

The Company entered into an Employment Agreement with Mr. Elliot Wassarman, effective 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.

In mid-February, 1998, the Company executed a plan of operations restructure, which included a realignment of the Company's expense structure, including expense and personnel reductions. The costs and expenses of the restructure totaled $19,600.

I. Legal Matters

Recently the Company was sued for $1 million by one if its system integrator customers, Adaptive Solutions, Inc. In its suit, Adaptive Solutions, Inc. charged the Company with breach of contract. The Company has consulted its counsel, has adamantly denied the assertions of Adaptive Solutions, Inc. and is vigorously defending the suit. There are presently no ongoing settlement negotiations. The Company believes it has a strong defense and will prevail in any legal action, with no material impact on the Company. Therefore, no reserves have been recorded at this time for this claim.

On May 26, 1998, the remaining founder of T.S.I. (the company acquired by Mitek in June 1997) resigned his position in Mitek. On July 17, 1998, the Company filed a lawsuit against T.S.I., Fairfax Consulting and Fairfax Imaging (newly formed entities by the founders of T.S.I.) in a Virginia State Court asserting misrepresentation by T.S.I. and its founders and board regarding the acquisitions, and for misappropriation of trade secrets. On July 30, 1998, the Company dismissed its Virginia State Court suit against T.S.I., its Board of Directors and their affiliates, Fairfax Consulting and Fairfax Imaging, and re-filed its case in Federal Court. The Company believes it has a strong case against T.S.I. and its principals, and will vigorously pursue its claims in the Federal Court. A countersuit was filed against the Company on July 22, 1998 in the Virginia State Court. No countersuit against Mitek has yet been filed in the Federal Court. The case is in a very preliminary stage and thus no impairment charge or possible recovery (which could increase cash, decrease goodwill and possibly decrease outstanding common stock) has been provided for at this time. The Company will continue to evaluate its position with counsel and provide for reserves or recovery, if any, that are deemed appropriate.

See footnote C - Other Charges for legal matters with former employees.

J. Subsequent Events

On August 7, 1998, the Company entered into an agreement with TeleworX Consulting, Inc. to sub-lease its office facilities located at 109 Carpenter Drive, Sterling, Virginia. The sub-lease provides for $2,298 monthly rent plus all other costs under the master lease which expires October 31, 1998.

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

MANAGEMENT'S DISCUSSION

The following cautionary statements are made pursuant to the Private Securities Litigation Reform Act of 1995 in order for the Company to avail itself on 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.

In the three months ended June 30, 1998, the Company improved its financial results compared to the second quarter results of 1998 as a result of improvements in its revenues, gross margin, and product mix, along with improvements in operating efficiencies. For the three months ended June 30, 1998, the Company earned net income of $82,000 or $.01 per share, compared with a net loss of $187,000 or $.02 per share in the second quarter of 1998 and a net loss of $1,629,000 or $.14 per share for the first quarter of 1998. For the nine months ended June 30, 1998, the Company incurred a net loss of $1,734,000 or $.15 per share, compared to a net loss of $1,019,000 or $.11 per share for the same period in 1997. The fiscal 1998 loss includes first quarter write-offs taken by the Company, as previously reported.

In the three months ended June 30, 1998, revenues were $1,701,000, an increase of $219,000 or 14.8% over the second quarter revenues of $1,482,000, and an increase of $1,000,000 or 143% over the same period last year. Gross margin for the three months ended June 30, 1998 was $1,377,000, an increase of $533,000 or 63% over the prior quarter due to improvements in product mix and controlled expenses, and an increase of $961,000 or 231% over the same period last year.

The Company's cash flow for the third quarter of fiscal 1998 continued to improve, and at June 30, 1998 the Company had $1.4 million in cash and cash equivalents as compared to $1.0 million on March 31, 1998, and $1.3 million on September 30, 1997. The Company also increased its credit facility to $1,000,000 from $400,000. The new credit facility consists of a $750,000 revolving line of credit which contains lower borrowing rates and higher percentages of qualified receivables for the Company, and a $250,000 equipment line of credit. There were no borrowings under the lines of credit as of June 30, 1998.

The Company is pleased it has achieved a profit in the third quarter and an increase in revenues compared with last quarter and a dramatic increase over the same period last year. This is somewhat ahead of the February Annual Shareholder Meeting forecast that the Company would achieve break even results in the third quarter period ending June 30, 1998, and show a modest profit in the fourth quarter ending September 30, 1998 as the Company continues on its plan to achieve a turnaround situation from its fiscal 1997 results. The Company expects its current cash flows from operations to significantly improve by the end of the fourth quarter, exclusive of its new credit facility. These operating improvements come as a result of increased focus on the Company's core competencies and core markets, improvements in gross margins due to product mix improvements, its strategic decision to focus sales efforts away from low margin government contracts, and elimination of non-productive R&D efforts.

