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# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended September 30, 2002**

**or**

o **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.) |

**14145 Danielson St., Suite B, Poway, CA 92064**
(Address of principal executive offices) (Zip Code)

**(858) 513-4600**
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 ☒ No o

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

The aggregate market value of voting stock held by non-affiliates of the registrant was $9,382,226 as of December 3, 2002 (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 11,138,772 shares outstanding of the registrant's Common Stock as of December 3, 2002.

Documents incorporated by reference in this report: Part II incorporates certain information by reference from the Annual Report to Stockholders for the year ended September 30, 2002. Part III incorporates certain information by reference from the Proxy Statement for the 2003 Annual Meeting of Stockholders.

**MITEK SYSTEMS, INC.**

**FORM 10-K**

**For The Fiscal Year Ended September 30, 2002**

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## PART I

### ITEM 1. BUSINESS

### GENERAL

This Form 10-K of Mitek Systems, Inc. (the "Company") contains forward-looking statements concerning anticipated future revenues and earnings, adequacy of future cash flow and related matters. These forward-looking statements include, but are not limited to, statements containing the words "expect," "believe," "will," "may," "should," "project," "estimate," "scheduled" and like expressions, and the negative thereof. These statements address matters including, but not limited to, statements relating to the development and pace of sales of the Company's products, expected trends and growth in the Company's results of operations, projections concerning the Company's available cash flow and liquidity, anticipated penetration in new and existing markets for the Company's products and the size of such markets, anticipated acceptance of the Company's products by existing and new customers, and the ability of the Company to achieve or sustain any growth in sales and revenue. The forward-looking statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from the statements, including those risks described in the Company's Securities and Exchange Commission reports, and the risk factors described in this Form 10-K under "Factors That May Affect Future Performance."

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

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

### PRODUCTS AND RELATED MARKETS

During fiscal 2002, the Company had one operating segment based on its product and service offerings: Automated Document Processing. Below is a discussion of the segment.

### AUTOMATED DOCUMENT PROCESSING

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

The Company's ADR products incorporate the Company's proprietary intelligent character recognition (ICR) software engine QuickStrokes® API, and a licensed ICR software engine CheckScript™ (a trademark of Parascript LLC). QuickStrokes® API and CheckScript™ are sold to original equipment manufacturers (OEMs) such as BancTec, Unisys, and IBM, and to systems integrators such as Computer Sciences Corporation. Major end users include Chevron, GTE, CitiBank,

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NYNEX, Fleet Bank, Chase Manhattan, Comerica Bank, HSBC, and British Telecom. QuickStrokes® API can process many foreign character sets.

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

Leveraging its core technical competency in ICR, the Company has addressed the unstructured forms processing market with its Doctus™ product. Doctus™ incorporates the Company's core ICR technology in an application designed for end users in a broad variety of industries which require high volume automated data entry. The Company believes its Doctus™ software is a major innovation in forms processing because it economically handles both structured and unstructured forms. As a result, it significantly increases the number and types of forms that can be automatically processed. Doctus is able to process unstructured forms because it incorporates forms understanding technology. Mitek is marketing this software under the name DynaFind™. With DynaFind™, Doctus automatically classifies unstructured forms and extracts relevant data from the form contents. The Company has supplied DynaFind™as a stand alone API to several important OEM's in the document processing field.

CheckQuest® is Mitek's affordable, image-enabled check and item processing solution. It is specifically designed for low- to medium-volume check image processing applications, such as Proof of Deposit, Retail/Wholesale Lock Box, and Remittance Processing. These applications are typically found in community banks, credit unions, utilities and other businesses where processing checks quickly and accurately is critical. CheckQuest® offers many traditional item processing functions found in high-volume, high-priced systems, at a significantly lower cost. By utilizing powerful PC desktop computers, new image item processors designed specifically for lower-volume applications, and the latest advancements in software development, Mitek is able to offer CheckQuest® solutions at an affordable price.

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

**RESEARCH AND DEVELOPMENT**

Most of the Company's software products are developed internally. The Company also purchases technology and licenses intellectual property rights. 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. Internal development allows Mitek to maintain closer technical control over its products and gives the Company the freedom to designate which modifications and enhancements are most important and when they should be implemented. Mitek works on devising innovative solutions to automated character processing problems, such as making manipulating degraded images, developing user-manipulated tools to aid in the automated document processing. The Company intends to expand its existing product offerings and to introduce new forms processing software solutions. In the development of new products and enhancements to existing products, the Company uses its own tools extensively. The Company performs all quality assurance and develops documentation internally. The Company strives to become informed at the earliest possible time about changing usage patterns and hardware advances



that may affect software design The Company intends to continue to support industry standard operating environments.

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

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

The Company's research and development organization included nineteen software engineers at September 30, 2002, including seven with advanced degrees. In the fiscal year ended September 30, 2002, the Company spent approximately $2,049,000 on research and development and spent approximately $1,830,000 and $2,253,000 on research and development in fiscal years 2001 and 2000, respectively. The 2002, 2001 and 2000 figures do not include $0, $0, and $110,000, respectively, that was spent in research and development related to contract development and was charged to cost of sales.

The Company balances its engineering resources between development of ICR technology and applications development. Of the nineteen software engineers, approximately nine are involved in ICR research and development of the QuickStrokes® API recognition engine. The remaining staff is involved in applications development, including the Doctus™, QuickFX®, and CheckQuest® products, and customer services and support.

**INTELLECTUAL PROPERTY**

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

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

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



given that any necessary licenses will be available or that, if available, such licenses can be obtained on commercially reasonable terms.

**SALES AND MARKETING**

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

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

The ability to support international markets has assisted the Company in its international sales effort. International sales accounted for approximately 4%, 3%,and 15%, of the Company's net sales for the fiscal years ended September 30, 2002, 2001, and 2000, respectively. The Company believes that a significant percentage of the products in its domestic sales are incorporated into systems that are delivered to end users outside the United States. International sales in fiscal 2002 were made to customers in twenty-one countries including Australia, Canada, Chile, Czech Republic, United Kingdom, France, Germany, Hong Kong, Israel, India, Italy, Jamaica, Japan, Malaysia, Mexico, Netherlands, Portugal, Spain, Sweden, Thailand and Uruguay. The Company sells its products in United States currency only. The Company relied on a significant portion of its revenues from three customers in fiscal 2002, one customer in fiscal 2001, and three customers in fiscal 2000, respectively. Sales from these customers aggregated 34%, 11%, and 52% of net sales for the fiscal years 2002, 2001 and 2000, respectively.

**MAINTENANCE AND SUPPORT**

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

**COMPETITION**

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



companies offering ICR systems; and (iii) companies offering competing technologies capable of recognizing hand-printed and cursive characters.

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

The Company's QuickStrokes® API product and licensed CheckScript™ productcompete, to various degrees, with products produced by a number of substantial competitors such as A2IA, Parascript, and Orbograph. Competition among product providers in this market generally focuses on price, accuracy, reliability and technical support. The Company believes its primary competitive advantages are its (i) recognition accuracy with regard to hand printed characters, (ii) flexibility, since it may operate on a broad range of computer operating platforms, (iii) scalability and (iv) object-oriented software designs which can be more readily modified, improved with added functionality, configured for new products, and ported to new operating systems and upgrades. Despite these advantages, QuickStrokes® API and CheckScript™ competitors have existed longer and have far greater financial resources and industry connections than the Company.

The Company's Doctus™ product competes against complete proprietary systems offered by software developers, such as Microsystems Technology, Readsoft, and Cardiff Software, Inc. In addition, Doctus™ faces competition from providers of recognition systems that incorporate ADR technology such as Microsystems Technology, Inc., and Captiva. Because Doctus™ is based on the Company's proprietary QuickStrokes® API engine, its competitive advantages reflect the advantages of the QuickStrokes® engine. The Company believes its Doctus™ software provides the highest levels of automation in the industry. The Company's document understanding software does not require extensive rules written by a programmer based on a large set of training documents. The software automatically "learns" how to process unstructured forms by reading only a few examples. Competitors in this market offer both high and low cost systems. The Company's strategy is to position Doctus™ 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.

The Company's Checkquest® product competes against complete proprietary systems offered by software developers such as Bankware, AFS, and Document Solutions, Inc. Because Checkquest® is based on the Company's proprietary Quickstrokes® engine, the Company believes its Checkquest® software provides superior workflow technology, combined with the labor-saving recognition capabilities typically found in larger systems. By incorporating our superior check reading technology, we are providing our banking customers a streamlined check imaging process. Included in our CheckQuest® system is the ability to upgrade to web research on checks and also e-mail statements with the check images. This is important in that it brings the small community banks into the 21st century with technology typically only available to bigger banks. The Company's strategy is to position Checkquest® to compete successfully in the community bank marketplace while offering superior accuracy and workflow flexibility than competing systems currently on the market.

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



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**EMPLOYEES AND LABOR RELATIONS**

As of September 30, 2002, the Company employed a total of 58 full-time and 4 part-time persons, consisting of 13 in marketing, sales and support, 21 in research and development, 22 in operations, and 6 in finance, administration and other capacities. The Company has never had a work stoppage. None of its employees are represented by a labor organization, and the Company considers its relations with its employees to be good.

**FACTORS THAT MAY AFFECT FUTURE PERFORMANCE**

*Because most of our revenues are from a single type of technology, our product concentration may make us especially vulnerable to market demand and competition from other technologies.*

We currently derive substantially all of our product revenues from licenses and sales of hardware and software products incorporating its character recognition technology. As a result, factors adversely affecting the pricing of or demand for our products and services, such as competition from other products or technologies, any decline in the demand for automated entry of hand printed characters, negative publicity or obsolescence of the hardware or software environments in which our products operate could result in lower sales or gross margins and would have a material adverse effect on our business, operating results and financial condition.

