

MITEK SYSTEMS INC  
Form 10-K  
January 13, 2005

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, 2004

or

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

Commission file number 0-15235

**MITEK SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

87-0418827  
(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

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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act)  
Yes  No

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The aggregate market value of voting stock held by non-affiliates of the registrant was \$9,272,751 as of March 31, 2004 (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 11,389,481 shares outstanding of the registrant's Common Stock as of December 3, 2004.

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, 2004. Part III incorporates certain information by reference from the Proxy Statement for the 2005 Annual Meeting of Stockholders.

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**MITEK SYSTEMS, INC.**

**FORM 10-K**

**For The Fiscal Year Ended September 30, 2004**

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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, 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 Issues and Uncertainties.

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 2004, the Company had one operating segment based on its product and service offerings: Automated Document Processing.

#### 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 and the automated processing of documents. Mitek's family of ADR products is made up of the three distinct product lines: Recognition Toolkits, Document and Image Processing Solutions and Check Imaging Solutions.



## Recognition Toolkits

The Company's ADR products incorporate the Company's proprietary intelligent character recognition (ICR) software engine QuickStrokes<sup>®</sup> API (Application Programmers Interface), and a licensed ICR software engine CheckScript<sup>®</sup> (a trademark of Parascript LLC). QuickStrokes<sup>®</sup> API and CheckScript<sup>®</sup> are sold to original equipment manufacturers (OEMs) such as BancTec, Unisys, and J&B Software, and to systems integrators such as Computer Sciences Corporation. We estimate that one-third of all checks processed in the U.S. use Mitek's software.

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

QuickFX<sup>®</sup> 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<sup>®</sup> 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.

ImageScore is Mitek's Check 21 readiness solution for any financial institution that truncates or uses check images in an accounts receivables conversion environment. Integrated solution providers for financial institutions can also buy ImageScore to enhance their products. ImageScore can quickly, accurately and comprehensively analyze check images to provide the usability and quality information needed to help financial institutions act and conform to regulatory and industry mandates. As a result, institutions minimize their risk by ensuring the integrity of check images they process, and they eliminate costly manual processes associated with managing transactions from bad check images

### **Forgery Detection Toolkits**

Mitek's Signature & Check Stock Verification API is fully automated and incorporates advanced imaging, image analysis and data extraction technologies that can help verify the authenticity of every signature on every check that passes through a bank, and analyzes paper stock for any indication that an item is a counterfeit.

Mitek's PayeeFind prevents payee-altered checks from clearing. As a result, PayeeFind can substantially reduce losses and cut administrative costs by eliminating the need for organizations to complete and file affidavits to recover funds from checks that have cleared with fraudulent payees. With PayeeFind, this type of fraud can be stopped before recovery becomes an issue.

Mitek's PADsafe toolkit is the first toolkit of its kind to detect fraudulent preauthorized drafts. It automatically identifies PADs from checks, then notifies the user of any potentially suspicious PADs. As a result, the withdrawal of unauthorized funds due to fraudulent PAD transactions is reduced and often prevented.

### **Forgery Detection Solution**

Mitek's FraudProtect System is a unique and innovative solution for community and mid-sized banks to detect the most common forms of check fraud, signature forgery and counterfeit checks. Using FraudProtect System, banks can significantly reduce losses due to fraud.

### **Document and Image Processing Solutions**

DynaFind<sup>®</sup> is a software toolkit that captures data from many types of unstructured business documents. DynaFind is used in challenging data capture applications where data must be found and extracted from documents that have no pre-determined format or layout, but share common data elements. DynaFind locates this data on documents using contextual, positional, format- and keyword-specific information, even if it appears in a different location on each document. The Company has supplied DynaFind<sup>®</sup> as a stand alone API to several important OEMs in the document processing field. DynaFind<sup>®</sup> is also available as an add-on feature that has been integrated into Doctus, Mitek's forms processing solution.

Leveraging its core technical competency in ICR, the Company has addressed the forms processing market with its Doctus<sup>®</sup> product. Doctus<sup>®</sup> incorporates the Company's core ICR technology in an application designed for end users in a broad variety of industries that require high volume automated data entry. The Company believes its Doctus<sup>®</sup> 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<sup>®</sup> is able to process unstructured forms because it incorporates Mitek's DynaFind<sup>®</sup> forms understanding technology. With DynaFind<sup>®</sup>, Doctus<sup>®</sup> automatically classifies unstructured forms and extracts relevant data from the form contents. Major Doctus<sup>®</sup> customers include AIG and Sungard.

## Check Imaging Solutions

CheckQuest is Mitek's image-enabled check and item processing solution. It is specifically designed for check image processing applications at community and regional banks, such as Proof of Deposit, Retail/Wholesale Lock Box, and Remittance Processing. CheckQuest is designed to expand and improve an institution's operational efficiency and customer service without adding staff, while reducing monthly expenses. CheckQuest utilizes Mitek's field-proven CAR/LAR technology, currently in use worldwide for processing billions of checks per year. With the passage of the Check Clearing for the 21<sup>st</sup> Century Act, or Check 21, in October of 2003, banks can substitute electronic check images for paper checks in the clearance and settlement process. This new electronic format is expected to dramatically reduce bank operating costs and save millions of dollars each year. With Check 21 calling for the use of electronic check images within a year's time, The Company believes CheckQuest can play a strategic role in preparing banks for check truncation and electronic check presentation. The Company substantially exited this line of business, by agreeing to the transaction with Harland Financial Solutions described in Note 8 of the accompanying financial statements.