The company has strengthened its management team through the recent addition of Michael Jackman as Senior Vice President, Integration Solutions, the elevation of Dennis Brittain to Chief Technical Officer, and the elevation of Noel Flynn to Vice President, Operations & Customer Support. The Company is currently recruiting other executive positions to round out the Company's senior management team and position it for the growth challenges it

will face in the coming years.

During the third quarter Mitek introduced PFP Pro(TM), a 32-bit distributed networks form processing solution, and QuickFX(TM), an image pre-processing solution. Both products are designed for compatibility with Microsoft Windows 95, Microsoft NT, and Microsoft Windows 98. The Company believes that these new products, along with its leading edge QuickStrokes product line, QuickModules software, integration services, and CheckScript(TM) offering will allow the Company to enter associated new vertical markets that are larger in potential than its existing markets, while remaining focused on its core competencies.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

Comparison of Three Months and Nine Months Ended June 30, 1998 and 1997

NET SALES. Net sales for the three month period ended June 30, 1998 were $1,701,000, compared to $701,000 for the same period in 1997, an increase of $1,000,000 or 143%. Net sales for the nine month period ended June 30, 1998 were $4,489,000, compared to $3,677,000 for the same period in 1997, an increase of $812,000 or 22%. The increase in both periods was primarily attributable to orders received from OEM's and integrators.

GROSS MARGIN. Gross margin for the three month period ended June 30, 1998 was $1,377,000, compared to $416,000 for the same period in 1997, an increase of $961,000 or 231%. Stated as a percentage of net sales, gross margin increased to 81% for the three month period ended June 30, 1998 compared to 59% for the same period in 1997. Gross margin for the nine month period ended June 30, 1998 was $3,237,000, compared to $2,771,000 for the same period in 1997, an increase of $466,000 or 17%. Stated as a percentage of net sales, gross margin decreased to 72% for the nine month period ended June 30, 1998, compared to 75% for the same period in 1997. The changes in both periods were primarily the result of a change in product mix. Costs previously stated as part of costs of goods sold have been reclassified to conform with the current year presentation. These reclassified costs relate to the expenses of operations (shipping/receiving, purchasing, customer support, quality assurance) and goodwill amortization. These reclassified costs for the prior year amount to $127,000 for the three month period and $388,000 for the nine month period.

OPERATIONS. Operations expenses for the three month period ended June 30, 1998 were $101,000, compared to $74,000 for the same period in 1997, an increase of $27,000 or 37%. Stated as a percentage of net sales, operations expenses decreased to 6% for the three month period ended June 30, 1998, compared to 11% for the same period in 1997. Operations expenses for the nine month period ended June 30, 1998 were $304,000, compared to $285,000 for the same period in 1997, an increase of $19,000 or 7%. Stated as a percentage of net sales, operations expenses decreased to 7% for the nine month period ended June 30, 1998, compared to 8% for the same period in 1997. The increases in expenses for the three and nine month periods were primarily attributable to staff additions, while the decrease in the percentage of net sales was primarily attributable to increased revenues. The operations expenses were previously stated as part of costs of goods sold. These costs have been reclassified to conform with the current year presentation.

GENERAL AND ADMINISTRATIVE. General and administrative expenses for the three month period ended June 30, 1998 were $468,000, compared to $411,000 for the same period in 1997, an increase of $57,000 or 14%. Stated as a percentage of net sales, general and administrative expenses decreased to 28% for the three month period ended June 30, 1998, compared to 59% for the same period in 1997. General and administrative expenses for the nine month period ended June 30, 1998 were $1,288,000, compared to $1,136,000 for the same period in 1997, an increase of $152,000 or 13%. Stated as a percentage of net sales, general and administrative expenses decreased to 29% for the nine month period ended June 30, 1998, compared to 31% for the same period in 1997. The increases in expenses for the three and nine month periods were primarily attributable to costs associated with outside professional services, legal fees, recruitment fees and staff additions, while the decrease in the percentage of net sales for the three month and nine month periods was primarily attributable to increased revenues. Certain costs previously stated as part of costs of goods sold, specifically goodwill and executive costs and expenses, have been reclassified to general and administrative expenses and have been reclassified to conform with the current year presentation. These reclassified costs for the prior year amount to $53,000 for the three month period and $103,000 for the nine month period.

