MITEK SYSTEMS INC
Form 10QSB
February 14, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, DC. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended December 31, 2007 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 small business issuer as specified in its charter)

Delaware	87-0418827
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8911 Balboa Ave., Suite B, San Diego, California	*92123*
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number *(858) 503-7810*

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

There were 16,751,137 shares outstanding of the registrant's Common Stock as of February 4, 2008.

Transitional Small Business Disclosure Format: Yes o No x

MITEK SYSTEMS, INC.

FORM 10-QSB

For the Quarter Ended December 31, 2007

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ITEM 1

FINANCIAL INFORMATION

MITEK SYSTEMS, INC.
BALANCE SHEET

	December 31, 2007 (Unaudited)	September 30, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,498,691	$ 2,096,282
Accounts receivable including related party of $222,166 and $203,466, respectively, net of allowance of $18,977 in both periods	879,493	542,009
Inventory, prepaid expenses and other current assets	66,343	99,476
Total current assets	2,444,527	2,737,767
PROPERTY AND EQUIPMENT-net	85,624	77,827
OTHER ASSETS	29,465	29,465
TOTAL ASSETS	$ 2,559,616	$ 2,845,059
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 196,314	$ 120,519
Accrued payroll and related taxes	291,909	249,036
Deferred revenue	332,187	541,010
Other accrued liabilities	43,541	31,510
Total current liabilities	863,951	942,075
Deferred rent	48,577	44,596
TOTAL LIABILITIES	912,528	986,671
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value, 1,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $.001 par value; 40,000,000 shares authorized, 16,751,137 issued and outstanding	16,751	16,751
Additional paid-in capital	14,653,194	14,582,894
Accumulated deficit	(13,022,857)	(12,741,257)
Total stockholders' equity	1,647,088	1,858,388
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,559,616	$ 2,845,059

The accompanying notes form an integral part of these financial statements.

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MITEK SYSTEMS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED December 31, 2007	THREE MONTHS ENDED December 31, 2006
NET SALES		
Software including approximately $227,000 and $24,000 to a related party, respectively	$ 785,261	$ 920,456
Professional Services, education and other including approximately $9,000 and $86,000 to a related party, respectively	478,338	518,376
	1,263,599	1,438,832
COSTS AND EXPENSES:		
Cost of sales-software	133,087	134,656
Cost of sales-professional services, education and other	41,777	22,106
Operations	24,399	21,982
Selling and marketing	345,506	255,019
Research and development	530,887	501,906
General and administrative	472,463	795,814
Total costs and expenses	1,548,119	1,731,483
OPERATING LOSS	(284,520)	(292,651)
OTHER INCOME (EXPENSE):		
Interest expense	-	(5,916)
Interest and other income	2,920	4,423
Total other income (expense) - net	2,920	(1,493)
LOSS BEFORE INCOME TAXES	(281,600)	(294,144)
PROVISION FOR INCOME TAXES	-	-
NET LOSS	$ (281,600)	$ (294,144)
NET LOSS PER SHARE - BASIC AND DILUTED	$ (0.02)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	16,751,137	16,748,974

The accompanying notes form an integral part of these financial statements.

MITEK SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	THREE MONTHS ENDED December 31, 2007	2006
OPERATING ACTIVITIES		
Net loss	$ (281,600)	$ (294,144)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,348	11,288
Provision (recoveries) for bad debts	-	(15,000)
Stock based compensation expense	70,300	44,349
Changes in assets and liabilities:		
Accounts receivable	(337,484)	231,910
Inventory, prepaid expenses, and other assets	33,134	74,549
Accounts payable	75,795	182,553
Accrued payroll and related taxes	42,873	(14,374)
Deferred revenue	(208,823)	(135,905)
Other accrued liabilities	12,031	20,419
Deferred rent	3,981	6,371
Net cash provided by (used in) operating activities	(579,445)	112,016
INVESTING ACTIVITIES		
Purchases of property and equipment	(18,146)	-
Net cash used in investing activities	(18,146)	-
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	-	4,636
Net cash provided by financing activities	-	4,636
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(597,591)	116,652
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,096,282	2,331,011
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,498,691	$ 2,447,663
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -

The accompanying notes form an integral part of these financial statements.

MITEK SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying balance sheet as of September 30, 2007, which has been derived from audited financial statements, and the unaudited interim financial statements of Mitek Systems, Inc. (the "Company") have been prepared in accordance with the instructions to Form 10-QSB and, therefore, do not include all information and footnote disclosures that are otherwise required by Regulation S-B and that will normally be made in the Company's Annual Report on Form 10-KSB. Refer to the Company's financial statements on Form 10-KSB for the year ended September 30, 2007 for additional information. The financial statements do, however, reflect all adjustments (solely of a normal recurring nature) which are, in the opinion of management, necessary for a fair statement of the results of the interim periods presented.

Results for the three months ended December 31, 2007 are not necessarily indicative of results which may be reported for any other interim period or for the year as a whole.

2. Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 *Fair Value Measurements* ("SFAS 157"). SFAS 157 provides a new single authoritative definition of fair value and provides enhanced guidance for measuring the fair value of assets and liabilities and requires additional disclosures related to the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 is effective for fiscal years beginning after November 15, 2007.We are currently assessing the impact, if any, of SFAS 157 on our financial position, results of operation, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of SFAS No. 115,* which allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses for that item shall be reported in current earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurement attributes the company elects for similar types of assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007. We are in the process of evaluating the application of the fair value option and its effect on our results of operations or financial condition.

In December 2007 the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements*. SFAS No. 160 amends Accounting Research Bulletin 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS No. 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the non-controlling owners of a subsidiary. SFAS No. 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently assessing the impact of the adoption of SFAS No. 160 and its impact on our financial condition, results of operations or cash flows.