## RESEARCH AND DEVELOPMENT

During fiscal years 2004, 2003, and 2002 research and development expense was approximately \$2,204,000, \$2,242,000, and \$2,049,000, respectively. Those amounts represented 42%, 19%, and 16%, respectively, of revenue in each of those years. We plan to continue spending significant amounts for research and product 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. We do not believe we are materially dependent upon licenses and other agreements with third parties, relating to the development of our products. 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 devises innovative solutions to automated character processing problems, such as the enhancement and improvement of degraded images, and the development of user-manipulated tools to aid in automated document processing. The Company intends to expand its existing product offerings and to introduce new document 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 thirteen software engineers at September 30, 2004, including six with advanced degrees. The Company balances its engineering resources between development of ICR technology and applications development. Of the thirteen software engineers, approximately nine are involved in ICR research and development of the QuickStrokes<sup>®</sup> API recognition engine. The remaining software engineers are involved in applications development, including the Doctus<sup>®</sup>, QuickFX<sup>®</sup> Pro, CheckQuest<sup>®</sup> and FraudProtect<sup>®</sup> 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, in addition to small and large financial institutions. The Company currently maintains its sales and support office in California. 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 Company licenses its software to organizations on a perpetual basis. The Company also licenses software to organizations under Enterprise Agreements that allow the end-user customer to acquire multiple licenses, without having to acquire separate packaged products. These Enterprise Agreements are targeted at large organizations that want to acquire perpetual licenses to software products for their entire enterprise along with rights to unspecified future versions of software products over the term of the agreement.

The ability to support international markets has assisted the Company in its international sales effort. International sales accounted for approximately 4%, 3%, and 4%, of the Company's net sales for the fiscal years ended September 30, 2004, 2003, and 2002, 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 2004 were made to customers in fifteen countries including Australia, Brazil, Canada, Czech Republic, United Kingdom, France, Germany, Spain, India, Italy, Jamaica, Japan, Netherlands, Portugal, and Sweden. The Company sells its products in United States currency only. The Company recorded a significant portion of its revenues from one customer in fiscal 2004, three customers in fiscal 2003, and three customers in fiscal 2002, respectively. Net sales from these customers aggregated 12%, 30%, and 34%, for the fiscal years 2004, 2003 and 2002, respectively.

## MAINTENANCE AND SUPPORT

Following the installation of our software at a customer site, we provide ongoing software support services to assist our customers in operating the systems. The Company has an internal customer service department that handles installation and maintenance requirements. The majority of inquiries are handled by telephone. For more complicated issues, our staff, with our customers' permission, can log on to our customers' systems remotely. Occasionally, visits to the customer's facilities are required to resolve support issues. We maintain our customers' software largely through releases which contain improvements and incremental additions. Nearly all of our in-house customers contract for annual support services from us. These services are a significant source of recurring revenue, and are contracted for on an annual basis and are typically priced at approximately 15% to 18% of the particular software product's license fee. The Company believes that as the installed base of its products grows and as customers purchase additional complementary products, the software support function will become a larger source of recurring revenues. Maintenance and support service fees are deferred and recognized into income over the contract period on a straight-line basis. 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 automated document processing systems; (iii) companies offering competing technologies capable of recognizing hand-printed and cursive characters; and (iv) direct competition from companies offering check imaging systems to banks.

It is also possible that the Company will face competition from new competitors. Moreover, as the market for automated document processing, ICR, check imaging and fraud detection 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<sup>®</sup> API product and licensed CheckScript<sup>®</sup> product compete, 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 (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) an architectural software design, which allows it to be more readily modified, improved with added functionality, configured for new products, and ported to new operating systems and upgrades. Despite these advantages, QuickStrokes<sup>®</sup> API and CheckScript<sup>®</sup> competitors have existed longer and have far greater financial resources and industry connections than the Company.

The Company's Doctus<sup>®</sup> product competes against complete proprietary systems offered by software developers, such as Microsystems Technology, Readsoft, and Cardiff Software, Inc. In addition, Doctus<sup>®</sup> faces competition from providers of recognition systems that incorporate ADR technology such as Microsystems Technology, Inc., and Captiva. Because Doctus<sup>®</sup> is based on the Company's proprietary QuickStrokes<sup>®</sup> API engine, its competitive advantages reflect the advantages of the QuickStrokes<sup>®</sup> engine. The Company believes its Doctus<sup>®</sup> and DynaFind<sup>®</sup> software provides the highest levels of automation in the industry. DynaFind, 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<sup>®</sup> 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<sup>®</sup> product competes against complete proprietary systems offered by software developers such as Bankware, AFS, and BISYS/Document Solutions. Because CheckQuest<sup>®</sup> is based on the Company's proprietary QuickStrokes<sup>®</sup> engine, the Company believes its CheckQuest<sup>®</sup> 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. The CheckQuest<sup>®</sup> system allows bank customers to research checks via the Internet and receive check image statements via e-mail. The Company's strategy is to position CheckQuest<sup>®</sup> to compete successfully in the community and regional bank marketplace, while offering superior accuracy, workflow and flexibility than competing systems currently on the market. The Company substantially exited this line of business, by agreeing to the transaction with Harland Financial Solutions described in Note 8 of the accompanying financial statements.

