SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20559

FORM 10-K

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

For the fiscal year ended September 30, 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. Employee Identification No.)

10070 Carroll Canyon Road, San Diego, California 92131
(Address of principal executive offices) (Zip Code)

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

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

Common Stock, par value $.001 per share
Securities registered pursuant to Section 12(g) of the Act

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant was $9,632,889 as of December 1, 1997 (computed by reference to the last sale price of a share of the registrant's Common Stock on that date as reported by NASDAQ).

There were 11,539,126 shares outstanding of the registrant's Common Stock as of December 1, 1997.

Documents incorporated by reference in this report

Part II incorporates certain information by reference form the Annual Report to Stockholders for the year ended September 30, 1997. Part III incorporates certain information by reference from the Proxy Statement for the 1997 Annual Meeting of Stockholders.

PART I

ITEM 1. BUSINESS

GENERAL

Mitek Systems, Inc. (the "Company") was incorporated under the laws of the State of Delaware in 1986. The company is primarily engaged in the development and sale of software products with particular focus on functional business and office automation, and, until March, 1995, modified computer systems for electronic security.

In 1993, the Company began pursuing a strategy which focused on the launch of a new product line with better commercial prospects, while maintaining its relative position in the rapidly declining TEMPEST market. In March, 1995, the Company completed the transition out of the TEMPEST market by selling the assets of this business segment to Ravenn Data Systems, Inc.

PRODUCTS AND RELATED MARKETS

AUTOMATED INTELLIGENT CHARACTER RECOGNITION

The Company's realigned business strategy began with the acquisition of the Data Entry Products Division ("DEP") of HNC, Inc. ("HNC") in November 1992. DEP had developed and was selling hand printed character recognition and page segmentation technologies used in remittance processing, business forms, data entry processing and enhanced gray-scale optical character recognition. This product line has been renamed as Mitek's Automated Document Recognition ("ADR") product line.

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

The Company's ADR products incorporate the Company's ICR software engine, QuickStrokes API, with high speed co-processor boards which are configurable to meet customer requirements. QuickStrokes API is sold to OEMs, such as BancTec, NCR, ABC Bull, Unisys and IA

Corporation, systems integrators such as SHL Systemhouse, Inc. and Wheb Systems. Major end users include Avon Products Company, certain of the Federal Reserve Banks, SCS Communications, the Australian Tax Office, the Mexican Tax Authority and American Express. QuickStrokes API can process documents in fourteen languages.

Leveraging its core technical competency in ICR, the Company has begun to address certain vertical markets through the introduction of the PFP. The PFP incorporates the Company's core ICR technology in an application designed to be marketed directly to end users in a broad variety of industries which require high volume automated data entry. PFP operates on the Windows operating platform on stand alone or networked personal computers, features an intuitive graphical user interface ("GUI"), and is designed for easy installation and configuration by the end user. The Company also sells its PFP products to systems integrators and VARs.

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

The QuickFrames API is an advanced page segmentation system that separates the scanned image of a document into isolated regions, each containing a single information type. The system outputs the coordinates and type of each region and can produce "cut-out" images of isolated regions for easier processing. The QuickFrames API system is designed for document imaging and forms processing applications in insurance, banking, legal and governmental agencies.

The Company has begun, with the acquisition of Technology Solutions, Inc., to expand its product offerings to include a greater services content. The Company markets the Quick Modules product, a sophisticated document image processing system, to end users and systems integrators. The Company's end user customers include General Electric, Merck-Medco LLC, and American Airlines, while the system integrators include Lockheed Martin Federal Systems and Unisys.

The Company also competes in the fax server marketplace with it's proprietary software. In June, 1995, the Company completed the acquisition of TRACS International, Inc., a Calgary, Canada, based developer of network facsimile server technology. The Company named the product from this acquisition NiF Faxshare.

The Company markets the NiF Faxshare product line, which combines its ADR technologies with conventional incoming facsimile routing technologies to provide economical and practical "faxmail" solutions. The Company markets its NiF Faxshare products to large end users, such as the Bank of Montreal, Capital Cities-ABC, and J. P. Morgan Private Banking, as well as a network of VARs.

RESEARCH AND DEVELOPMENT

The Company believes that its future success depends in part on its ability to maintain and improve its core technologies, enhance its existing products and develop new products that meet an expanding range of customer requirements. The Company intends to expand its existing product offerings and to introduce new forms processing software solutions. In the development of new products and enhancements to existing products, the Company uses its own tools extensively. To date, the Company has relied primarily on ICR technology acquired from HNC as well as internal development, although it may, based on timing and cost considerations, acquire technology or products from third parties or consultants. The Company performs all quality assurance and develops documentation internally. The Company intends to continue to support industry standard operating environments.

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

In order to improve the accuracy of its ADR products, the Company focuses research and development efforts on continued enhancement of its data base of hundreds of thousands of images that is used to "train" the neural network software that forms the core of the Company's ICR engine. Additionally, the Company continues to enhance its specialized software which focuses on eliminating the confusion of matrices that may otherwise mislead the software. The confusing items are separated one by one until the ambiguities that cause software algorithms errors are removed.

The Company's research and development organization included 24 software engineers at September 30, 1997, including eleven with advanced degrees. In the fiscal year ended September 30, 1997, the Company spent approximately $1,393,000 on research and development and spent approximately $1,314,000 and $1,000,000 on research and development in each of fiscal years 1996 and 1995. The 1997, 1996 and 1995 figures do not include $458,000, $411,000 and $640,000, respectively, that was spent in research and development related to contract development and charged to cost of sales.

The Company balances its engineering resources between development of ICR and applications development. Of the 24 software engineers, approximately 7 are involved in ICR research and development of the QuickStrokes API recognition engine. The remaining staff are involved in applications development, including the PFP and NiF Faxshare products, and customer services and support.

PATENTS

The Company seeks registered trademark protection for its software-related products; however, it does not consider its business to be dependent upon the protection or that its operations would be materially affected by the expiration or loss of them. In the Company's opinion, its design, experience and reputation are more responsible for its industry position than its trademarks.

The Company enforces the practice of maintaining trade secrets for it's key technologies. This practice affords the Company a significant advantage in the marketplace.