*Competition in our market may result in pricing pressures, reduced margins or the inability of our products and services to achieve market acceptance.*

We compete against numerous other companies which address the character recognition market, some of whom have greater financial, technical, marketing and other resources. Other companies could choose to enter our marketplace. We may be unable to compete successfully against our current and potential competitors, which may result in price reductions, reduced margins and the inability to achieve market acceptance for our products. Moreover, from time to time, our competitors or we may announce new products or technologies that have the potential to replace our existing product offerings. There can be no assurance that the announcement of new product offerings will not cause potential customers to defer purchases of our existing products, which could adversely affect our business, operating results and financial condition.

*We must continue extensive research and development in order to remain competitive.*

Our ability to compete effectively with our character recognition product line will depend upon our ability to meet changing market conditions and develop enhancements to our products on a timely basis in order to maintain our competitive advantage. Rapidly advancing technology and rapidly changing user preferences characterize the markets for products incorporating character recognition technology. Our continued growth will ultimately depend upon our ability to develop additional technologies and attract strategic alliances for related or separate product lines. There can be no assurance that we will be successful in developing and marketing product enhancements and additional technologies, that we will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these products, or that our new products and product enhancements will adequately meet the requirements of the marketplace, will be of acceptable quality, or will achieve market acceptance.

If our new products fail to gain market acceptance, our business, operating results and financial condition would be materially adversely affected by the lower sales. If we are unable, for technological or other reasons, to develop and introduce products in a timely manner in response to changing market conditions or customer requirements, our business, operating results and financial condition may be materially and adversely affected by lower sales.



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*Delisting from the Nasdaq National Market*

We anticipate that our common stock will be delisted from trading on the Nasdaq National Market. On August 1, 2002, we were notified by Nasdaq that we must have minimum stockholders' equity of $10 million by November 1, 2002 to comply with the Nasdaq National Market's modified continued listing requirements. As of September 30, 2002, we have stockholders' equity of approximately $5 million. We did not meet the Nasdaq National Market's minimum stockholders' equity requirement by November 1, 2002. Therefore, we believe that Nasdaq will take action after the filing of this report to delist the Company's common stock from trading on the Nasdaq National Market.

If our common stock is no longer listed on the Nasdaq National Market, we will attempt to list it on the Nasdaq SmallCap Market, which may be viewed by investors as a less desirable and less liquid marketplace. No assurance can be made that our common stock will be listing on the Nasdaq SmallCap Market following its delisting from the Nasdaq National Market. If our common stock were not able to be traded on the Nasdaq SmallCap Market, it would likely be traded on the OTC market or the "pink sheets." The delisting from the Nasdaq National Market could make trading our common stock more difficult for investors, potentially leading to further declines in share prices. Securities traded on the Nasdaq National Market are exempt from certain securities regulations which are applicable to securities traded on the Nasdaq SmallCap Market, the OTC market or the "pink sheets." These regulations may limit, in certain circumstances, certain trading activities in our common stock, which could reduce the volume of trading in our common stock or the market price of our common stock.

Additionally, the Nasdaq SmallCap Market has recently experienced extreme price and volume fluctuations. The OTC market and the "pink sheets" also typically exhibit extreme price and volume fluctuations. These broad market factors may materially adversely affect the market price of our common stock, regardless of our actual operating performance. In the past, individual companies whose securities have exhibited periods of volatility in their market price have had securities class action litigation instituted against that company. This type of litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources.

*We will continue to incur costs on the expansion of our CheckQuest sales and distribution channels.*

Because our CheckQuest products are sold principally to end users, we have substantially increased and plan substantial future increases in expenditures to continue to build and maintain our global marketing, sales and customer support infrastructure. Any failure to achieve growth in revenues in excess of increased expenses would have a material adverse effect on our business, operating results and financial condition. There can be no assurance that we will be able to successfully expand our direct sales and support services force. Any failure to do so would hurt future sales and may have a material adverse effect on our business, operating results and financial condition.

*Our quarterly results have fluctuated greatly in the past and will likely continue to do so, which may cause substantial fluctuations in our common stock price.*

Our quarterly operating results have in the past and may in the future vary significantly depending on factors including the timing of customer projects and purchase orders, new product announcements and releases by us and other companies, gain or loss of significant customers, price discounting of our products, the timing of expenditures, customer product delivery requirements, availability and cost of components or labor and economic conditions generally and in the information technology market specifically. Any unfavorable change in these or other factors could have a material adverse effect on our operating results for a particular quarter, which may cause downward pressure on our common stock price. We expect quarterly fluctuations to continue for the foreseeable future.



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*Our historical order flow patterns, which we expect to continue, have caused forecasting difficulties for us.*

Historically, a significant portion of our sales have resulted from shipments during the last few weeks of the quarter from orders received in the last month of the applicable quarter.. The Company, however, will base its expense levels, in significant part, on its expectations of future revenue.. As a result, the Company expects its expense levels to be relatively fixed in the short term. Any concentration of sales at the end of the quarter may limit our ability to plan or adjust operating expenses. Therefore, if anticipated shipments in any quarter do not occur or are delayed, expenditure levels could be disproportionately high as a percentage of sales, and our operating results for that quarter would be adversely affected. As a result, the Company believes that period-to-period comparisons of the Company's results of operations are not and will not necessarily be meaningful, and you should not rely upon them as an indication of future performance. If our operating results for a quarter are below the expectations of public market analysts and investors, the price of our common stock may be materially adversely affected.

*Revenue recognition accounting standards and interpretations may change, causing the Company to recognize lower revenues.*

In October 1997, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 97-2, "Software Revenue Recognition." The Company adopted SOP 97-2, as amended by SOP 98-4 "Deferral of the Effective Date of a Provision of SOP 97-2" as of July 1, 1998. In December 1998, the AICPA issued SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions" The Company adopted SOP 98-9 on January 1, 2000. These standards address software revenue recognition matters primarily from a conceptual level and do not include specific implementation guidance. The Company believes that it is currently in compliance with SOPs 97-2 and SOP 98-9. In addition, in December 1999, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), which provides further guidance with regard to revenue recognition, presentation and disclosure. The Company adopted SAB 101 during the fourth quarter of fiscal 2000.

The accounting profession and the SEC continue to discuss certain provisions of SOP 97-2, SAB 101 and other revenue recognition standards and related interpretations with the objective of providing additional guidance on potential application of the standards and interpretations. These discussions could lead to unanticipated changes in revenue recognition standards and, as a result, in the Company's current revenue accounting practices, which could cause the Company to recognize lower revenues. As a result, the Company may need to change its business practices.

*If our products have product defects, it could damage our reputation, sales, profitability and result in other costs.*

Our products are extremely complex and are constantly being modified and improved, and as such they may contain undetected defects or errors when first introduced or as new versions are released. As a result, we have in the past and could in the future face loss or delay in recognition of revenues as a result of software errors or defects. In addition, our products are typically intended for use in applications that are critical to a customer's business. As a result, we believe that our customers and potential customers have a greater sensitivity to product defects than the market for software products generally.

There can be no assurance that, despite our testing, errors will not be found in new products or releases after commencement of commercial shipments, resulting in loss of revenues or delay in market acceptance, diversion of development resources, damage to our reputation, adverse litigation, or



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increased service and warranty costs, any of which would have a material adverse effect upon our business, operating results and financial condition.

*Our success and our ability to compete are dependent, in part, upon protection of our proprietary technology.*

We generally rely on trademark, trade secret, copyright and patent law to protect our intellectual property. We may also rely on creative skills of our personnel, new product developments, frequent product enhancements and reliable product maintenance as means of protecting our proprietary technologies. There can be no assurance, however, that such means will be successful in protecting our intellectual property. There can be no assurance that others will not develop technologies that are similar or superior to our technology.

The source code for our proprietary software is protected both as a trade secret and as a copyrighted work. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our products or technology without authorization, or to develop similar technology independently.

*We may have difficulty protecting our proprietary technology in countries other than the United States.*

We operate in a number of countries other than the United States. Effective copyright and trade secret protection may be unavailable or limited in certain countries. Moreover, there can be no assurance that the protection provided to our proprietary technology by the laws and courts of foreign nations against piracy and infringement will be substantially similar to the remedies available under United States law. Any of the foregoing considerations could result in a loss or diminution in value of our intellectual property, which could have a material adverse effect on our business, financial condition, and results of operations.

*Companies may claim that we infringe their intellectual property or proprietary rights, which could cause us to incur significant expenses or prevent us from selling our products.*

We have in the past had companies claim that certain technologies incorporated in our products infringe their patent rights. Although we have resolved the past claims and there are currently no claims of infringement pending against us, there can be no assurance that we will not receive notices in the future from parties asserting that our products infringe, or may infringe, those parties' intellectual property rights. There can be no assurance that licenses to disputed technology or intellectual property rights would be available on reasonable commercial terms, if at all.

Furthermore, we may initiate claims or litigation against parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Litigation, either as plaintiff or defendant, could result in significant expense to us and divert the efforts of our technical and management personnel from operations, whether or not such litigation is resolved in our favor. In the event of an adverse ruling in any such litigation, we might be required to pay substantial damages, discontinue the use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to infringing technology. In the event of a successful claim against us and our failure to develop or license a substitute technology, our business, financial condition and results of operations would be materially and adversely affected.

*We depend upon our key personnel.*

Our future success depends in large part on the continued service of our key technical and management personnel. We do not have employment contracts with, or "key person" life insurance policies on, any of our employees, including John M. Thornton, our Chairman of the Board, President, Chief Executive Officer, and Chief Financial Officer. Loss of services of key employees could have a



material adverse effect on our operations and financial condition. We are also dependent on our ability to identify, hire, train, retain and motivate high quality personnel, especially highly skilled engineers involved in the ongoing developments required to refine our technologies and to introduce future applications. The high technology industry is characterized by a high level of employee mobility and aggressive recruiting of skilled personnel.