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.

## **EMPLOYEES AND LABOR RELATIONS**

As of September 30, 2004, the Company employed a total of 30 full-time and 1 part-time person, consisting of 10 in marketing, sales and support, 13 in research and development, 1 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.

## **AVAILABLE INFORMATION**

Our internet address is [www.miteksys.com](http://www.miteksys.com). There we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our SEC reports can be accessed through the investor relations section of our Web site. The information found on our Web site is not part of this or any other report we file with or furnish to the SEC.

## **ITEM 2. PROPERTIES**

The Company's principal executive offices, as well as its principal research and development facility, is located in approximately 26,455 square feet of leased office building space in Poway, California. The lease on this facility expires September 30, 2005. During the year, the Company leased a customer services and support facility in Alabama. This lease was assumed by Harland Financial Solutions as part of the transaction described in Footnote 8 of the accompanying financial statements. The Company also leased a sales, customer services and support facility in Maryland. The Company believes that its existing facilities are adequate for its current needs.

## **ITEM 3. LEGAL PROCEEDINGS**

The Company is currently in litigation with BSM regarding a certain license agreement pursuant to which we licensed certain of BSM's technology. BSM has claimed over \$400,000 in unpaid royalties and the Company has counterclaimed for over \$1,000,000 with respect to interference with business relations, breach of confidentiality and unfair competition. At this time, the matter is in binding arbitration and we cannot make a reasonable determination regarding the outcome of this matter.

Other than as described above, we are not aware of any legal proceedings or claims that we believe may have, individually or in the aggregate, a material adverse effect on our 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, 2004.

## **ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT**

Our executive officers as of December 29, 2004 were as follows:

Name	Age	Position with the Company
James B. DeBello	46	President, Chief Executive Officer
John M. Thornton	72	Chairman, Chief Financial Officer
Murali Narayanan	52	Vice President - Marketing
Emmanuel deBoucaud	38	Vice President - Sales

Mr. DeBello was named President and Chief Executive Officer in May 2003. He has served as a director of the company since 1994. Prior to being named Chief Executive Officer, he served as Chief Executive Officer of Asia Corporation Communications from 2001 to May 2003. Prior to that, he served as Chief Executive Officer of IdeaEdge Ventures from 2000 to 2001. Prior to that, he served as Chief Operating Officer of CollegeClub.com from 1999 to 2000.

Mr. Thornton served as Chairman, President, Chief Executive Officer and Chief Financial Officer from August 1998 to May 2003, when he resigned as President and Chief Executive Officer but remained as Chairman and Chief Financial Officer. He has served as Chairman since 1987.

Mr. Narayanan joined the Company in July 2003 as Vice President of Marketing. Prior to joining the Company, he served from May, 2000 as Vice President of Business Development of Embrace Networks. Prior to that, he served from May 1999 to April 2000 as Director of Marketing, Internet and Connectivity Solutions for Motorola, Inc.

Mr. deBoucaud joined the Company in July 2004. Prior to joining the Company, he served from September 1995 to March 2004 as Vice President of Sales for Cardiff Software, Inc.

## Part II

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

Our common stock is traded on the OTC Bulletin Board under the symbol MITK.OB and the closing bid price on December 3, 2004 was \$0.50. As of December 3, 2004, there were 476 holders of record of Mitek Systems, Inc. Common Stock.

During the fiscal year ended September 30, 2004, the Company's Common Stock initially traded on the Nasdaq SmallCap Market under the symbol "MITK". The Common Stock was delisted from the Nasdaq SmallCap Market, because it failed satisfy the requirement that it maintain at least \$2.5 million in shareholders equity. The delisting was effective on May 24, 2004, and since that time, the Common Stock has traded on the OTC Bulletin Board maintained by the NASD.

The following table sets forth, for the fiscal period indicated, the high and low closing bid prices for the Common Stock as reported on the Nasdaq National Market or the OTC Bulletin Board. The quotations for the Common Stock traded on the OTC Bulletin Board may reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

(1):

<b>Quarter Ended</b>	<b>Dec. 31</b>	<b>Mar. 31</b>	<b>Jun. 30</b>	<b>Sept. 30</b>	<b>Year</b>
<b>Fiscal 2003</b>					
Common stock price per share					
High	1.44	1.49	1.64	1.49	1.64
Low	.83	.85	1.00	.96	.83
<b>Fiscal 2004</b>					
Common stock price per share					
High	\$				