SALES AND MARKETING

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

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

The ability to work in many different languages has materially assisted the Company in its international sales effort. The Company believes that the competition has much less functionality in this regard. International sales accounted for approximately 41% of the Company's net sales for the period ended September 30, 1997. The Company believes that a significant percentage of the products in its domestic sales are incorporated into systems that are delivered to end users outside the United States such that the total percentage of its products which are ultimately utilized by foreign end users is between 40% and 50%. International sales in the past twelve months were made in sixteen countries including Australia, Argentina, Brazil, Denmark, England, France, Finland, Germany, Italy, Japan, Mexico, Norway, Portugal, Poland, Spain and Sweden. The Company sells its products in United States currency only.

MAINTENANCE AND SUPPORT

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

COMPETITION

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

It is also possible that the Company will face competition from new competitors. These include companies that are existing licensors such as HNC and OEM, systems integrators and VAR customers, such as BancTec. In addition, the Company's license agreement with HNC provides that, upon expiration of certain exclusivity periods beginning in November 1997, HNC will have the right to use certain of the core technologies used in the Company's ADR products, originally developed by HNC and acquired by the Company in 1992, to compete directly with the Company. Moreover, as the market for automated data entry and ICR software develops, a number of these or other companies with significantly greater resources than the Company could attempt to enter or increase their presence in the Company's market either independently or by acquiring or forming strategic alliances with competitors of the Company or to otherwise increase their focus on the industry. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of the Company's current and prospective customers.

The Company's Quickstrokes API products compete, to various degrees, with products produced by a number of substantial competitors including AEG, a subsidiary of Daimler Benz, Computer Gesellschaft Konstanz, a subsidiary of Siemens, and Nestor, Inc. The Company believes its primary competitive advantages are its (i) recognition accuracy with regard to hand printed characters, (ii) flexibility, since it may operate on a broad range of computer operating platforms, (iii) scalability and (iv) object-oriented software designs which can be more readily modified, improved with added functionality, configured for new products, and ported to new operating systems and upgrades. Despite these advantages, QuickStrokes API's competitors have existed longer and have far greater financial resources and industry connections than the Company.

The Company's PFP products compete against complete proprietary systems offered by software developers, such as GTESS Corporation, Symbus Technology, Inc. and Cardiff Software, Inc. In addition, PFP faces competition from providers of recognition systems that incorporate ADR technology, including in some instances, the Company's Quickstrokes API product, such as Microsystems Technology, Inc., and National Computer Systems. Because PFP is based on the Company's proprietary QuickStrokes API engine, its competitive advantages reflect the advantages of the QuickStrokes engine. Competitors in this market offer both high and low cost systems. The Company's strategy is to position PFP to compete successfully in a scalable midrange price while offering a higher degree of accuracy and greater flexibility than competing systems currently on the market. Increased competition may result in price reductions, reduce gross margins and loss of market share, any of which could have a material adverse effect on the Company's business, operating results and financial condition. Furthermore, a significant percentage of the Company's revenues are attributable to sale of co-processor boards sold together with the Company's software. Anticipated increases in the microprocessor speed and power available, such as the Pentium P-6, could have the effect of reducing the demand for such co-processor boards. It is also possible that the Company's co-processor boards will have competition from semiconductor manufacturers embedding the technology on their chips. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not materially adversely affect its business, operating results and financial condition.

EMPLOYEES AND LABOR RELATIONS

As of September 30, 1997, the Company employed a total of 49 persons, consisting of eleven in marketing, sales and support, 24 in research and development, seven in operations and seven in finance, administration and other capacities. All employees work on a full time basis. The Company has never had a work stoppage. None of its employees are represented by a labor organization, and the Company considers its relations with its employees to be good.

ITEM 2. PROPERTIES

The Company's principal executive offices, as well as its principal research and development facility, is located in approximately 21,000 square feet of leased office building space in San Diego, California. The lease on this facility expires June 30, 2002. The Company also leases a sales, product development and customer services and support facility in Chantilly, Virginia, and a sales office facility in Cedar Grove, New Jersey. In addition, the Company leases office space used as a service, and development facility in Calgary, Alberta, Canada. The Company believes that its existing facilities are adequate for its current needs.

ITEM 3. LEGAL PROCEEDINGS

In the general course of business, the Company, at various times, has been named in lawsuits. The Company believes that it has meritorious defenses to these lawsuits and that resolution of these matters will not have a material adverse affect on the business of financial condition of the Company.

There are no legal claims currently pending against the Company. The Company has, however, received a notice of a possible claim arising in connection with certain products included in the sale of the TEMPEST business. The Company has also received notification of potential termination benefits asserted by two former employees in Canada. The Company believes that adequate reserves have been provided for against any potential liability.

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

There were no matters submitted to security holders during the fourth quarter ended September 30, 1997.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth the executive officers and directors of the Company and their ages as of October 1, 1997:

Name	Age	Position
John M. Thornton(1)(2)	65	Chairman of the Board
John F. Kessler	48	President, Chief Executive Officer and Director
David A. Pinstow	49	Senior Vice President
Curtis D. Abel	61	Vice President, Sales & Marketing
Gerald I. Farmer, Ph.D.	63	Director
James B. DeBello(2)	38	Director
Daniel E. Steimle(1)(2)	49	Director
Sally B. Thornton(1)	63	Director

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(1) Compensation Committee
(2) Audit Committee

Mr. Thornton, a director of the Company since March 1986, was appointed Chairman of the Board as of October 1, 1987. Additionally, he served as President of the Company from May 1991 through July 1991 and Chief Executive Officer from May 1991 through February 1992. From 1976 through 1986, Mr. Thornton was the principal shareholder and served as Chairman of the Board at Micom, Inc. Mr. Thornton was a President of Wavetek Corporation for 18 years. Mr. Thornton is also a director of Dynamic Instruments, Inc. and Chairman of the Board of Thornton Winery Corporation. Mr. Thornton is the spouse of Sally B. Thornton, a director.

Mr. Kessler, a director of the Company since August 1993, was appointed President and Chief Executive Officer of the Company in April 1994. Prior to joining the Company, he was Vice President of Finance/Administration and Chief Financial Officer of Bird Medical Technologies, Inc., a manufacturer of medical equipment from November 1992 and also served as Secretary from January 1993. Prior to joining Bird Medical, Mr. Kessler was Vice President, Finance/Administration and Chief Financial Officer of Emerald Systems Corporation, a computer systems company. From July 1980 to July 1991, Mr. Kessler was with Wavetek Corporation serving in various positions, including Chief Financial Officer during the period of 1987 to 1991.

Mr. Pintsov, a Senior Vice President since May 15, 1997, had been Vice President since October, 1995. Mr. Pintsov has been with the Company since November, 1992. Prior to joining the Company, Mr. Pintsov was Director of OCR research and development for HNC Software, and was previously with Pitney Bowes.

