MITEK SYSTEMS INC
Form 10QSB
May 13, 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 March 31, 2008 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 (State or other jurisdiction of incorporation or organization)	87-0418827 (I.R.S. Employer Identification No.)
8911 Balboa Ave., Suite B, San Diego, California (Address of principal executive offices)	*92123* (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 May 12, 2008.

Transitional Small Business Disclosure Format: Yes o No x

MITEK SYSTEMS, INC.

FORM 10-QSB

For the Quarter Ended March 31, 2008

INDEX

ITEM 1
FINANCIAL INFORMATION

MITEK SYSTEMS, INC
BALANCE SHEETS

		March 31, 2008 (Unaudited)		September 30, 2007
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	1,506,590	$	2,096,282
Accounts receivable including related party of $3,776 and $203,466, respectively, net of allowance of $18,977 in both periods		1,183,463		542,009
Inventory, prepaid expenses and other current assets		83,055		99,476
Total current assets		2,773,108		2,737,767
PROPERTY AND EQUIPMENT-net		84,130		77,827
OTHER ASSETS		29,465		29,465
TOTAL ASSETS	$	2,886,703	$	2,845,059
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	272,870	$	120,519
Accrued payroll and related taxes		306,658		249,036
Deferred revenue		723,603		541,010
Other accrued liabilities		59,054		31,510
Total current liabilities		1,362,185		942,075
Deferred rent		50,966		44,596
TOTAL LIABILITIES		1,413,151		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		14,701,434		14,582,894
Accumulated deficit		(13,244,633)		(12,741,257)
Total stockholders' equity		1,473,552		1,858,388
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	2,886,703	$	2,845,059

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

MITEK SYSTEMS, INC
STATEMENTS OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED March 31,		SIX MONTHS ENDED March 31,	
	2008	**2007**	**2008**	**2007**
SALES				
Software including sales to a related party of $600 and $11,220 for the three months ended March 31, 2008 and 2007, respectively, and $227,712 and $35,161 for the six months ended March 31, 2008 and 2007, respectively	$ 797,015	$ 718,743	$ 1,582,276	$ 1,639,199
Professional services including sales to a related party of $15,394 and $162,370 for the three months ended March 31, 2008 and 2007, respectively, and $24,963 and $248,359 for the six months ended March 31, 2008 and 2007, respectively	463,501	582,698	941,839	1,101,074
	1,260,516	1,301,441	2,524,115	2,740,273
COSTS AND EXPENSES:				
Cost of sales-software	101,289	62,376	234,376	197,032
Cost of sales-professional services, education and other	41,359	45,942	83,136	68,048
Operations	24,131	21,924	48,530	43,906
Selling and marketing	334,501	295,278	680,007	550,298
Research and development	500,957	495,384	1,031,844	997,290
General and administrative	479,374	591,183	951,837	1,386,997
Total costs and expenses	1,481,611	1,512,087	3,029,730	3,243,571
OPERATING LOSS	(221,095)	(210,646)	(505,615)	(503,298)
OTHER INCOME (EXPENSE):				
Interest expense	-	(3,439)	-	(9,355)
Interest and other income	2,119	3,856	5,039	8,279
Total other income (expense) - net	2,119	417	5,039	(1,076)
LOSS BEFORE INCOME TAXES	(218,976)	(210,229)	(500,576)	(504,374)
PROVISION FOR INCOME TAXES	(2,800)	(800)	(2,800)	(800)
NET LOSS	$ (221,776)	$ (211,029)	$ (503,376)	$ (505,174)
	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.03)

NET LOSS PER SHARE - BASIC AND DILUTED				
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	16,751,137	16,751,137	16,751,137	16,750,044

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

2

MITEK SYSTEMS, INC
STATEMENTS OF CASH FLOWS
(Unaudited)

	SIX MONTHS ENDED March 31, 2008	2007
OPERATING ACTIVITIES		
Net loss	$ (503,376)	$ (505,174)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	19,375	21,753
Provision (recoveries) for bad debts	-	(20,654)
Stock-based compensation expense	118,540	140,703
Changes in assets and liabilities:		
Accounts receivable	(641,454)	(86,054)
Inventory, prepaid expenses, and other assets	16,421	108,461
Accounts payable	152,351	(47,152)
Accrued payroll and related taxes	57,622	24,303
Deferred revenue	182,593	227,562
Other accrued liabilities	27,544	(10,306)
Deferred rent	6,370	11,149
Net cash used in operating activities	(564,014)	(135,409)
INVESTING ACTIVITIES		
Purchases of property and equipment	(25,678)	(5,947)
Proceeds from sale of property and equipment	-	1,044
Net cash used in investing activities	(25,678)	(4,903)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	-	4,636
Net cash provided by financing activities	-	4,636
NET DECREASE IN CASH AND CASH EQUIVALENTS	(589,692)	(135,676)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,096,282	2,331,011
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,506,590	$ 2,195,335
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ -	$ 9,355
Cash paid for income taxes	$ 2,800	$ 800

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 and six months ended March 31, 2008 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 Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 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 No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact, if any, of SFAS No. 157 on its 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. The Company is in the process of evaluating the application of the fair value option and its effect on its 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, if any, of the adoption of SFAS No. 160 on its financial condition, results of operations or cash flows.

4

In December 2007 the FASB issued SFAS No. 141(R), *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. 141(R) 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. 141(R)). In addition, SFAS No. 141(R)'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. 141(R) amends SFAS No. 109, *Accounting for Income Taxes*, 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. 141(R) 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, if any, of the adoption of SFAS No. 141(R) and its impact on its 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 Accountants ("AICPA") and the Securities and Exchange Commission ("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

The Company has 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 the Company's common stock through incentive and non-qualified options. Options are granted with an exercise price equal to the fair market value of the Company's common 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 1996 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 the plan.

The 1999 Plan provides for the purchase of up to 1,000,000 shares of the Company's common stock through incentive and non-qualified options. Incentive stock options are granted with an exercise price equal to the fair market value of the Company's common 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 the Company's common stock at the grant date, and for a term of not more than five years. To date, the Company has 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 the Company's common stock through incentive and non-qualified options. Incentive options must be granted with an exercise price equal to the fair market value of the Company's common 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 the Company's common stock at the grant date, and for a term of not more than five years. To date, the Company has 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 the Company's common stock through incentive and non-qualified options. Incentive options must be granted with an exercise price equal to the fair market value of the Company's common 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 the Company's common stock at the grant date, and for a term of not more than five years. To date, the Company has 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 the Company's common stock through incentive and non-qualified options. Incentive options must be granted with an exercise price equal to the fair market value of the Company's common 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 the Company's common stock at the grant date, and for a term of not more than five years. To date, the Company has 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 and six month periods ended March 31, 2008 included compensation expense for share-based payment awards granted prior to, but not yet vested as of September 30, 2006 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 six 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 rate at March 31, 2008 of approximately 12% for grants to all employees was based on historical forfeiture experience. The estimated expected life of option grants for the six month period ended March 31, 2008 was 1.8 years on grants to directors and 5.9 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 123(R) requires the cash flows 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 and six month period ended March 31, 2008. 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 123(R). 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 for the three and six month periods ended March 31, 2008 and 2007 were based on the following assumptions:

	Three and Six Months	Three and Six Months

Ended	Ended
March 31, 2008	