Additionally, there are several proposals in the United States Congress and in the accounting industry to require corporations to include a compensation expense in their statement of operations relating to the issuance of employee stock options. If such a measure is approved, we may decide to issue fewer stock options. As a result, we may be impaired in our efforts to attract and retain necessary personnel. We cannot assure you that we will be successful in attracting, assimilating and retaining additional qualified personnel in the future. If we were to lose the services of one or more of our key personnel, or if we failed to attract and retain additional qualified personnel, it could materially and adversely affect our customer relationships, competitive position and revenues.

*A few of our stockholders have significant control over our voting stock which may make it difficult to complete some corporate transactions without their support and may prevent a change in control.*

As of September 30, 2002, John M. Thornton, who is our Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer and his spouse, Director Sally B. Thornton, beneficially owned approximately 24% of our outstanding common stock. Our directors and executive officers as a whole, own approximately 30% of our outstanding common stock. As a result, these stockholders may effectively control the outcome of all matters submitted to our stockholders for approval, including the election of directors. In addition, this ownership could discourage the acquisition of our common stock by potential investors and could have an anti-takeover effect, possibly depressing the trading price of our common stock.

*We may issue preferred stock, which could adversely affect the rights of our common stock holders*

The Board of Directors is authorized to issue up to 1,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock. We have no current plans to issue shares of preferred stock. In addition, Section 203 of the Delaware General Corporation Law restricts certain business combinations with any "interested stockholder" as defined by such statute. The statute may have the effect of delaying, deferring or preventing a change in our control.

*Our common stock price has been volatile.*

The market price of our common stock has been, and is likely to continue to be, highly volatile. Future announcements concerning us or our competitors, quarterly variations in operating results, announcements of technological innovations, the introduction of new products or changes in product pricing policies by the Company or its competitors, claims of infringement of proprietary rights or other litigation, changes in earnings estimates by analysts or other factors could cause the market price of our common stock to fluctuate substantially. In addition, the stock market has from time-to-time experienced significant price and volume fluctuations that have particularly affected the market prices for the common stocks of technology companies and that have often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. During the fiscal year ended September 30, 2002, our common stock price ranged from $.80 to $2.95.

*We do not intend to pay dividends on the common stock.*

We have not paid any dividends on our common stock and do not intend to pay dividends for the foreseeable future.

*We may need additional capital in the future.*

We may need to raise additional funds in the future through public or private financing. No assurance can be given that additional financing will be available or that, if available, it will be available on terms favorable to us. If additional funds are raised through the issuance of equity securities, the percentage ownership of our then current stockholders will be reduced and such equity securities may have rights, preferences or privileges senior to those of the holders of our common stock. If we are unable to obtain needed financing on terms favorable to us, such could have an adverse effect upon our financial condition, results of operations and ability to maintain operations as planned. Our capital requirements will depend on many factors, including, but not limited to, the rate of market acceptance and competitive position of the products incorporating our technologies, the levels of promotion and advertising required to launch and market such products and attain a competitive position in the marketplace, the extent to which we invest in new technology to support our product development efforts, and the response of competitors to the products we offer.

*Our current credit facility may not be sufficient for our capital requirements.*

While we believe that our current credit line is sufficient, together with cash on hand and cash generated from operations, to finance our operations for the next twelve months, we can make no assurance that we will not need additional financing during the next twelve months or beyond. Actual sales, expenses, market conditions or other factors which could have a material affect upon us could require us to obtain additional financing. If such financing is not available, or if available, is not available on reasonable terms, it could have a material adverse effect upon our results of operations and financial condition. Currently we have a working capital line of credit with a maximum available credit line of $750,000. As of September 30, 2002, we had no borrowings under this credit line. This credit line is subject to a net worth covenant whereby the Company must maintain a net worth of $4,000,000 in order to use the credit line. As of September 30, 2002, our net worth was approximately $5,028,000.

*The liability of our officers and directors is limited pursuant to Delaware law.*

Pursuant to our Certificate of Incorporation, and as authorized under applicable Delaware Law, our directors and officers are not liable for monetary damages for breach of fiduciary duty, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit.



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**ITEM 2. PROPERTIES**

The Company's principal executive offices, as well as its principal research and development facility, are located in approximately 26,455 square feet of leased office building space in Poway, California. The lease on these facilities expires September 30, 2005. During the year, the Company leased a customer services and support facility in Alabama. The Company also leases a sales, customer services and support facility in Virginia. The Company believes that its existing facilities are adequate for its current needs.

**ITEM 3. LEGAL PROCEEDINGS**

The Company currently is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its business, financial condition, operating results, cash flow or liquidity.

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

There were no matters submitted to a vote of security holders during the fourth quarter ended September 30, 2002.

**PART II**

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

Market for Registrant's common equity and related stockholder matters is incorporated herein by reference to the Company's Annual Report to Stockholders for the year ended September 30, 2002.

**ITEM 6. SELECTED FINANCIAL DATA**

Selected financial data for each of the years in the five-year period ended September 30, 2002 is incorporated herein by reference to the Company's Annual Report to Stockholders for the year ended September 30, 2002.

**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 herein by reference to the Company's Annual Report to Stockholders for the year ended September 30, 2002.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Quantitative and Qualitative disclosures about Market Risk is incorporated herein by reference to the Company's Annual Report to Stockholders for the year ended September 30, 2002.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Financial statements and the Independent Auditors' Report thereon are incorporated herein by reference to the Company's Annual Report to Stockholders for the year ended September 30, 2002.

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

None.



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**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information called for by this item is incorporated herein by reference to the definitive Proxy Statement for the Annual Meeting of Stockholders to be held in February 2003, under the heading "ELECTION OF DIRECTORS".

**ITEM 11. EXECUTIVE COMPENSATION**

Information called for by this item is incorporated herein by reference to the definitive Proxy Statement for the Annual Meeting of Stockholders to be held in February 2003, under the heading "EXECUTIVE COMPENSATION".

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

Information called for by this item is incorporated herein by reference to the definitive Proxy Statement for the Annual Meeting of Stockholders to be held in February 2003, under the heading "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS."

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACITONS.**

Information called for by this item is incorporated herein by reference to the definitive Proxy Statement for the Annual Meeting of Stockholders to be held in February 2003, under the heading "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS."

**ITEM 14. CONTROLS AND PROCEDURES**

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of its management, including John M. Thornton, the Company's Chairman of the Board, President, Chief Executive Officer, and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, Mr. Thornton concluded that the Company's disclosure controls and procedures are effective in timely alerting him to material information relating to the Company required to be included in its periodic filings with the Securities and Exchange Commission.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of their most recent evaluation.



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**PART IV**

**ITEM 15. 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, 2002:

Independent Auditors' Report

Balance Sheets—
As of
September 30, 2002 and 2001

Statements of Operations—
For the Years Ended
September 30, 2002, 2001, and 2000

Statements of Stockholders' Equity—
For the Years Ended
September 30, 2002, 2001, and 2000

Statements of Cash Flows—
For the Years Ended
September 30, 2002, 2001, and 2000

Notes to Financial Statements—
For the years Ended
September 30, 2002, 2001, and 2000

With the exception of the financial statements listed above and the other information incorporated by reference herein, the Annual Report to Stockholders for the fiscal year ended September 30, 2002, is not to be deemed to be filed as part of this report.

(a)(2) Exhibits:

| | |
|---|---|
| 3.1 | Certificate of Incorporation of Mitek Systems of Delaware Inc. (now Mitek Systems, Inc.), a Delaware corporation, as amended.(1) |
| 3.2 | Bylaws of Mitek Systems, Inc. as Amended and Restated.(1) |
| 10.1 | 1986 Stock Option Plan(2) |
| 10.2 | 1988 Non Qualified Stock Option Plan(2) |
| 10.3 | 1996 Stock Option Plan(3) |
| 10.4 | 1999 Stock Option Plan(4) |
| 10.5 | 401(k) Plan(2) |
| 13. | Annual Report to Stockholders for the year ended September 30, 2002. |
| 23. | Independent Auditors' Consent |
| 99.1 | Certification by Chief Executive Officer |
| 99.2 | Certification by Chief Financial Officer |

(1) Incorporated by reference to the exhibits to the Company' Annual Report on Form 10-K for the fiscal year ended September 30, 1987



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

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

(3) Incorporated by reference to the exhibits to the Company's Registration Statement on Form 10-K for the fiscal year ended September 30, 2001

(4) Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-8 originally filed with the SEC on June 10, 1999.

(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, 2002:

None



**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 23, 2002 | MITEK SYSTEMS, INC. |
| | By: /s/ JOHN M. THORNTON |
| | John M. Thornton, *Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer* |

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

| | |
|---|---|
| /s/ JOHN M. THORNTON | December 23, 2002 |
| John M. Thornton, *Chairman of the Board President, Chief Executive Officer and Chief Financial Officer* | |
| /s/ GERALD I. FARMER | December 23, 2002 |
| Gerald I. Farmer, *Director* | |
| /s/ DANIEL E. STEIMLE | December 23, 2002 |
| Daniel E. Steimle, *Director* | |
| /s/ SALLY B. THORNTON | December 23, 2002 |
| Sally B. Thornton, *Director* | |
| /s/ JAMES B. DEBELLO | December 23, 2002 |
| James B. DeBello, *Director* | |
| /s/ JOHN G. REBELO, JR | December 23, 2002 |
| John G. Rebelo, Jr., *Director* | |



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**CERTIFICATION OF**
**CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER**

I, John M. Thornton, certify that:

1. I have reviewed this annual report on Form 10-K of Mitek Systems, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: December 23, 2002

By: /s/ JOHN M. THORNTON

John M. Thornton
*Chairman of the Board, President, Chief Executive Officer, and Chief Financial Officer (principal executive officer and principal financial officer)*



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**MITEK SYSTEMS, INC.**

**INDEX TO EXHIBITS**

| EXHIBIT NO. | EXHIBIT |
|---|---|
| 3.1 | Certificate of Incorporation of Mitek Systems of Delaware, Inc. (now Mitek Systems, Inc.) a Delaware corporation, as amended.(1) |
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**Exhibit 13**

**PART II**

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

**FORWARD LOOKING STATEMENTS**

In addition to historical information, this Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. As contained herein, the words "expects," "anticipates," "believes," "intends," "will," and similar types of expressions identify forward-looking statements, which are based on information that is currently available to the Company, speak only as of the date hereof, and are subject to certain risks and uncertainties. To the extent that the 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 experiences 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 or discussed in the Company's filings with the SEC.