Mr. Abel, has been Vice President of Sales & Marketing since his employment with the Company in June 1997. Prior to joining the Company, Mr. Abel served in various senior sales management positions with Recognition Research, Inc., Honeywell, Motorola Computer Systems and Scan-Optics.

Dr. Farmer, a director of the Company since May 1994, was previously Executive Vice President of the Company from November 1992 to June 1997. Prior to joining the Company, Dr. Farmer worked as Executive Vice President of HNC Software, Inc. from January 1987 to November 1992. He has held senior management positions with IBM Corporation, Xerox, SAIC and Gould Imaging and Graphics.

Mr. DeBello, a director of the Company since November 1994, is Vice President & Assistant General Manager of Qualcomm Eudora Internet E-Mail Software Division, a division of Qualcomm Corporation, since November 1996. He was previously President of Solectek Corporation in San Diego, California, from September 1990 thru October 1996. He held various positions in the John M. Thornton & Associates group of companies from July 1986 to April 1990. Prior to that, he was employed by the Los Angeles Olympic Organizing Committee coordinating the marketing efforts to support ticket sales, traffic management and community relations.

Mr. Steimle, a director of the Company since February 1987, has been Vice President of Finance and Administration of Hybrid Networks, Inc., a broadband access equipment company since July, 1997. Prior to that time, Mr. Steimle was Vice President, and Chief Financial Officer of Advanced Fibre Communications from December 1993. Mr. Steimle was Senior Vice President, Operations and Chief Financial Officer of the Santa Cruz Operation from September 1991 to December 1993, and served as Director of Business Development for Mentor Graphics, a software development company, from August 1989 to September 1991. Prior to that time, Mr. Steimle was the Corporate Vice President, Chief Financial Officer and Treasurer of Cipher Data Products, Inc., a manufacturer of data storage equipment.

Ms. Thornton, a director of the Company since April 1988, has been a private investor for more than six years. She served as Chairman of Medical Materials, Inc. in Camarillo until February 1996, is on the Board of Directors of Thornton Winery Corporation in Temecula, Sjogren's Syndrome Foundation in Port Washington, New York, and is a Life Trustee of the San Diego Museum of Art. Ms. Thornton is the spouse of John M. Thornton, Chairman of the Board.

Directors are elected by the stockholders at each annual meeting of stockholders to serve until the next annual meeting of stockholders or until their successors are duly elected and qualified. Officers are chosen by, and serve at the discretion of, the Board of Directors.

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

Market for Registrant's common equity and related stockholder matters is incorporated by reference on Page 15 from the Company's Annual Report to Stockholders for the year ended September 30, 1997.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for each of the years in the five-year period ended September 30, 1997 is incorporated by reference from Page 15 of the Company's Annual Report to Stockholders for the year ended September 30, 1997.

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

Management's discussion and analysis of financial condition and results of operations is incorporated by reference on pages 3 and 4 of the Company's Annual Report to Stockholders for the year ended September 30, 1997.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and supplementary data and the Independent Auditor's Report is incorporated by reference from pages 5 through 12 of the Company's Annual Report to Stockholders for the year ended September 30, 1997.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors of the Registrant is incorporated by reference from information contained in the Proxy Statement for the 1997 Annual Meeting of Stockholders under the heading "ELECTION OF DIRECTORS", and additional information is incorporated by reference under the heading "Security Ownership of Certain Beneficial Owners and Management". Information concerning officers of the Registrant is included in Part I hereof under the caption "EXECUTIVE OFFICERS OF THE REGISTRANT".

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the information contained in the Proxy Statement for the 1997 Annual Meeting of Stockholders under the heading "EXECUTIVE COMPENSATION".

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from the information contained in the Proxy Statement for the 1997 Annual Meeting of Stockholders under the heading "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT'".

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

None.

PART IV

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

(a)(1) The following documents are included in the Company's Annual Report to Stockholders for the year ended September 30, 1997:

Independent Auditors' Report

Balance Sheets -
September 30, 1997 and 1996

Statements of Operations -
For the Years Ended September 30, 1997, 1996 and 1995

Statements of Changes in Stockholders' Equity For the Years Ended September 30, 1997, 1996 and 1995

Statements of Cash Flows - For the Years Ended September 30, 1997, 1996 and 1995

Notes to Financial Statements - For the years Ended September 30, 1997, 1996 and 1995

With the exception of the financial statements listed above and the information incorporated by reference herein, the Annual Report to Stockholders for the fiscal year ended September 30, 1997, is not to be deemed to be filed as part of this report.

(a)(2) Exhibits (All items marked with an asterisk are incorporated by reference from the exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1987; if marked by two asterisks, items are incorporated by reference from the Registrant's report on Form 8-K, filed December 7, 1992).

3.1 Certificate of Incorporation of Mitek Systems of Delaware Inc. (now Mitek Systems, Inc.), a Delaware corporation, as amended.*

3.2 Bylaws of Mitek Systems, Inc. as Amended and Restated.*

10.1 License Agreement as of November 25, 1992 by and between HNC, Inc. and Mitek Systems, Inc.**

13 Annual Report to Stockholders for the year ended September 30, 1997.

23 Independent Auditors' Consent

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

(b) The following is a list of Current Reports on Form 8-K filed by the Company during or subsequent to the last quarter of the fiscal year ended September 30, 1997:

Acquisition of assets of Technology Solutions, Inc., dated June 12, 1997.

SIGNATURES

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

Dated: December 26, 1997 MITEK SYSTEMS, INC.

By: /s/ Barbara Hurlstone

Barbara Hurlstone, Secretary

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

/s/John M. Thornton John M. Thornton, Chairman of the Board	December 26, 1997
/s/ John F. Kessler John F. Kessler, Director and President and Chief Executive Officer (Principal Executive Officer)	December 26, 1997
/s/ Curtis D. Abel Curtis D. Abel, Vice President Sales & Marketing	December 26, 1997
/s/ Gerald I. Farmer Gerald I. Farmer, Director	December 26, 1997
/s/ Daniel E. Steimle Daniel E. Steimle, Director	December 26, 1997
/s/ Sally B. Thornton Sally B. Thornton, Director	December 26, 1997
/s/ James B. DeBello James B. DeBello, Director	December 26, 1997
/s/ David A. Pintsov David A. Pintsov, Senior Vice President	December 26, 1997
/s/ Barbara Hurlstone Barbara Hurlstone, Secretary & Controller	December 26, 1997

MITEK SYSTEMS, INC.