In December 2007 the FASB issued SFAS No. 141R, *Business Combinations*. This Statement replaces SFAS No. 141 and requires an acquirer in a business combination to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. SFAS No. 141R also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS No. 141R). In addition, SFAS No. 141R's requirement to measure the non-controlling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the non-controlling interest in addition to that attributable to the acquirer. SFAS No. 141R amends SFAS No. 109, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination, or directly in contributed capital, depending on the circumstances. It also amends SFAS No. 142, *Goodwill and Other Intangible Assets*, to provide guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently assessing the impact of the adoption of SFAS No. 141R and its impact on our financial condition, results of operations or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accounts ("AICPA") and the SEC did not or are not believed by management to have a material impact on the Company's present or future financial statements.

3. Accounting for Stock-Based Compensation

Stock Based Benefit Plans

We have stock option plans for executives and key individuals who make significant contributions to Mitek. The exercise price of options granted to those persons owning more than 10% of the total combined voting power of the Company's stock are not to be less than 110% of the fair market value of the stock as determined on the date of the grant of the options.

The 1996 plan provides for the purchase of up to 2,000,000 shares of common stock through incentive and non-qualified options. Options are granted with an exercise price equal to the fair market value of our 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. All the options available under the 1996 plan were granted prior to March of 1999 and no additional options will 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 stock options are granted with an exercise price equal to the fair market value of our stock at the grant date and for a term of not more than ten years. Non-qualified stock options may be granted with an exercise price not less than 85% of fair market value of our stock at the grant date, and for a term of not more than five years. To date, we have elected to grant non-qualified stock option grants under the 1999 plan with a three year term.

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 with an exercise price equal to the fair market value of our stock at the grant date and for a term of not more than ten years. Non-qualified stock options may be granted with an exercise price of not less than 85% of fair market value of our stock at the grant date, and for a term of not more than five years. To date, we have elected to grant non-qualified stock option grants under the 2000 plan with a three year term.

The 2002 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 with an exercise price equal to the fair market value of our stock at the grant date and for a term of not more than ten years. Non-qualified stock options may be granted with an exercise price of not less than 85% of fair market value of our stock at the grant date, and for a term of not more than five years. To date, we have elected to grant non-qualified stock option grants under the 2002 plan with a three year term.

The 2006 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 with an exercise price equal to the fair market value of our stock at the grant date and for a term of not more than ten years. Non-qualified stock options may be granted with an exercise price of not less than 85% of fair market value of our stock at the grant date, and for a term of not more than five years. To date, we have elected to grant non-qualified stock option grants under the 2006 plan with a three year term.

Adoption of SFAS 123 (R)

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's Statement of Operations for the three month period ended December 31, 2007 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2007 based on the grant date fair value estimated in accordance with the provisions of SFAS 123 and compensation expense for the share-based payment awards granted subsequent to September 30, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). As stock-based compensation expense recognized in the Statement of Operations for the first three months of fiscal 2008 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The estimated average forfeiture rates for the three months ended December 31, 2007 of approximately 14.7% for grants to all employees were based on historical forfeiture experience. The estimated expected life of option grants for the first three month period ended December 31, 2007 was 1.8 years on grants to directors and 6 years on grants to employees. In the Company's pro forma information required under SFAS 123 for the periods prior to fiscal 2007, the Company accounted for forfeitures as they occurred.

SFAS 123R requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash flows. Due to the Company's valuation allowance from losses in the previous years, there were no such tax benefits during the three month period ended December 31, 2007. Prior to the adoption of SFAS 123(R) those benefits would have been reported as operating cash flows had the Company received any tax benefits related to stock option exercises.

The fair value of stock-based awards to employees and directors is calculated using the Black-Scholes option pricing model, even though this model was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ significantly from the Company's stock options. The Black-Scholes model requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S Treasury rate that corresponds to the expected life of the grant effective as of the date of the grant. The expected volatility is based on the historical volatility of the Company's stock price. These factors could change in the future, affecting the determination of stock-based compensation expense in future periods.

Valuation and Expense Information under SFAS 123(R)

The value of stock-based compensation is based on the single option valuation approach under SFAS 123R. It is assumed no dividends will be declared. The estimated fair value of stock-based compensation awards to employees is amortized using the straight-line method over the vesting period of the options. The fair value calculations for stock-based compensation awards to employees for the three month periods ended December 31, 2007 and 2006 were based on the following assumptions:

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006
Risk-free interest rate	3.50% - 3.67%	2.25% - 5.07%
Expected life (years)	5.3	6
Expected volatility	94.19%	90%
Expected dividends	None	None

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The following table summarizes stock-based compensation expense related to stock options under SFAS 123(R) for the three month periods ended December 31, 2007 and 2006 which was allocated as follows:

	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006
Research and development	$ 12,225	$ 11,329
Sales and marketing	9,342	9,004
General and administrative	48,733	24,016
Stock-based compensation expense related to employee stock options included in operating expenses	$ 70,300	$ 44,349

The following table summarizes vested and unvested options, fair value per share weighted average remaining term and aggregate intrinsic value.

	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining contractual life (in Years)	Aggregate Intrinsic Value
December 31, 2007				
Vested	2,420,625	0.57	5.72	6,096
Unvested	1,218,077	0.36	9.64	38,384
Total	3,638,702	0.57	7.03	44,480

As of December 31, 2007, the company had $381,524 of unrecognized compensation expense expected to be recognized over a weighted average period of approximately 1.21 years.

A summary of option activity under the Company's stock equity plans during the three months ended December 31, 2007 is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in Years)
Outstanding, September 30, 2007	2,510,879	$ 0.96	6.39
Granted:			
Board of Directors	175,000		