**RESULTS OF OPERATIONS**

**NET SALES**

Net sales were $13,083,000, $9,387,000, and $9,348,000 for fiscal 2002, 2001, and 2000, respectively. Net sales increased in fiscal 2002 compared to fiscal 2001 and 2000. The increase from fiscal 2000 to fiscal 2001 was primarily due to increases in sales of Checkquest. This product had a 1,200% increase in sales during fiscal 2001. The sales of Quickstrokes and CheckScript declined during the fiscal year by 29%. Sales of the Company's Doctus products declined 76%, primarily due to lower capital budgets by the Company's key customers. The increase from fiscal 2001 to fiscal 2002 was due to increased sales of Quickstrokes and CheckScript, due to the renewal of existing, as well as new enterprise licensing agreements entered into during the year. These recognition engines combined for an increase in revenue of 55% for fiscal 2002. Additional market penetration of Checkquest boosted sales of that product line by 26% for fiscal 2002. Sales of the Company's Doctus product increased by 36% for fiscal 2002.

**GROSS MARGIN**

Gross margins were $9,332,000, $6,738,000, and $7,194,000 for fiscal 2002, 2001, and 2000, respectively. Stated as a percentage of net sales, gross margins for the corresponding periods were 71%, 72%, and 77%, respectively. License amortization charged to cost of sales were $333,000 (3% of net



sales) for fiscal 2002, $274,000 (3% of net sales) for fiscal 2001 and $360,000 (4% of net sales) for fiscal 2000. The dollar increase in gross margin in 2002 from 2001 resulted primarily from the increased sales of the Company's Checkquest, Quickstrokes and Checkscript product line. The decrease in gross margin stated as a percentage of sales, resulted from the mix of product sales shifting to products which have both hardware and software included in the sale, which typically carries lower gross margins, or to products on which the Company pays royalties, the aforementioned license amortization. The decrease in gross margin from 2000 to 2001, as well as the decrease in gross margin stated as a percentage of sales, also resulted from the mix of product sales shifting to products which have both hardware and software included in the sale, or to products on which the Company pays royalties.

**OPERATIONS**

Operations expenses include costs associated with shipping and receiving, quality assurance, customer support, installation and training. As installation, training, maintenance and customer support revenues are recognized, an appropriate amount of these costs are charged to cost of sales, with unabsorbed costs remaining in Operations expense.

Operations expenses were $1,872,000, $1,279,000, and $1,241,000 for fiscal 2002, 2001, and 2000, respectively. The dollar increase in the 2002 expense is primarily attributable to additions to the Company's staff of CheckQuest support, installation and training specialists. These increased costs are a result of the growth in the installed base of Checkquest customers, as well as the demand for additional installation and training personnel which the Company deemed necessary to meet the installation and training needs for new customers. The dollar increase in the 2001 fiscal year was primarily attributable to staff additions.

Stated as a percentage of net sales, operations expenses expense for fiscal 2002, 2001 and 2000 were 14%, 14%, and 13%, respectively. respectively. The fixed amount in the 2002 expense, as a percentage of net sales, is primarily attributable to additions to the Company's staff of CheckQuest support, installation and training specialists, combined with an increase in travel costs. The increase in the 2001 expense, as a percentage of net sales, was primarily attributable to staff additions.

**SELLING AND MARKETING**

Selling and marketing expenses were $3,014,000, $2,292,000, and $2,739,000, for fiscal 2002, 2001, and 2000, respectively. The dollar increase in 2002 expense is primarily attributable to increased commission expense, which resulted from increased sales and the use of sales representatives compensated on a commission-only basis. The dollar decrease in expense in the 2001 year was primarily attributable to the Company's elimination of certain marketing efforts and consulting services for the Doctus product lines.

Stated as a percentage of net sales, selling and marketing expenses for fiscal 2002, 2001, and 2000 were 23%, 24%, and 29%, respectively. The decrease in 2002 expense, as a percentage of net sales, was primarily attributable to the effect of the increased Checkquest salespersons, which occurred in fiscal 2002, who accounted for the increased sales. This increase in sales was only partially offset by an increase in dollar expense, primarily commissions. The decrease in 2001 expense, as a percentage of net sales, was primarily attributable to the Company's elimination of certain marketing efforts and consulting services for the Doctus product lines.

Mitek expects that it will increase spending on Checkquest and Solutions sales forces and Checkquest, Quickstrokes and Doctus marketing.



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**RESEARCH AND DEVELOPMENT**

Research and development expenses are incurred to maintain and enhance existing products. The Company maintains sufficient staff to maintain the existing product lines, including development of newer, more feature-rich versions of its existing product lines, as the Company determines is demanded by the marketplace. The Company also maintains research personnel, whose efforts are designed to ensure product paths from current technologies to anticipated future generations of products within the Company's area of business.

Research and development expenses were $2,049,000, $1,830,000, and $2,253,000 for fiscal 2002, 2001, and 2000, respectively. The dollar increase in the 2002 expense is due to additional personnel added to support and enhance the Checkquest product line. The dollar decrease in the 2001 expense is due to achievement of certain engineering project goals, which enabled the Company to reduce spending on consulting services.

Stated as a percentage of net sales, research and development expense for fiscal 2002, 2001, and 2000, including charges to cost of sales, were 16%, 20%, and 24%, respectively. The decrease in 2002 expense, as a percentage of net sales, is primarily attributable to the increase in sales. The decrease in 2001 expense, as a percentage of net sales, is primarily attributable to the decrease in dollar expense.

Prospectively, increased headcount is currently expected to be a significant factor affecting future research and development expense growth.

**GENERAL AND ADMINISTRATIVE**

General and administrative expenses were $2,010,000, $1,634,000, and $2,420,000 for fiscal 2002, 2001, and 2000, respectively. The dollar increase in the 2002 expense is primarily attributable to costs associated with outside professional services, primarily strategic planning services incurred to better focus and direct the Company's efforts, as well as increased bad debt expense. The dollar decrease in the 2001 expense was primarily attributable to reduced amounts of bad debt expense, due to tightened credit policies.

Stated as a percentage of net sales, general and administrative expense for fiscal 2002, 2001 and 2000 were 15%, 17%, and 26%, respectively. The decrease in 2002 expense, as a percentage of net sales, was primarily attributable to increased sales. The decrease in 2001 expense, as a percentage of sales, was primarily attributable to reduced amounts of bad debt expense, due to tightened credit policies.

**INTEREST INCOME (EXPENSE)**

Net interest income (expense) was $9,000, ($43,000), and $26,000 for fiscal 2002, 2001, and 2000, respectively. Stated as a percentage of net sales, net interest income (expense) for the corresponding periods was 0.1%, (0.5%), and 0.3%, respectively. The decrease in interest expense in the current year is attributable to reduced borrowings under the Company's line of credit. The increase in interest expense from fiscal 2000 to fiscal 2001 was primarily the result of increased borrowings during the year.

**INCOME TAXES**

For the fiscal years 2002, 2001 and 2000, the Company did not record an income tax provision or benefit for income taxes because the deferred tax assets generated by the current year net benefit was offset by a corresponding decrease in the valuation allowance.



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**LIQUIDITY AND CAPITAL RESOURCES**

At September 30, 2002 the Company had $760,000 in cash as compared to $865,000 at September 30, 2001. Accounts receivable totaled $6,274,000, an increase of $1,837,000 over the September 30, 2001, balance of $4,437,000. This increase was primarily a result increased sales.

During fiscal 2002, the Company financed its cash needs primarily from operating activities.

Net cash generated from operating activities during the year ended September 30, 2002 was $375,000. The primary use of cash from operating activities was an increase in accounts receivable of $1,922,000. The primary sources of cash from operating activities was net income of $397,000 and depreciation and amortization expense, which does not require cash, of $634,000.

Net cash used from investing activities was primarily from the acquisition of fixed assets, primarily a high-speed sorter for development work, as well as the furniture and fixtures acquired concurrently with the lease of the Company's new headquarters in Poway. The Company also loaned $199,227 to Mitek Systems, Ltd. This loan is discussed in the footnotes to the financial statements.

Net cash from financing activities was primarily the borrowing and repayment on the Company's line of credit.

The Company's working capital and current ratio was $4,643,000 and 2.70, respectively, at September 30, 2002, $3,579,000 and 2.91, respectively, at September 30, 2001. At September 30, 2002, total liabilities to equity ratio was .64 to 1 compared to .45 to 1 a year earlier. As of September 30, 2002, total liabilities were greater by $1,152,000 than on September 30, 2001.

The Company currently has a working capital line of credit. This line requires interest to be paid at prime plus 1 percentage point, but is subject to a limit on available borrowings of $750,000. The Company had no borrowings under the working capital line of credit on September 30, 2002 or on September 30, 2001. This credit line is subject to a net worth covenant whereby the Company must maintain a net worth of $4,000,000 in order to use the credit line. Though the Company had no borrowings under the credit line as of September 30, 2002, at such time the Company's net worth was $5,028,000.