INDEX TO EXHIBITS

Exhibit No.	Exhibit	Sequentially Numbered Page
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13	Annual Report to Stockholders for the year ended September 30, 1997.	
23	Independent Auditors' Consent	

* Incorporated by reference from the exhibits to Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1987.

** Incorporated by reference from the exhibits to Registrant's Report on Form 8-K, filed December 7, 1992.

LETTER TO THE SHAREHOLDERS:

The Company's performance for the twelve months ended September 30, 1997 did not meet plan. The many positive developments were overshadowed by the financial results, pointing to the need for change.

Financial Position - Although the financial results were below our expectations, the overall financial position of the Company remains adequate. The secondary offering completed late in 1996 has provided us with the capital to fund the growth expected in the current fiscal year. Our anticipated cash needs should be funded through operations.

Delays in OEM Business - The primary cause of the shortfall in fiscal 1997 revenue was due to delays in our OEM business, primarily the QuickStrokes API for financial documents. Although the reasons varied from customer to customer, we can confidently report that no business was lost to a competitor. We fully expect this business will accelerate in the current fiscal year, however, there is no guarantee that new delays will not materialize.

Acquisition - We completed the acquisition of Technology Solutions, Inc. ("TSI") late in the fiscal year. This strategic action, having long been a major portion of our future growth strategies, gives us the ability to address the large integrator market as well as certain end user applications. This acquisition brings an added level of expertise in the forms processing market along with application development expertise. Several new products, developed by TSI, will allow us to address additional markets with proven technology as well as increase our average sales price because of the large services content which accompanies each sale.

New Products - The QuickModules product, a customizable, modular forms processing product brought to us with the TSI acquisition is rapidly becoming the product choice for integrators and end users. This product, in use in high volume production environments, incorporates the finest features of both the QuickStrokes recognition engine as well as technologies developed by TSI.

The CheckScript product, used in financial document processing, combines the Legal Amount Recognition (LAR) capabilities of our strategic alliance with Parascript LLC with our QuickStrokes Courtesy Amount Recognition (CAR) technology. This product provides unprecedented accuracy in remittance processing, proof of deposit and lock box processing applications.

The QuickRemit and QuickDeposit products, developed by TSI, are high speed automated remittance processing and proof of deposit software packages which feature both a recognition module (providing both CAR and LAR capabilities) as well as a key from image module.

The Automated Fax Payroll product, a derivative of the Premier Forms Processor (PFP), is targeted to fit the back office processing needs of third party payroll processors.

Product Development - The efforts of the product development teams were concentrated on the core technology as well as improved versions of application software. Two major releases of the QuickStrokes character recognition engine incorporated several major enhancements, while the PFP development team added features required for a highly competitive product. Simultaneously, the PFP team has been porting the software to a native 32 bit version, the platform of choice in today's environment.

Competition - The company has maintained its competitive edge by investing in research and entering into strategic alliances. We will continue this investment in the future, as all of our products incorporate these core technologies.

Management Change - The Board of Directors determined that the Company needed to institute a change in senior management and we are proud to announce that Elliot Wassarman has been appointed to the position of President and Chief Executive Officer, as well as a Director, effective January 5, 1998. Mr. Wassarman has held similar positions in private and public technology and software industry related companies as well as various senior sales and marketing roles during his career.

Goals for the Future - The goals for the fiscal year beginning October 1, 1997 and beyond are to resume the revenue growth, return the company to profitability, and increase stockholder value. I believe that the markets which we serve are experiencing good growth and that with excellent execution, these goals are achievable.

We appreciate your continued support.

John M. Thornton
Chairman of the Board

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

NET SALES were $4,842,000, $8,154,000 and $6,633,000, for fiscal 1997, 1996, and 1995, respectively. The decrease in net sales in Fiscal 1997 compared to Fiscal 1996 was the result of delayed business of certain OEMs and systems integrators, combined with the increase in software only sales versus hardware/software sales which carry a higher average selling price. The increase in net sales in Fiscal 1996 compared to Fiscal 1995 was primarily due to an increase in the number of systems integrators and OEMs selling the Company's ADR products.

GROSS MARGIN was $2,665,000, $5,371,000, and $3,303,000, for the fiscal years 1997, 1996, and 1995, respectively. Stated as a percentage of net sales, gross margin for the corresponding periods was 55%, 66%, and 50%, respectively. The fluctuations in gross margins are the result of the sales mix, combined with amortization of prepaid licenses and goodwill.

GENERAL AND ADMINISTRATIVE expenses were $1,428,000, $1,186,000 and $1,117,000 for fiscal years 1997, 1996, and 1995, respectively. Stated as a percentage of net sales, general and administrative expenses for the corresponding periods were 29%, 15%, and 17%, respectively. The increase in fiscal 1997, in terms of percentage of net sales was attributable primarily to the decrease in net sales, additional costs related to directors and officers liability insurance, and bad debt increases. The decrease, as a percent of net sales in fiscal 1996 compared to fiscal 1995 was the result of the increase in net sales for the corresponding period.

RESEARCH AND DEVELOPMENT expenses were $1,393,000, $1,314,000 and $1,004,000 for fiscal 1997, 1996, and 1995, respectively. Stated as a percentage of net sales, research and development expenses for the corresponding periods were 29%, 16%, and 15%, respectively. The increase in terms of absolute amounts in fiscal 1997 versus fiscal 1996 reflects the costs associated with the engineering staff increases as a result of the acquisition of Technology Solutions, Inc. The increase in research and development expenses as a percentage of net sales in fiscal 1997, 1996 and 1995, were primarily due to the Company devoting an increasing portion of its resources to the development and enhancement of its ADR technologies.

SELLING AND MARKETING expenses were $2,102,000, $1,414,000 and $1,388,000 for fiscal 1997, 1996 and 1995, respectively. Stated as a percentage of net sales, selling and marketing expenses for the corresponding periods were 43%, 17% and 21%, respectively. The increase in selling and marketing expenses as a percentage of net sales in the current year is attributable to the decrease in net sales, increased marketing and promotional expenses, and staff additions. In the prior periods, sales and marketing expense as a percentage of net sales were lower than in the current year due to an increase in net sales in those periods.

NET INTEREST (INCOME) EXPENSE was $(94,000), $91,000 and $67,000 for fiscal 1997, 1996 and 1995, respectively. Stated as a percentage of net sales, net interest expense for the corresponding periods was (2)%, 1% and 1%, respectively. The net change in interest expense in fiscal 1997 is primarily the result of invested funds received from the secondary public offering, combined with no bank borrowings. The interest expense in the prior years reflect borrowings from a factoring institution and bank, respectively.