RESEARCH AND DEVELOPMENT. Research and development expenses for the three month period ended June 30, 1998 were $383,000, compared to $407,000 for the same period in 1997, a decrease of $24,000 or 6%. The reductions in expenses are the result of engineering staff reductions and the elimination of certain engineering projects. Stated as a percentage of net sales, research and development expenses decreased to 23% for the three month period ended June 30, 1998, compared to 58% for the same period in 1997. The decrease as a percentage of

net sales for the three month period was primarily attributable to the increase in revenues. Research and development expenses for the nine month period ended June 30, 1998 were $1,144,000, compared to $1,032,000 for the same period in 1997, an increase of $112,000 or 11%. Stated as a percentage of net sales, research and development expenses decreased to 26% for the nine month period ended June 30, 1998, compared to 28% for the same period in 1997. The decrease in the percentage of net sales for the nine month period was primarily attributable to the increase in revenues, while the increase in expenses for the nine month period 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 June 30, 1998 were $363,000, compared to $591,000 for the same period in 1997, a decrease of $228,000 or 39%. Stated as a percentage of net sales, selling and marketing expenses decreased to 21% for the three month period ended June 30, 1998, compared to 84% for the same period in 1997. Selling and marketing expenses for the nine month period ended June 30, 1998 were $1,338,000, compared to $1,526,000 for the same period in 1997, a decrease of $188,000 or 12%. Stated as a percentage of net sales, selling and marketing expenses decreased to 30% for the nine month period ended June 30, 1998, compared to 42% for the same period in 1997. The decreases in expenses and in the percentage of net sales for the nine month and three month periods are primarily attributable to the termination of marketing efforts on certain products, staff reductions, and the increase in revenues.

OTHER CHARGES. For the nine month period ended June 30, 1998, other charges totaling $989,000, 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, 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 its 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 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 has strongly and vigorously denied the claims. A proposed solution to the dispute by Parascript included converting the Company's software license from exclusive to non-exclusive. 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 believes that as a result of continuing discussions with Parascript, the Company and Parascript will be able to work together in a positive manner, eliminating the need for recording any further reserve for this situation.

The Company was sued earlier this year for wrongful termination by two former employees of its Canadian subsidiary. The Company has strongly defended the action. The former employees obtained a bench order requiring the amount of the dispute to be deposited in escrow pending the outcome of the case. In the initial opinion of management, the actions of the Canadian court indicated a high likelihood of an adverse decision, which necessitated the recording of a reserve in the amount of $134,000, plus costs, equaling a reserve of $142,000. Based upon subsequent findings, the Company offered a $34,000 settlement, which was rejected. The Company believes it has a very strong position in this dispute and that the outcome will have no material effect on the Company.

Recently the Company was sued for $1 million by one if its system integrator customers, Adaptive Solutions, Inc. In its suit, Adaptive Solutions, Inc. charged the Company with breach of contract. The Company has consulted its counsel, has adamantly denied the assertions of Adaptive Solutions, Inc. and is vigorously defending the suit. There are presently no ongoing settlement negotiations. The Company believes it has a strong defense

and will prevail in any legal action, with no material impact on the Company. Therefore, no reserves have been recorded at this time for this claim.

On May 26, 1998, the remaining founder of T.S.I. (the company acquired by Mitek in June 1997) resigned his position in Mitek. On July 17, 1998, the Company filed a lawsuit against T.S.I., Fairfax Consulting and Fairfax Imaging (newly formed entities by the founders of T.S.I.) in a Virginia State Court asserting misrepresentation by T.S.I. and its founders and board regarding the acquisition, and for misappropriation of trade secrets. On July 30, 1998, the Company dismissed its Virginia State Court suit against T.S.I., its Board of Directors and their affiliates, Fairfax Consulting and Fairfax Imaging, and re-filed its case in Federal Court. The Company believes it has a strong case against T.S.I. and its principals, and will vigorously pursue its claims in the Federal Court. A countersuit was filed against the Company on July 22, 1998 in the Virginia State Court. No countersuit against Mitek has yet been filed in the Federal Court. The case is in a very preliminary stage and thus no impairment charge or possible recovery (which could increase cash, decrease goodwill and possibly decrease outstanding common stock) has been provided for at this time. The Company will continue to evaluate its position with counsel and provide for reserves or recovery, if any, that are deemed appropriate.

In June 1998, the Company was successful in increasing its revolving line of credit facility with its Bank, Rancho Santa Fe Bank ("Bank"), for working capital purposes from $400,000 to $750,000. Besides the increase in the revolving line of credit, the new credit facility contains lower borrowing rates and higher percentages of qualified receivables for the Company. Borrowings under this credit line initially bear interest at 10% and expires on June 8, 1999. In addition, the Company was granted an equipment credit line in the amount of $250,000. There were no borrowings under the lines of credit as of June 30, 1998.