The existing credit line expires on August 27, 2003. The Company believes that it will be able to renew the current credit line with its current lender. If such renewal cannot be obtained, the Company believes that alternative financing, under terms satisfactory to the Company will be available. However no assurance can be made that the Company will be able to renew its current credit line or that alternative financing can be secured under terms satisfactory to the Company.

There are no significant capital expenditures planned for the foreseeable future.

The Company believes that it will have sufficient liquidity to finance its operations for the next twelve months using existing cash and cash generated from operations.

The Company signed an agreement to lease office space at 14145 Danielson Street, Suite B, Poway, California effective July 1, 2002 through September 30,2005. The future annual minimum rents have been disclosed in the footnotes to the Financial Statements.

The Company intends to license technology from a third party to enhance and improve the functionality of its CheckQuest product line. Though the exact cost of this license is unknown at this time, the Company expects to capitalize this cost and amortize it over the expected useful life, typically two to three years.



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**CRITICAL ACCOUNTING POLICIES**

Mitek's financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Critical accounting policies for Mitek include revenue recognition, impairment of accounts and notes receivable, and accounting for income taxes.

*Revenue Recognition*

The Company enters into contractual arrangements with end users that may include licensing of the Company's software products, product support and maintenance services, consulting services, resale of third-party hardware, or various combinations thereof, including the sale of such products or services separately. The Company's accounting policies regarding the recognition of revenue for these contractual arrangements is fully described in Notes to Unaudited Condensed Consolidated Financial Statements.

The Company considers many factors when applying accounting principles generally accepted in the United States of America related to revenue recognition. These factors include, but are not limited to:

- The actual contractual terms, such as payment terms, delivery dates, and pricing of the various product and service elements of a contract
- Availability of products to be delivered
- Time period over which services are to be performed
- Creditworthiness of the customer
- The complexity of customizations to the Company's software required by service contracts
- The sales channel through which the sale is made (direct, VAR, distributor, etc.)
- Discounts given for each element of a contract
- Any commitments made as to installation or implementation "go live" dates

Each of the relevant factors is analyzed to determine its impact, individually and collectively with other factors, on the revenue to be recognized for any particular contract with a customer. Management is required to make judgments regarding the significance of each factor in applying the revenue recognition standards, as well as whether or not each factor complies with such standards. Any misjudgment or error by management in its evaluation of the factors and the application of the standards, especially with respect to complex or new types of transactions, could have a material adverse affect on the Company's future revenues and operating results.

*Accounts Receivable.*

We evaluate the creditworthiness of our customers prior to order fulfillment and we perform ongoing credit evaluations of our customers to adjust credit limits based on payment history and the customer's current creditworthiness. We constantly monitor collections from our customers and maintain a provision for estimated credit losses that is based on historical experience and on specific customer collection issues. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Since our revenue recognition policy requires customers to be creditworthy, our accounts receivable are based on customers whose payment is reasonably assured.

Our accounts receivable are derived from sales to a wide variety of customers. We do not believe a change in liquidity of any one customer or our inability to collect from any one customer would have a material adverse impact on our financial position.

*Deferred Income Taxes.*

Deferred income taxes 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. We maintain a valuation allowance against the deferred tax asset due to uncertainty regarding the future realization based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. Until such time as the Company can demonstrate that it will no longer incur losses or if the Company is unable to generate sufficient future taxable income we could be required to maintain the valuation allowance against our deferred tax assets.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and other intangible assets with indefinite lives no longer be amortized, but instead be tested for impairment at least annually. In addition, the standard includes provisions for the reclassification of certain existing intangibles as goodwill and reassessment of the useful lives of existing recognized intangibles. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The Company has evaluated the applicability of SFAS 142 and has determined that it will not have a material impact on its financial statements. The Company had no recorded goodwill at September 30, 2002 or September 30, 2001.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supercedes FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board Opinion 30, "Reporting the Results of Operations-Reporting the Effects of a Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for disposal of a segment of business (as previously defined in that Opinion). SFAS 144 is effective for fiscal years beginning after December 15, 2001 The Company has evaluated the applicability of SFAS 144 and has determined that it will not have a material impact on its financial statements.

In November 2001, the staff of the Financial Accounting Standards Board ("FASB") issued as interpretive guidance the Emerging Issues Task Force EITF 01-14: Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred. This announcement is applicable to companies that provide services as part of their central on-going operations and incur incidental expenses that are commonly referred to as out-of-pocket expenses, such as airfare, mileage, hotel stays, out-of-town meals, photocopies and telecommunications and facsimile charges. This guidance requires reimbursements received from customers for out-of-pocket expenses incurred to be characterized as revenue in the Company's statement of operations. The Company had been recording these reimbursements as a reduction of expense. The new guidance requires retroactive reclassification of all periods presented to reflect the new accounting provisions. The Company has implemented EITF 01-14 in the second quarter of 2002, thereby impacting the Company's revenue classification by increasing both revenues and costs of revenue by an equal amount, however net income is not affected. Accordingly, both revenues and costs of revenue for the year ended September 30, 2002, 2001, and 2000 have been increased by approximately $124,000, $113,000, and $0 for the respective periods.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated



with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company has not completed the process of evaluating the impact that the adoption of SFAS 146 will have on its financial position and results of operations.

**QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**
**PART I, ITEM 3**

The Company is exposed to certain market risks arising from adverse changes in interest rates, primarily due to the potential effect of such changes on the Company's variable rate working capital line of credit, as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital." As of September 30, 2002, the Company had no outstanding balance under its line of credit. The Company does not use interest rate derivative instruments to manage exposure to interest rate changes.



**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders of Mitek Systems, Inc.:

We have audited the accompanying balance sheets of Mitek Systems, Inc. (the "Company") as of September 30, 2002 and 2001, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2002. 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 auditing standards generally accepted in the United States of America. 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 overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at September 30, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
San Diego, California
November 12, 2002



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**MITEK SYSTEMS, INC.**

**BALANCE SHEETS**

**SEPTEMBER 30, 2002 AND 2001**

| | 2002 | 2001 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | $ 760,416 | $ 865,347 |
| Accounts receivable—net of allowances of $150,208 and $339,025, respectively | 6,273,987 | 4,437,324 |
| Note receivable—related party | 199,227 | 15,188 |
| Inventories | 18,443 | 40,731 |
| Prepaid expenses and other assets | 129,097 | 96,803 |
| Total current assets | 7,381,170 | 5,455,393 |
| PROPERTY AND EQUIPMENT—net | 379,533 | 294,157 |
| OTHER ASSETS | 470,496 | 865,956 |
| TOTAL ASSETS | $ 8,231,199 | $ 6,615,506 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 1,567,121 | $ 1,129,574 |
| Accrued payroll and related taxes | 648,410 | 440,006 |
| Deferred revenue | 479,570 | 299,261 |
| Other accrued liabilities | 42,805 | 7,398 |
| Total current liabilities | 2,737,906 | 1,876,239 |
| LONG-TERM LIABILITIES | | |
| Deferred rent | 8,419 | 25,895 |
| Deferred revenue | 388,923 | 149,509 |
| Long-term payable | 68,400 | |
| Total long-term liabilities | 465,742 | 175,404 |
| TOTAL LIABILITIES | 3,203,648 | 2,051,643 |
| COMMITMENTS AND CONTINGENCIES (Note 6) | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock—$.001 par value; 20,000,000 shares authorized, 11,138,772 and 11,120,954 issued and outstanding at September 30, 2002 and 2001, respectively | 11,139 | 11,121 |
| Additional paid-in capital | 9,290,671 | 9,223,808 |
| Accumulated deficit | (4,274,259) | (4,671,066) |
| Total stockholders' equity | 5,027,551 | 4,563,863 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 8,231,199 | $ 6,615,506 |

See notes to financial statements

**MITEK SYSTEMS, INC.**

**STATEMENTS OF OPERATIONS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2002, 2001, AND 2000**

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| NET SALES | $ 13,083,183 | $ 9,387,140 | $ 9,347,940 |
| COST OF SALES | 3,751,287 | 2,649,637 | 2,153,815 |
| GROSS MARGIN | 9,331,896 | 6,737,503 | 7,194,125 |
| COSTS AND EXPENSES: | | | |
| Operations | 1,872,152 | 1,279,334 | 1,240,924 |
| Selling and marketing | 3,013,782 | 2,292,305 | 2,739,149 |
| Research and development | 2,048,676 | 1,829,749 | 2,253,124 |
| General and administrative | 2,009,821 | 1,634,247 | 2,420,105 |
| Total costs and expenses | 8,944,431 | 7,035,635 | 8,653,302 |
| OPERATING INCOME (LOSS) | 387,465 | (298,132) | (1,459,177) |
| OTHER INCOME (EXPENSE)—NET | 9,341 | (43,292) | 25,562 |
| INCOME (LOSS) BEFORE INCOME TAXES | 396,806 | (341,424) | (1,433,615) |
| PROVISION FOR INCOME TAXES | 0 | 0 | 0 |
| NET INCOME (LOSS) | $ 396,806 | $ (341,424) | $ (1,433,615) |
| NET INCOME (LOSS) PER SHARE—BASIC | $ 0.04 | $ (0.03) | $ (0.13) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING—BASIC | 11,132,867 | 11,120,120 | 10,856,762 |
| NET INCOME (LOSS) PER SHARE—DILUTED | $ 0.04 | $ (0.03) | $ (0.13) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND COMMON SHARE EQUIVALENTS OUTSTANDING—DILUTED | 11,327,163 | 11,120,120 | 10,856,762 |