OTHER INCOME (EXPENSE) in fiscal 1997 consists of a reserve in the amount of $175,000 for claims asserted against the company by the purchaser of the TEMPEST business in March, 1995, as well as the write off of purchased research and development costs in the amount of $229,000. Other income in fiscal 1995 consists of the gain on the sale of the TEMPEST business, made up of the following components: sales price ($350,000) offset by the carrying cost of inventory sold ($132,000) and costs related to the transaction ($13,000).

INCOME TAXES: For fiscal 1997, the Company did not record an income tax provision or (benefit) for income taxes. For fiscal 1996, the Company recorded an income tax provision of $137,000. For 1995, the Company recorded $800, which represented the minimum state taxes payable.

NET INCOME (LOSS) In fiscal 1997, the Company recorded a net loss of $2,566,000 versus net income of $1,229,000 in fiscal 1996. In fiscal 1995 the Company incurred a net loss of $69,000.

LIQUIDITY AND CAPITAL RESOURCES: On September 30, 1997, stockholders' equity was $5,751,000, an increase of $3,099,000 from $2,652,000 one year ago. The Company's working capital and current ratio were $3,278,000 and 3.32, respectively, on September 30, 1997 and $1,876,000 and 2.70, respectively, on September 30, 1996. On September 30, 1997, total liabilities to equity ratio was .25 to 1 compared to .42 to 1 a year earlier. On September 30, 1997, total liabilities were $327,000 greater than on September 30, 1996.

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 1/12% over the Bank's Prime Rate and the line of credit currently expires on February 3, 1998. 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 September 30, 1997.

During fiscal years 1997 and 1996, the Company made payments against outstanding indebtedness totaling $159,000 and $2,302,000, respectively. The repayment of such indebtedness was funded by cash provided from financing and operating activities.

The Company believes that together with existing cash, credit available under the credit line, cash generated from operations, along with net proceeds from its secondary offering in November, 1996, will be sufficient to finance its operation for the next twelve months. All cash in excess of working capital requirements will be kept in short term, investment grade securities.

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 1997 AND 1996

ASSETS	1997	1996
CURRENT ASSETS		
Cash and cash equivalents	$1,261,117	$ 210,413
Accounts receivable - net	2,363,028	2,158,541
Note receivable	502,031	100,000
Inventories	415,973	278,206
Prepaid expenses and other assets	151,705	232,643
Total current assets	4,693,854	2,979,803
PROPERTY AND EQUIPMENT - net	205,013	146,888
OTHER ASSETS	2,289,428	635,751
TOTAL	$7,188,295	$3,762,442

LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$485,855	$472,755
Accrued payroll and related taxes	272,603	302,037
Other accrued liabilities	652,440	319,973
Current portion of long-term liabilities	4,706	9,190
Total current liabilities	1,415,604	1,103,955
LONG-TERM LIABILITIES	21,761	6,147
Total liabilities	1,437,365	1,110,102
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY		
Common stock - $001 par value; 20,000,000 shares authorized, 11,537,009 and 7,782,971 issued and outstanding in 1997 and 1996, respectively	11,537	7,783
Additional paid-in capital	9,164,589	3,503,634
Accumulated deficit	(3,425,196)	(859,077)
Total stockholders' equity	5,750,930	2,652,340
TOTAL	$ 7,188,295	$3,762,442

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 1997, 1996 AND 1995

	1997	1996	1995
NET SALES	$4,841,555	$8,153,628	$6,633,176
COST OF SALES	2,176,115	2,782,204	3,330,109
GROSS MARGIN	2,665,440	5,371,424	3,303,067
COSTS AND EXPENSES:			
General and administrative	1,427,525	1,186,170	1,117,014
Research and development	1,392,817	1,313,951	1,004,131
Selling and marketing	2,101,615	1,414,125	1,388,422
Interest (income) expense - net	(93,910)	91,344	66,941
Total costs and expenses	4,828,047	4,005,590	3,576,508
OPERATING INCOME (LOSS)	(2,162,607)	1,365,834	(273,441)
OTHER INCOME (EXPENSE)	(403,512)		204,853
INCOME (LOSS) BEFORE INCOME TAXES	(2,566,119)	1,365,834	(68,588)
PROVISION FOR INCOME TAXES		136,825	800
NET INCOME (LOSS)	$(2,566,119)	$1,229,009	$ (69,388)
NET INCOME (LOSS) PER SHARE	$(0.25)	$0.15	($0.01)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED SEPTEMBER 30, 1997, 1996 AND 1995

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total
Balance, September 30, 1994	$6,913	$2,820,619	$(2,018,698)	$ 808,834
Issuance of common stock for cash, net of costs	667	475,037		475,704
Issuance of common stock in connection with Tracs International, Inc., acquisition (Note 2)	75	78,563		78,638
Exercise of stock options	73	48,853		48,926
Net loss			(69,388)	(69,388)
Balance, September 30, 1995	7,728	3,423,072	(2,088,086)	1,342,714
Stock warrants issued for services rendered		17,131		17,131
Exercise of stock options	45	48,441		48,486
Exercise of warrants	10	14,990		15,000
Net income			1,229,009	1,229,009
Balance, September 30, 1996	7,783	3,503,634	(859,077)	2,652,340
Issuance of common stock for cash, net of costs	2,250	4,087,066		4,089,316
Exercise of stock options	34	38,688		38,722
Exercise of warrants	20	29,980		30,000
Issuance of common stock in connection with acquisition and investment (Notes 2 and 10)	1,450	1,505,221		1,506,671
Net loss			(2,566,119)	(2,566,119)
Balance, September 30, 1997	$11,537	$9,164,589	$(3,425,196)	$ 5,750,930