On January 5, 1998, the Company entered into an employment agreement with Mr. Elliot Wassarman (see footnote H. - Restructure). 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. 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 has recorded a reserve for inventory obsolescence in the amount of $200,000.

INTEREST INCOME. Interest income for the three month period ended June 30,1998 was $19,000, compared to interest income of $27,000 for the same period in 1997, a decrease of $8,000 or 30%. Interest income for the nine month period ended June 30, 1998 was $58,000, compared to interest income of $76,000 for the same period in 1997, a decrease of $18,000 or 24%. 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, 1998 and 1997. The decline in interest income in both periods reflects the use of invested funds.

OTHER INCOME. Other income for the nine month period ended June 30, 1998, reflects the net sale of the company's Fax Products on January 30, 1998. The Company received $420,000 in cash proceeds which was offset by the carrying value of the assets sold ($308,000) and costs related to the transaction ($78,000). (Note D).

INCOME TAX EXPENSE (BENEFIT). For the quarters ended June 30, 1997, the provision for income tax benefit or expense for federal and state income taxes is based on the estimated effective tax rates applied to year to date loss or income before income tax and projected utilization of tax credits from prior periods.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 1998, stockholders' equity was $4,031,000, a decrease of $1,720,000 from September 30, 1997. The Company's working capital and current ratio was $2,434,000 and 2.7 to 1 at June 30, 1998, compared to $3,278,000 and 3.3 to 1 at September 30, 1997, respectively.

At June 30, 1998, the total liabilities to equity ratio was .36 to 1 compared to .25 to 1 at September 30, 1997. As of June 30, 1998, the Company's total liabilities were $21,000 less than September 30, 1997.

Components of working capital with significant changes during the nine months ended June 30, 1998 were: cash and cash equivalents, accounts receivable, notes receivable, inventory and other assets. Compared to September 30, 1997, the components changed as follows:

Cash and Cash Equivalents - Increased $167,000 as compared to September 30, 1997, which reflects cash used in the funding of operating expenses. Cash remained strong with cash on hand of $1,428,000 at June 30, 1998, which does not include $750,000 availability in the revolving line of credit facility or $250,000 in the equipment line of credit facility.

Accounts Receivable - Decreased $452,000 as compared to September 30, 1997 which reflects improvement in cash receipts on the current portion of receivables.

Notes Receivable - Decreased $294,000 as compared to September 30, 1997, which is the result of payment received combined with the application of royalties payable against the note receivable.

Inventory-net - Decreased $252,000 primarily because of reserves recognition in the amount of $200,000 as stated in the MD&A Other Charges, while gross inventory decreased $52,000.

Other Assets - Decreased by $811,000 primarily because of revaluation of goodwill and license fees (see Note C).

In June, 1998, the Company was successful in increasing its line of credit facility with its Bank, Rancho Santa Fe Bank ("Bank"), for working capital purposes from $400,000 to $750,000. Besides the increase in the line of credit, the new credit facility offers improved terms and conditions. Borrowings under this credit line initially bear interest at 10% and expires on June 8, 1999. In addition, the Company was granted an equipment credit line in the amount of $250,000. There were no borrowings under the line of credit and equipment lease facilities as of June 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 operation for the next twelve months.

The Company recognizes the need to ensure its operations will not be adversely impacted by the inability of the Company's internal information systems to process data having dates on or after January 1, 2000 (the "year 2000" issues). Processing errors due to software failure arising from calculations using the year 2000 date are a recognized risk. The company is currently addressing the risk with respect to the availability and integrity of its internal financial systems and the reliability of its internal operating systems, and is in the process of communicating with suppliers, customers, financial institutions and others with whom it conducts business transactions to assess whether they are Year 2000 compliant. The Company does not believe that it will incur a material financial impact from the risk, or from assessing the risk, arising from the Year 2000 issues.

ALL OF THE COMPANY'S PRODUCTS OFFERED FOR SALE ARE YEAR 2000 COMPLIANT.

PART II - OTHER INFORMATION

Item 6. Exhibits to Form 10Q

(i) $750,000 revolving line of credit Loan Agreement, Promissory Note, and Commercial Security Agreement

(ii) $250,000 equipment line of credit Promissory Note and Commercial Security Agreement

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: August 7, 1998

Elliot Wassarman, President and
Chief Executive Officer

Date: August 7, 1998

John M. Thornton
Chairman

9-MOS
SEP-30-1998
OCT-01-1997
JUN-30-1998
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(19,228)
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.01