See notes to financial statements



**MITEK SYSTEMS, INC.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2002, 2001, AND 2000**

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net income (loss) | $ 396,806 | $ (341,424) | $ (1,433,615) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 634,352 | 570,167 | 431,192 |
| Impairment of prepaid software rights—TSI | 0 | 0 | 84,194 |
| Provision for bad debts | 285,000 | 155,000 | 731,871 |
| Loss on disposal of property and equipment | 36 | 2,129 | 1,010 |
| Fair value of stock options issued to non-employees | 54,612 | 15,082 | 38,176 |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (1,922,436) | 1,511,519 | (1,860,008) |
| Inventory, prepaid expenses, and other assets | (209,233) | (620,419) | (418,077) |

| | | | |
|---|---|---|---|
| Other long term assets | (16,425) | 0 | 0 |
| Accounts payable | 437,547 | (145,757) | 537,136 |
| Accrued payroll and related taxes | 208,404 | (43,057) | (237,237) |
| Long-term payable | 68,400 | | |
| Deferred revenue | 419,724 | 80,130 | 165,232 |
| Other accrued liabilities | 17,931 | (214,070) | 142,438 |
| Net cash provided by (used in) operating activities | 374,718 | 969,300 | (1,817,688) |
| INVESTING ACTIVITIES | | | |
| Purchases of property and equipment | (308,659) | (131,710) | (216,763) |
| Proceeds from sale of property and equipment | 780 | 0 | 0 |
| Investment in Note Receivable | (184,039) | 0 | 0 |
| Net cash used in investing activities | (491,918) | (131,710) | (216,763) |
| FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | 300,000 | 1,196,000 | 510,000 |
| Repayment of borrowings | (300,000) | (1,706,000) | 0 |
| Proceeds from exercise of stock options and warrants | 12,269 | 644 | 662,975 |
| Net cash provided by (used in) financing activities | 12,269 | (509,356) | 1,172,975 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (104,931) | 328,234 | (861,476) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 865,347 | 537,113 | 1,398,589 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 760,416 | $ 865,347 | $ 537,113 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | |
| Cash paid for interest | $ 1,693 | $ 48,110 | $ 7,422 |
| Cash paid for income taxes | $ — | $ — | $ 70,800 |

See notes to financial statements



**MITEK SYSTEMS, INC.**

**STATEMENTS OF STOCKHOLDERS' EQUITY**

**FOR THE YEARS ENDED SEPTEMBER 30, 2002, 2001, AND 2000**

| | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Total |
|---|---|---|---|---|
| Balance, October 1, 1999 | 10,439 | $ 8,507,613 | $ (2,896,027) | $ 5,622,025 |
| Exercise of stock options | 681 | 662,294 | | 662,975 |
| Fair value of stock options issued to non-employees | | 38,176 | | 38,176 |
| Net loss | | | (1,433,615) | (1,433,615) |
| Balance, September 30, 2000 | 11,120 | 9,208,083 | (4,329,642) | 4,889,561 |
| Exercise of stock options | 1 | 643 | | 644 |
| Fair value of stock options issued to non-employees | | 15,082 | | 15,082 |
| Net loss | | | (341,424) | (341,424) |
| Balance, September 30, 2001 | 11,121 | 9,223,808 | (4,671,066) | 4,563,863 |
| Exercise of stock options | 18 | 12,251 | | 12,269 |
| Fair value of stock options issued to non-employees | | 54,613 | | 54,613 |
| Net income | | | 396,806 | 396,806 |
| Balance, September 30, 2002 | $ 11,139 | $ 9,290,672 | $ (4,274,260) | $ 5,027,551 |

See notes to financial statements

**MITEK SYSTEMS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2002, 2001 and 2000**

## 1. NATURE OF BUSINESS AND 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") with an emphasis in document imaging system products and solutions systems integration services.

Basis of Accounting—The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Accounting Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of 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.

Fair Value of Financial Instruments—The carrying amount of cash, cash equivalents, accounts receivable, notes receivable, accounts payable, and accrued liabilities are considered representative of their respective fair values because of the short-term nature of those instruments.

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

Accounts Receivable—Accounts receivable are net of an allowance for doubtful accounts of $150,208 and $339,025 at September 30, 2002 and 2001, respectively. Bad debt expense was $285,000, $155,000, and $731,871 for the years ended September 30, 2002, 2001 and 2000, respectively. Accounts receivable written off were $473,817, $579,887, and $107,974 during the years ended September 30, 2002, 2001 and 2000, respectively.

Inventories—Inventories are recorded at the lower of average cost or market

Property and Equipment—Property and Equipment are carried at cost. Following is a summary of property and equipment as of September 30, 2002 and 2001.

| | 2002 | 2001 |
|---|---|---|
| Property and equipment—at cost: | | |
| Equipment | $ 1,545,795 | $ 1,390,480 |
| Furniture and fixtures | 159,672 | 104,507 |
| Leasehold improvements | 6,611 | 52,984 |
| | 1,712,078 | 1,547,971 |
| Less: accumulated depreciation and amortization | (1,332,545) | (1,253,814) |
| Total | $ 379,533 | $ 294,157 |

Property and Equipment are carried at cost. Depreciation and amortization of property and equipment, prepaid license/support fees and prepaid software rights are provided using the straight-line method over estimated useful lives ranging from three to five years. Depreciation and amortization of



property and equipment totaled $222,468, $181,511, and $151,238 for the years ended September 30, 2002, 2001 and 2000, respectively.

Other Assets—The costs of acquiring the Company's software product rights were capitalized and are being amortized over the estimated periods to be benefited, typically 2 to 3 years. Other assets consisted of the following at September 30, 2002 and 2001:

| | 2002 | 2001 |
|---|---|---|
| Prepaid software rights—Docubase—net | $ 438,750 | $ 633,750 |
| Prepaid software rights—PFP Pro—net | 0 | 49,988 |
| Prepaid license/support fees—net | 0 | 87,770 |
| Investment in Mitek Systems Ltd. | 0 | 79,127 |
| Other—net | 31,746 | 15,321 |
| Total | $ 470,496 | $ 865,956 |

Amortization of prepaid software rights, which is charged to cost of sales, for fiscal 2002, 2001 and 2000 was $332,758, $273,902, and $233,277, respectively.

Long-Lived Assets—The Company periodically evaluates the carrying value of license agreements and other intangible assets to determine whether any impairment of these assets has occurred or whether any revision to the related amortization periods should be made. This evaluation is based on management's projections of the undiscounted future cash flows associated with each product or asset. If management's evaluation were to indicate that the carrying values of these intangible assets were impaired, the impairment to be recognized is measured by the amount the carrying amount of the assets exceeds the fair value of the assets. The Company did not record any impairment for the years ended September 30, 2002, 2001, or 2000.

Investment in Mitek Systems Ltd.—On September 1, 2000 the Company acquired a 15% investment in Itech Business Solutions Ltd. ("Itech"), which was accounted for under the cost method at September 30, 2000. On October 3, 2000 the Company acquired an additional 15% interest in Itech for $88,506. After this additional investment, the Company accounted for its 30% interest in Itech under the equity method. Subsequent to the additional investment on October 3, 2000, Itech changed their name to Mitek Systems Ltd. During fiscal 2002, the Company acquired an additional 18% interest in consideration for a loan to Mitek Systems Ltd. This loan carries monthly payment terms and a 10% rate of interest. Amounts due from Mitek Systems Ltd at September 30, 2002 were $199,227. The additional interest in Mitek Systems Ltd required no additional investment. Included in fiscal 2002 and 2001 Other Income (Expenses) is ($11,636) and ($13,604), respectively related to the Company's equity in the loss of Mitek Systems, Ltd.

Revenue Recognition Revenues from sales of software licenses sold through direct and indirect channels, which do not contain multiple elements, are recognized upon shipment of the related product, if the requirements of Statement of Position ("SOP") 97-2, as amended, are met. If the requirements of SOP 97-2, including evidence of an arrangement, delivery, fixed or determinable fee, collectibility or vendor specific evidence about the value of an element are not met at the date of shipment, revenue is not recognized until such elements are known or resolved. Software license revenue for arrangements to deliver unspecified additional software products in the future is recognized ratably over the term of the arrangement, beginning with the initial shipment. Revenue from



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post-contract customer support is recognized ratably over the term of the contract. Revenue from professional services is recognized when such services are delivered and accepted by the customer.

In December 1999, SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" was issued. SAB 101 provides the SEC staff's view in applying generally accepted accounting principles to selected revenue recognition issues, including software revenue recognition. There was no impact on the financial statements as a result of the adoption of SAB 101. Therefore, no adjustment was recorded.

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." Deferred tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years.

Management evaluates the available evidence about future taxable income and other possible sources of realization of deferred tax assets. The valuation allowance reduces deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized.—see Note 4.

Net Income (Loss) Per Share—The Company calculates net income (loss) per share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share". Basic net income (loss) per share is based on the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share also gives effect to all potential dilutive common shares outstanding during the period, such as options and warrants, if dilutive. The weighted average number of common shares and common share equivalents outstanding for the year ended September 30, 2002 included 194,296 common share equivalents related to stock options and warrants. Outstanding stock options for fiscal 2001 and 2000 were excluded from this calculation, as they would have been antidilutive.

Stock Based Compensation—As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation", the Company accounts for costs of stock-based compensation to employees in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, and accordingly, discloses the pro forma effect on net income (loss) and related per-share amounts using the fair value based method to account for stock-based compensation (Note 2). As required by SFAS 123, the fair value of stock compensation issued to non-employees is determined using the Black-Scholes option pricing model and compensation expense is recorded pursuant to the provisions of EITF 96-18.

Segment Reporting—SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", results in the use of a management approach in identifying segments of an enterprise. Management has determined that segment disclosures are not required because the Company operates in only one segment.