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 1997, 1996 AND 1995

	1997	1996	1995
OPERATING ACTIVITIES			
Net income (loss)	$(2,566,119)	$ 1,229,009	$ (69,388)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	680,370	420,194	430,598
Gain on sale of TEMPEST			(204,853)
Write-off of IID investment	228,512		
(Gain) loss on sale of property and equipment	(140)	2,822	(6,045)
Changes in assets and liabilities:			
Accounts and notes receivable	(606,518)	(638,655)	(96,813)
Income taxes receivable			238,950
Inventories, prepaid expenses, and other assets	(757,846)	(590,959)	(133,670)
Accounts payable and accrued expenses	313,535	110,786	(486,175)
Net cash provided by (used in) operating activities	(2,708,206)	533,197	(327,396)
INVESTING ACTIVITIES			
Purchases of property and equipment	(150,079)	(143,361)	(49,311)
Proceeds from sale of TEMPEST			206,665
Acquisition of Technology Solutions, Inc. - net	(240,000)		
Proceeds from note receivable		158,335	
Proceeds from sale of property and equipment	140		6,045
Net cash provided by (used in) investing activities	(389,939)	14,974	163,399
FINANCING ACTIVITIES			
Proceeds from borrowings	150,000	1,796,816	710,339
Repayment of notes payable and long-term liabilities	(159,189)	(2,301,955)	(1,067,053)
Proceeds from exercise of stock options and warrants	68,722	63,486	48,926
Net proceeds from sales of stock	4,089,316		475,704
Net cash provided by (used in) financing activities	4,148,849	(441,653)	167,916
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,050,704	106,518	3,919
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	210,413	103,895	99,976
CASH AND CASH EQUIVALENTS AT END OF YEAR	$1,261,117	$ 210,413	$ 103,895
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$ 3,165	$101,377	$ 85,662
Income tax refund received	$30,185	$ 2,712	$279,903
Cash paid for income taxes	$13,500	$ 21,263	$ 2,737
Effects of acquisition:			
Fair value of assets acquired	$1,077,857		
Value of stock issued	(837,857)		
Net cash paid for acquisition	$ 240,000		

See notes to consolidated financial statement

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR YEARS ENDED SEPTEMBER 30, 1997, 1996 AND 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business - Mitek Systems, Inc. (the "Company") is a designer, manufacturer and marketer of advanced character recognition products for intelligent forms processing applications ("Character Recognition"). Through March 1995, the Company was also a systems integrator and value-added reseller of computer equipment systems to businesses and high-security governmental agencies ("Tempest") (see Note 3).

Basis of Consolidation - The consolidated financial statements include accounts of Mitek Systems, Inc. and its wholly-owned subsidiary, Mitek Systems Canada, Inc., incorporated on June 21, 1995. All intercompany transactions and balances are eliminated in consolidation.

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

Accounts and Notes Receivable - Accounts receivable are net of an allowance for doubtful accounts of $181,000 and $91,146 on September 30, 1997 and 1996, respectively. The provision for bad debts was $210,556, $99,500 and $60,000 for the years ended September 30, 1997, 1996 and 1995, respectively.

Inventories - Inventories are recorded at the lower of cost (on a first-in, first-out basis) or market. Major classes of inventories on September 30, 1997 and 1996 were as follows:

	1997	1996
Raw materials	$ 75,082	$ 55,366
Finished goods	340,891	222,840
Total	$415,973	$278,206

Property and Equipment - Following is a summary of property and equipment as of September 30, 1997 and 1996.

	1997	1996
Property and equipment - at cost		
Equipment	$1,034,707	$ 937,560
Furniture and fixtures	62,430	59,136
Leasehold improvements	52,985	52,985
	1,150,122	1,049,681
Less: accumulated depreciation and amortization	945,109	902,793
Total	$ 205,013	$ 146,888

Other Assets - Other assets consisted of the following at September 30, 1997 and 1996:

	1997	1996
Goodwill - net	$1,071,790	$106,963
Prepaid license/support fees - net	531,534	519,097
Investment in Parascript	668,814	
Other - net	17,290	9,691
Total	$2,289,428	$635,751

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

Depreciation and Amortization - Depreciation and amortization of property and equipment and prepaid license/support fees and goodwill are provided using the straight-line method over estimated useful lives ranging from two to five years. Depreciation and amortization of property and equipment totaled $127,622, $124,736 and $153,691 for the years ended September 30, 1997, 1996, and 1995, respectively. Amortization of other assets, primarily goodwill and prepaid license/support fees, totaled $781,260, $295,458 and $276,908 for the years ended September 30, 1997, 1996 and 1995, respectively.

Warranty - The Company accrues a warranty cost for all products sold. On September 30, 1997 and 1996, other accrued liabilities included an accrued warranty liability of $10,000 and

$55,000, respectively. Warranty expense was $18,814, $2,642 and $-0- for the years ended September 30, 1997, 1996 and 1995, respectively.

Revenue Recognition - The Company recognizes revenues in accordance with the American Institute of Certified Public Accountants Statement of Position No. 91-1, Software Revenue Recognition. Accordingly, software product revenues are recognized upon shipment if collection is probable and the Company's remaining obligations are insignificant. Product maintenance revenues are amortized over the length of the maintenance contract which is usually twelve months.

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

Income Taxes - The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes", which requires the use of the liability method for deferred income taxes (see Note 6). There was no material cumulative effect of adopting FAS No. 109.

Income (Loss) Per Share - Income (loss) per share is based on the weighted average number of common and common equivalent shares outstanding during the year. Outstanding stock options are included as common equivalents using the treasury stock method when the effect is dilutive. The weighted average number of common shares and common stock equivalents used in determining income (loss) per share was 10,356,318 in 1997; 8,202,753 in 1996; and 7,285,788 in 1995.

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

	Year ended September 30		
	1997	1996	1995
Shares exchanged for the assets of Technology Solutions, Inc. (Note 2)	$837,857		
Note receivable for the sale of the Tempest product line and related assets (Note 3)			$350,000
Shares exchanged for the assets and assumed liabilities for TRACS International, Inc. (Note 2)			(76,638)
Shares exchanged for investment in Parascript LLC (Note 10)	$668,814		

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

New Accounting Standards - In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", which was effective for the Company beginning October 1, 1996 (Note 4). SFAS No. 123 requires expanded disclosures of stock-based compensation arrangements with employees and encourages (but does not require) compensation cost to be measured based on the fair value of the equity instrument awarded. Corporations are permitted, however, to continue to apply Accounting Principles Board ("APB) Opinion No. 25, which recognizes compensation cost based on the intrinsic value of the equity instrument awarded. The Company has continued to apply APB Opinion No. 25 to its stock-based compensation awards to employees and has disclosed the required pro forma effect on net income (loss) and income (loss) per share.

The FASB issued SFAS No. 128, "Earnings per Share" ("SFAS 128") (Note 4) in March 1997, effective for financial statements issued for periods ending after December 15, 1997. The statement provides simplified standards for the computation and presentation of earnings per share ("EPS"), making EPS comparable to international standards, SFAS 128 requires dual presentation of "Basic" and "Diluted" EPS, by entities with complex capital structures, replacing "Primary" and "Fully Diluted" EPS under APB Opinion No. 15. The Company does not expect the adoption of SFAS No. 128 to have a material effect on its net income (loss) per share.