Comprehensive Income (Loss)—There are no differences between net income and comprehensive income and, accordingly, no amounts have been reflected in the accompanying financial statements.

In June 2001, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and other intangible assets with indefinite lives no longer be amortized, but instead be tested for impairment at least



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annually. In addition, the standard includes provisions for the reclassification of certain existing intangibles as goodwill and reassessment of the useful lives of existing recognized intangibles. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The Company has evaluated the applicability of SFAS 142 and has determined that it will not have a material impact on its financial statements. The Company had no recorded goodwill at September 30, 2002 or September 30, 2001.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supercedes FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board Opinion 30, "Reporting the Results of Operations—Reporting the Effects of a Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for disposal of a segment of business (as previously defined in that Opinion).

SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company has evaluated the applicability of SFAS 144 and has determined that it will not have a material impact on its financial statements.

In November 2001, the staff of the Financial Accounting Standards Board ("FASB") issued as interpretive guidance the Emerging Issues Task Force EITF 01-14: Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred. This announcement is applicable to companies that provide services as part of their central on-going operations and incur incidental expenses that are commonly referred to as out-of-pocket expenses, such as airfare, mileage, hotel stays, out-of-town meals, photocopies and telecommunications and facsimile charges. This guidance requires reimbursements received from customers for out-of-pocket expenses incurred to be characterized as revenue in the Company's statement of operations. The Company had been recording these reimbursements as a reduction of expense. The new guidance requires retroactive reclassification of all periods presented to reflect the new accounting provisions. The Company has implemented EITF 01-14 in the second quarter of 2002, thereby impacting the Company's revenue classification by increasing both revenues and costs of revenue by an equal amount, however net income is not affected. Accordingly, both revenues and costs of revenue for the year ended September 30, 2002, 2001, and 2000 have been increased by approximately $124,000, $113,000, and $0 for the respective periods.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company has not completed the process of evaluating the impact that the adoption of SFAS 146 will have on its financial position and results of operations.

## 2. STOCKHOLDERS' EQUITY

**Stock Options**—The Company has stock option plans for executives and key individuals who make significant contributions to the Company. The 1986 plan provides for the purchase of up to 630,000 shares of common stock through incentive and non-qualified options. The 1986 plan expired on September 30, 1996 and no additional options may be granted under this plan. The 1988 plan provides for the purchase of up to 650,000 shares of common stock through non-qualified options. The 1988 plan expired on September 13, 1998. For both plans, options were granted at fair market value of the



Company's stock at the grant date and for a term of not more than six years. Employees owning in excess of 10% of the outstanding stock are excluded from the plans.

The 1996 plan provides for the purchase of up to 1,000,000 shares of common stock through incentive and non-qualified options. Options must be granted at fair market value of the Company's stock at the grant date and for a term of not more than ten years. Employees owning in excess of 10% of the outstanding stock are included in the plan on the same terms except that the options must be granted for a term of not more than five years. The 1996 plan maximized in February 1999 and no additional options may be granted under this plan.

The 1999 plan provides for the purchase of up to 1,000,000 shares of common stock through incentive and non-qualified options. Incentive options must be granted at fair market value of the Company's stock at the grant date while non-qualified options may be granted at no less than 85% of fair market value of the Company's stock at the grant date, and for a term of not more than ten years. Employees owning in excess of 10% of the outstanding stock are included in the plan on the same terms except that the options must be granted for a term of not more than five years.

The 2000 plan provides for the purchase of up to 1,000,000 shares of common stock through incentive and non-qualified options. Incentive options must be granted at fair market value while non-qualified options may be granted at no less than 85% of fair market value, and for a term of not more than ten years. Employees owning in excess of 10% of the outstanding stock are included in the plan on the same terms except that the options must be granted for a term of not more than five years.

Information concerning stock options granted by the Company under all plans for the years ended September 30, 2002, 2001 and 2000 is as follows:

| | Shares | Weighted Average Exercise Price Per Share |
|---|---|---|
| Balance, October 1, 1999 | 1,335,098 | $ 1.67 |
| Granted | 465,000 | $ 6.84 |
| Exercised | (599,598) | $ 0.92 |
| Cancelled | (84,658) | $ 1.87 |
| Balance, September 30, 2000 | 1,115,842 | $ 3.96 |
| Granted | 486,500 | $ 0.98 |
| Exercised | (1,111) | $ 0.70 |
| Cancelled | (128,788) | $ 5.98 |
| Balance, September 30, 2001 | 1,472,443 | $ 2.84 |
| Granted | 510,500 | $ 1.65 |
| Exercised | (17,818) | $ 0.69 |
| Cancelled | (96,528) | $ 1.41 |
| Balance, September 30, 2002 | 1,868,597 | $ 2.56 |

The following table summarizes information about stock options outstanding at September 30, 2002:

| Range of Exercise Price | | Number Outstanding | Weighted Average Remaining Contractual Life | | Weighted Average Exercise Price | Number Exercisable | | Weighted Average Exercise Price of Exercisable Options |
|---|---|---|---|---|---|---|---|---|
| $ | 0.43 - $0.80 | 45,889 | 6.08 | $ | 0.44 | 45,889 | $ | 0.44 |
| $ | 0.81 - $1.03 | 478,618 | 6.91 | $ | 0.91 | 293,799 | $ | 0.89 |
| $ | 1.04 - $2.32 | 685,264 | 5.44 | $ | 1.36 | 292,417 | $ | 1.52 |
| $ | 2.33 - $3.68 | 312,903 | 6.71 | $ | 2.85 | 311,084 | $ | 2.86 |
| $ | 3.69 - $5.09 | 1,723 | 7.33 | $ | 5.09 | 1,529 | $ | 5.09 |
| $ | 5.10 - $7.68 | 338,200 | 6.88 | $ | 6.84 | 267,610 | $ | 6.88 |
| $ | 7.69 - $12.37 | 6,000 | 7.43 | $ | 9.30 | 5,139 | $ | 9.28 |
| | | 1,868,597 | 7.22 | $ | 2.56 | 1,217,467 | $ | 2.89 |

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 was $.93, $.88, and $4.50 for fiscal 2002, 2001 and 2000, respectively. The fair value of each stock option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2002: risk-free interest rate of 5.5%; expected dividend yield of 0%; expected life of 3 years; and expected volatility of 82.1%. In 2001, the assumptions were: risk-free interest rate of 4.5%; expected dividend yield of 0%; expected life of 3 years; and expected volatility of 192%. In 2000, the assumptions were: risk-free interest rate of 6%; expected dividend yield of 0%; expected life of 3 years; and expected volatility of 103%. Stock options generally expire between six to ten 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 costs of options issued to employees in accordance with APB Opinion No. 25, under which no compensation cost has been recognized for employee stock option awards. Had compensation cost been determined consistent with SFAS No. 123, the Company's pro forma net loss and loss per share for fiscal 2000 would have been ($2,418,779) and ($.22), respectively, the Company's pro forma net loss and net loss per share for fiscal 2001 would have been ($1,415,084) and ($.13). and the Company's pro forma net loss and net loss per share for fiscal 2002 would have been ($564,801) and ($.05), 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.

The Company has also issued 10,000 stock options to non-employees which are accounted for as variable arrangements under the provisions of EITF 96-18. Compensation expense related to such awards were $54,612, $15,082, and $38,176 for the years ended September 30, 2002, 2001 and 2000, respectively, and are included in general and administrative expense. Future increases in the fair value of the Company's common stock could result in additional compensation expense.



## 3. LINE OF CREDIT—BANK

The Company currently has a working capital line of credit. This line requires interest to be paid at prime plus 1 percentage point (5.25% at September 30, 2002), but is subject to a limit on available borrowings of $750,000. The Company had no borrowings under the working capital line of credit at September 30, 2002 or at September 30, 2001. This credit line is subject to a net worth covenant whereby the Company must maintain a net worth of $4,000,000 in order to use the credit line. The line of credit expires on August 27, 2003 and is collateralized by a general lien on corporate assets. Though the Company had no borrowings under the credit line as of September 30, 2002, at such time the Company's net worth was $5,028,000.

## 4. INCOME TAXES

For the years ended September 30, 2002, 2001 and 2000, there was no provision for income taxes. Under SFAS 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, 2002 and 2001 are as follows:

| | | 2002 | | 2001 |
|---|---|---|---|---|
| Deferred tax liabilities: | | | | |
| Reserves not currently deductible | $ | 64,000 | $ | 150,000 |
| Book depreciation and amortization in excess of tax | | 330,000 | | 328,000 |
| Research credit carryforwards | | 529,000 | | 529,000 |
| AMT credit carryforward | | 69,000 | | 69,000 |
| Net operating loss carryforwards | | 2,235,000 | | 2,300,000 |
| Capitalized research and development costs | | 182,000 | | 173,000 |
| Uniform capitalization | | (13,000) | | (15,000) |
| Other | | 124,000 | | 156,000 |
| Total deferred tax assets | | 3,520,000 | | 3,690,000 |
| Valuation allowance for net deferred tax assets | | (3,520,000) | | (3,690,000) |
| Total | $ | 0 | $ | 0 |

The Company has provided a valuation allowance against deferred tax assets recorded as of September 30, 2002 and 2001 due to uncertainties regarding the realization of such assets.

The research credit and net operating loss carryforwards expire during the years 2005 to 2020. The federal and California net operating loss carryforwards at September 30, 2002 are approximately $6,080,000 and $2,790,000, respectively.