Reclassifications - Certain prior years' balances have been reclassified to conform to the 1997 presentation.

2. ACQUISITIONS

On June 21, 1995, the Company purchased substantially all of the assets and assumed the liabilities of Tracs International, Inc., a Calgary, Canada based developer of local area network facsimile servers. The purchase price included 75,000 unregistered shares of the Company's common stock and a 5% royalty on facsimile related sales for a maximum period of three years or a maximum amount of $300,000. Additional issuances of the Company's common shares may occur, contingent upon the exceeding of certain revenue targeted during a six month period following release from beta testing of a new product. The purchase resulted in $136,250 of goodwill, to be amortized over 60 months.

On October 11, 1996, the Company purchased certain technologies from Instant Information Deutschland (IID), a Munich, Germany based value-added distributor of Mitek Networks. The purchase price was $257,000; $87,000 payable in cash and the relief of all debt owed to Mitek by IID in the amount of $170,000. As part of the purchase, the Company has exclusive licensing rights to use copyrights associated with the purchased technology. The licensing rights are freely transferable, worldwide and royalty-free. The licensing rights' carrying value of $228,512 was written-off in fiscal 1997.

On June 3, 1997, the Company purchased substantially all of the assets of Technology Solutions, Inc., a Chantilly, Virginia based software developer and solution provider of document image processing systems. The purchase price consisted of 685,714 unregistered shares of the Company's common stock valued at $837,857 and a $240,000 cash payment. The purchase resulted in $1,065,107 of goodwill, to be amortized over 60 months.

3. SALE OF TEMPEST BUSINESS

On March 17, 1995, the Company sold its Tempest business for $350,000. The Company recognized a gain on this sale of $204,853 which is recorded as other income in the consolidated statement of operations.

4. STOCKHOLDERS' EQUITY

Options - The Company has two stock option plans for executives and key individuals who make significant contributions to the Company. The 1986 plan provides for the purchase of up to 630,000 shares of common stock through incentive and non-qualified options. The 1988 plan provides for the purchase of up to 650,000 shares of common stock through non-qualified options. For both plans, options must be granted at fair market value and for a term of not more than six years. Employees owning in excess of 10% of the outstanding stock of the Company are excluded from the plans. The 1986 plan expired on September 8, 1996. A 1996 Stock Option Plan replaced the expired plan. The 1996 plan provides for the purchase of up to 1,000,000 shares of common stock through incentive and non-qualified options. Remaining terms are the same as the expired plan.

Information concerning all stock options granted by the Company for the years ended September 30, 1997, 1996 and 1995 is as follows:

	Shares	Price Range
Balance, September 30, 1994	793,000	.656 - 2.250
Granted	81,000	1.090 - 1.250
Exercised	(72,947)	.656 - 1.159
Canceled	(245,553)	.656 - 2.250
Balance, September 30, 1995	555,500	.656 - 2.250
Granted	292,250	1.375 - 3.680
Exercised	(45,012)	.670 - 1.380
Canceled	(61,154)	1.219 - 2.750
Balance, September 30, 1996	741,584	.656 - 2.250
Granted	630,250	1.030 - 3.375
Exercised	(34,402)	.656 - 1.438
Canceled	(359,766)	1.219 - 3.750
Balance, September 30, 1997	977,666	$ .656 - 3.750

The weighted average remaining contractual life was 3.77 years for the outstanding stock options at September 30, 1997, with a weighted average exercise price of $1.52. At September 30, 1997, options for 686,083 and 64,609 shares remained available for granting under the 1996 and 1988 stock option plans, respectively. At September 30, 1997, options for 621,068 shares were exercisable with a weighted average exercise price for these options of $1.32.

All stock options are granted at fair market value of the Company's common stock at the grant date. The weighted average fair value of the stock options granted during fiscal 1997 was $1.06. The fair value of each stock option grant is estimated on the date of the grant using the BlackScholes option pricing model with the following weighted average assumptions used for grants in 1997: risk-free interest rate of 6%; expected dividend yield of 0%; expected life of 3 years; and expected volatility of 76%. Stock options generally expire six years from the grant date. Stock options generally vest over a three year period, with one thirty sixth becoming exercisable on each of the monthly anniversaries of the grant date.

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

Sale of Common stock - In the first quarter of fiscal 1997, the Company undertook a secondary public offering in which a total of 2,250,000 shares of common stock were sold at $2.25 per share, providing the Company with net proceeds of $4,089,316.

The Company undertook a private placement stock offering during the second and third quarters of 1995 in which 666,999 shares of common stock were issued, with net proceeds of $475,704.

Dividends - Payment of dividends is restricted by the terms of outstanding debt obligations.

5. NOTES PAYABLE - BANK

The Company has a $400,000 line of credit agreement with a bank which bears an interest rate of prime plus 1-1/2% and expires on February 3, 1998. At September 30, 1997, the Company had no outstanding borrowings on the line.

6. INCOME TAXES

For the years ended September 30, 1997, 1996 and 1995, the Company's provision for income taxes was as follows:

	1997	1996	1995
Federal - current	$0	$ 98,588	$ 0
State - current	0	38,237	800
Total	$0	$136,825	$800

There was no provision for deferred income taxes in 1997, 1996 or 1995. Under FAS No. 109, deferred income tax liabilities and assets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax liabilities and assets as of September 30, 1997 and 1996 are as follows:

	1997	1996
Deferred tax assets:		
Reserves not currently deductible	$ 83,000	$ 63,000
Book depreciation and amortization in excess of tax	32,000	85,000
Research credit carryforwards	529,000	529,000
AMT credit carryforwards	29,000	29,000
Net operating loss carryforwards	949,000	60,000
Capitalized research and development costs	85,000	85,000
Uniform capitalization	15,000	266,000
Other	330,000	176,000
Total deferred tax assets	2,052,000	1,293,000
Valuation allowance for net deferred tax assets	(2,052,000)	(1,293,000)
Total	$ 0	$ 0

The Company has provided a valuation allowance against deferred tax assets recorded as of September 30, 1997 and 1996 due to uncertainties regarding the realization of such assets.

The research credit and net operating loss carryforwards expire during the years 2005 to 2011. The Federal net operating loss carryforward at September 30, 1997 totaled $2,791,000.