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

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Amount computed using statutory rate (34%) | $ 135,000 | $ (116,000) | $ (487,000) |
| Net change in valuation reserve for deferred tax assets | (157,000) | 178,000 | 529,000 |
| Non-deductible items | 22,000 | 13,000 | 12,000 |
| State income taxes | 0 | (75,000) | (54,000) |
| Provision for income taxes | $ 0 | $ 0 | $ 0 |

**5. LONG-TERM LIABILITIES**

As of September 30, 2002 and 2001, long-term liabilities were as follows:

| | 2002 | 2001 |
|---|---|---|
| Deferred rent payable—see Note 6 | $ 8,419 | $ 16,828 |
| Unearned maintenance income | 388,923 | 149,509 |
| Long-term payable | 68,400 | 0 |
| Non current deposits | 0 | 9,067 |
| Total | $ 465,742 | $ 175,404 |

**6. COMMITMENTS AND CONTINGENCIES**

*Legal Matters*—In the normal course of business, the Company, at various times, has been named in lawsuits. As previously disclosed, the Company, and officers of the Company, William Boersing, John M. Thornton, Dennis A. Brittain, Noel Flynn, and Board of Directors member, James De Bello, were sued in five lawsuits filed in October and November 2000. The same or similar allegations are made in all five lawsuits. These lawsuits were settled during the third quarter of fiscal 2001. The settlement did not have a material adverse effect on the Company's financial condition or results of operations. As previously disclosed, the Company was also a defendant in a case filed by DMS, Inc., d/b/a Document Management & Support. The plaintiff sought damages against the Company on a number of theories. This lawsuit was dismissed during the third quarter of fiscal 2001.

*Employee 401(k) Plan*—The Company has a 401(k) plan that allows participating employees to contribute up to 15% of their salary, subject to annual limits. The Board may, at its sole discretion, approve Company contributions. During fiscal 2002, 2001 and 2000, the Company elected not to make any contributions to the plan.

*Leases*—The Company's offices and manufacturing facilities are leased under non-cancelable operating leases. The primary facilities lease expires on September 30, 2005. In addition, the Company leases office space in Sterling, VA which expires December 31, 2003, and in Pelham, AL which expires June 30, 2004. The lease costs are expensed on a straight-line basis over the lease term.



Future annual minimum rental payments payable by the Company under non-cancelable leases are as follows:

| | Operating Leases |
|---|---|
| **Year Ending September 30:** | |
| 2003 | $ 383,809 |
| 2004 | 395,323 |
| 2005 | 407,183 |
| Total | $ 1,186,315 |

Rent expense for operating leases, net of sub-lease income, for the years ended September 30, 2002, 2001 and 2000 totaled $314,872, $184,445, and $168,173, respectively.

**7. RELATED PARTY TRANSACTIONS**

During the second and third quarter of 2002, the Company engaged the services of Daniel Steimle, a director of the Company, to provide financial consulting services unrelated to service as a board member. The total amount paid for these services was $105,875. See Note 1.

**8. PRODUCT REVENUES AND SALES CONCENTRATIONS**

Product Revenues—During fiscal years 2002, 2001 and 2000, the Company's revenues were derived primarily from the Character Recognition Product line. Revenues by product line as a percentage of net sales are summarized as follows:

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| Character recognition | 95% | 95% | 97% |
| Maintenance & Other | 5% | 5% | 3% |

Sales Concentrations—The Company sells its products primarily to community depository institutions. For the years ended September 30, 2002, 2001 and 2000, the Company had the following sales concentrations:

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| Customers to which sales were in excess of 10% of total sales | | | |
| * Number of customers | 3 | 1 | 3 |
| * Aggregate percentage of sales | 34% | 11% | 52% |
| Foreign Sales—primarily Europe | 4% | 3% | 15% |



**9. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

Summarized quarterly financial information for the years ended September 30, 2002 and 2001 is as follows (In thousands, except per share data):

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Year Ended September 30, 2002 | | | | |
| Net Sales | $ 3,388 | $ 3,080 | $ 2,763 | $ 3,852 |
| Gross Margin | 2,492 | 2,153 | 2,365 | 2,322 |
| (Loss) Income from Operations | 377 | (131) | 162 | (20) |
| Net Income (Loss) | 380 | (141) | 173 | (15) |
| Income (Loss) per share—Basic | .03 | (.01) | .02 | (.00) |
| Income (Loss) per share—Diluted | .03 | (.01) | .02 | (.00) |
| Year Ended September 30, 2001 | | | | |
| Net Sales | $ 2,050 | $ 1,780 | $ 2,828 | $ 2,729 |
| Gross Margin | 1,561 | 1,279 | 2,127 | 1,770 |
| (Loss) Income from Operations | (151) | (531) | 490 | (106) |
| Net Income (Loss) | (173) | (552) | 508 | (124) |
| Income (Loss) per share—Basic | (.02) | (.05) | .05 | (.01) |
| Income (Loss) per share—Diluted | (.02) | (.05) | .05 | (.01) |



## SUPPLEMENTAL INFORMATION

**CORPORATE OFFICE**
Mitek Systems, Inc.
14145 Danielson Street, Suite B
Poway, California 92064
(858) 513-4600

**REGIONAL OFFICES**
107 Carpenter Drive, Suite 120
Sterling, Virginia 20164
(703) 318-7030

312 Canyon Park Drive
Pelham, Alabama 35124
(205) 664-7077

**CORPORATE OFFICERS**
John M. Thornton, Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer
David Pintsov, Ph.D., Senior Vice President

William Boersing, Vice President North American Sales
Noel Flynn, Vice President Operations

**TRANSFER AGENT**
Mellon Investor Services LLC
400 S. Hope Street, Fourth Floor, Los Angeles, California 90071
www.melloninvestor.com

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

**DIRECTORS**
John M. Thornton, Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer
Sally B. Thornton(1), Investor
Daniel E. Steimle(1),(2)
James B. DeBello(1),(2)
Gerald I. Farmer, Ph.D.(2)
John G. Rebelo, Jr.(2)

**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., 14145 Danielson St., Suite B, Poway, California 92064, phone (858) 513-4600.

**STOCKHOLDERS:**
As of December 2, 2002, there were 511 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.

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**COMMON STOCK MARKET(1)**

**PRICE RANGE(2)**

| | 2002 | | 2001 | |
|---|---|---|---|---|
| **FISCAL QUARTER** | **LOW** | **HIGH** | **LOW** | **HIGH** |
| **1st** | 1.15 | 2.25 | 0.50 | 2.56 |
| **2nd** | 1.43 | 2.95 | 0.56 | 2.06 |
| **3rd** | 1.12 | 2.71 | 0.70 | 1.28 |
| **4th** | 0.80 | 1.40 | 1.08 | 2.54 |

**(1)** The Company's common stock is traded on the NASDAQ National Market under the symbol "MITK" and the closing bid price on December 2, 2002 was $1.13.

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

**SELECTED FINANCIAL DATA**

The table below sets forth selected financial data for each of the years in the five-year period ended September 30, 2002.

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| | **(DOLLAR AMOUNT IN THOUSANDS EXCEPT PER SHARE DATA)** | | | | |
| Net Sales | $ 13,083 | $ 9,387 | $ 9,348 | $ 9,741 | $ 6,501 |
| Net income (loss) | 397 | (341) | (1,434) | 2,026 | (1,497) |
| Net income (loss) per share | .04 | (0.03) | (0.13) | .19 | (0.13) |
| Total assets | 8,300 | 6,616 | 7,774 | 7,389 | 6,136 |
| Long-term liabilities | 466 | 175 | 41 | 51 | 55 |
| Stockholders' equity | 5,028 | 4,564 | 4,890 | 5,622 | 4,282 |

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**MITEK SYSTEMS, INC.**

**INDEX TO EXHIBITS**

| EXHIBIT | EXHIBIT |
|---|---|

| NO. | |
|---|---|
| 3.1 | Certificate of Incorporation of Mitek Systems of Delaware, Inc. (now Mitek Systems, Inc.) a Delaware corporation as amended.(1) |
| 3.2 | Bylaws of Mitek Systems, Inc. as Amended and Restated.(1) |
| 10.1 | 1986 Stock Option Plan(2) |
| 10.2 | 1988 Non Qualified Stock Option Plan(2) |
| 10.3 | 1996 Stock Option Plan(3) |
| 10.4 | 1999 Stock Option Plan(4) |
| 10.5 | 401(k) Plan(2) |
| 13. | Annual Report to Stockholders for the year ended September 30, 2001(5) |
| 23. | Independent Auditors' Consent |

(1) Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1998.

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

(3) Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1999.

(4) Incorporated by reference to the exhibits to the Company's Registration Statement on Form S-8 originally filed with the SEC on June 10, 1999.

(5) Incorporated by reference to the exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2000.

**PART IV**

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

The following documents are filed as a part of this report:

(a)(1) Financial Statements
See Item 8.

(a)(2) Financial Statement Schedules
See Item 8.

(a)(3) Exhibits listed in the Exhibit Index are filed or incorporated by reference as a part of this report.

QuickLinks

**Exhibit 23**

**INDEPENDENT AUDITORS' CONSENT**

We consent to the incorporation by reference in Registration Statements Nos. 33-3888, 333-23707, 333-80567 and 333-58032 of Mitek Systems, Inc. on Form S-8 of our report dated November 12, 2002, incorporated by reference in this Annual Report on Form 10-K of Mitek Systems, Inc. for the year ended September 30, 2002.

San Diego, California
December 19, 2002

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QuickLinks -- Click here to rapidly navigate through this document

**Exhibit 99.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, John M. Thornton, Chairman of the Board, President, Chief Executive Officer, and Chief Financial Officer of Mitek Systems, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) the Annual Report on Form 10-K of the Registrant for the period ended September 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: December 23, 2002

By: /s/ JOHN M. THORNTON

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

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QuickLinks

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

**Exhibit 99.2**

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John M. Thornton, Chairman of the Board, President, Chief Executive Officer, and Chief Financial Officer of Mitek Systems, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) the Annual Report on Form 10-K of the Registrant for the period ended September 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: December 23, 2002

By: /s/ JOHN M. THORNTON

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