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

	1997	1996	1995
Amount computed using statutory rate (34%)	$(779,425)	$ 464,384	$(23,320)
Net change in valuation reserve for deferred tax assets	759,544	(375,292)	23,320
Nondeductible items	10,537	9,496	
State taxes		38,237	800
Other	9,344		
Total	$ 0	$136,825	$ 800

7. LONG-TERM LIABILITIES

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

	1997	1996
Capital lease obligations (Note 9)	$ 4,715	$13,904
Deferred rent payable (Note 8)	21,752	1,433
	26,467	15,337
Less current portions	(4,706)	(9,190)
Total	$21,761	$ 6,147

The following property and equipment is leased under non-cancelable capital leases as of September 30, 1997 and 1996.

	1997	1996
Equipment	$ 26,254	$ 26,254
Less accumulated depreciation	(25,208)	(17,376)
Total	$ 1,046	$ 8,878

8. COMMITMENTS AND CONTINGENCIES

Leases - The Company's San Diego, California office facilities are leased under non-cancelable operating leases. The facilities lease expires on June 30, 2002. The lease obligation totals $1,016,871 over the term of the agreement.

The Company's Chantilly, Virginia office facilities are leased under non-cancelable operating leases. The facilities lease expires on August 31, 2002. The lease obligation totals $234,496 over the term of the agreement.

Future annual minimum rental payments under non-cancelable leases are as follows:

Year ending September 30:	Operating Leases	Capital Leases
1998	$ 237,070	$4,993
1999	258,849	
2000	259,694	
2001	269,596	
2002	216,672	
Total	1,241,881	4,993
Less amount representing interest	-	278
Present value of minimum lease payments	$1,241,881	$4,715

Rent expense for operating leases for the years ended September 30, 1997, 1996 and 1995 totaled $196,323, $159,249 and $62,509, respectively.

In the general course of business, the Company, at various times, has been named in lawsuits. The Company believes that it has meritorious defenses to these lawsuits and that resolution of these matters will not have a material adverse affect on the business or financial condition of the Company.

9. PRODUCT REVENUES AND SALES CONCENTRATIONS

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

	1997	1996	1995
Tempest			22%
Character recognition	94%	94%	74%
Other	6%	6%	4%

Sales Concentrations - For the years ended September 30, 1997, 1996 and 1995, the Company had the following sales concentrations:

	1997	1996	1995
U.S. government and its agencies			
o Percent of total sales	8%	7%	16%
Non-government customers to which sales were in excess of 10% of total sales			
o Number of customers	3	2	2
o Aggregate percentage of sales	54%	33%	25%
Foreign sales - primarily Europe	41%	31%	21%

10. LICENSING AGREEMENT

In April, 1997 the Company entered into an exclusive software licensing agreement with Parascript LLC. 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. 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 the Parascript Limited Liability Corporation (LLC). The investment in the LLC is accounted for on the cost method and is included in Other Assets in the accompanying Balance Sheet at September 30, 1997.

11. SUBSEQUENT EVENT

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 annual salary of $220,000. In addition to base salary, Mr. Wassarman is entitled to participate in the Executive and Key Employee Bonus Plan. Mr. Wassarman's employment is an "at will" contract and may be terminated by either the Company or Mr. Wassarman at any time. In the event that the Company terminates Mr. Wassarman's employment under certain circumstances, Mr. Wassarman will receive a severance payment equal to six month's 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, effective January 5, 1998, providing him options to acquire up to 800,000 shares of the Company's common stock at $1.125 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 a 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.

INDEPENDENT AUDITORS' REPORT

Mitek Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Mitek Systems, Inc. (the "Company") as of September 30, 1997 and 1996, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at September 30, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1997, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP
San Diego, California
November 18, 1997

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

REGIONAL OFFICES:
10655 Southport Road S.W., Ste. 560
Calgary, Alberta, Canada T2W 4Y1

4506 Daly Drive, Suite 500
Chantilly, Virginia 20151

632 Pompton Ave. Cedar Grove, NJ 07009

CORPORATE OFFICERS
John M. Thornton, Chairman
Elliot Wassarman, President and CEO
John F. Kessler, Chief Financial Officer
David A. Pintsov, Senior Vice President
Curtis D. Abel, Vice President - Sales and Marketing

TRANSFER AGENT
Chase Mellon Shareholder Services
15821 Ventura Blvd., Suite 670, Encino, California 91436

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

DIRECTORS
John M. Thornton (1), (2), Chairman
Sally B. Thornton (1), Investor
Elliot Wassarman, President and CEO, Mitek Systems, Inc.
Daniel E. Steimle (1), (2),Vice President, Finance and Administration and Chief Financial Officer, Hybrid Networks, Inc.
James B. DeBello (2), Vice President, Assistant General Manager, Qualcomm Eudora Internet E-Mail
Software
Division
Gerald I. Farmer, Ph.D

NOTES
(1) Compensation Committee
(2) Audit Committee

FORM 10-K REPORT

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

STOCKHOLDERS: As of December 1, 1997, there were 590 holders of record of Mitek Systems, Inc. Common Stock.

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

COMMON STOCK MARKET
PRICE RANGE (1)

Fiscal Quarter	1997		1996	
	Low	High	Low	High
1st	1.50	4.2187	1.25	1.6875
2nd	1.4687	2.6875	1.375	2.6875
3rd	1.125	2.0937	2.00	6.125
4th	.844	1.5625	3.50	5.875

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

SELECTED FINANCIAL DATA

The table below sets forth selected financial data for each of the years in the five-year period ended September 30, 1997.

($000 EXCEPT PER SHARE DATA)	1997	1996	1995	1994	1993
Sales	$4,842	$8,154	$6,633	$10,163	$13,065
Net income (loss)	(2,566)	1,229	(69)	(1,058)	(902)
Net Income (loss) per share	(0.25)	0.15	(0.01)	(0.15)	(.013)
Total assets	7,188	3,762	2,864	3,074	5,081
Long-term debt	22	6	57	367	526
Stockholders' equity	5,751	2,652	1,343	809	1,818

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-3888 of Mitek Systems, Inc. on Form S-8 of our report dated November 18, 1997, appearing in the Annual Report on Form 10-K of Mitek Systems, Inc. for the year ended September 30, 1997.

Deloitte & Touche LLP
San Diego, California
December 26, 1997

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12-MOS
SEP-30-1997
OCT-1-1996
SEP-30-1997
1,261,117
0
2,865,059
0
415,973
4,693,854
1,150,123
945,110
7,188,295
1,415,604
21,761
0
0
11,537
0
7,188,295
4,841,555
4,841,555
2,176,115
4,921,957
(403,512)
0
(93,910)
(2,566,119)
0
(2,566,119)
0
0
0
(2,566,119)
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(.25)