

MITEK SYSTEMS INC  
Form 10-K  
January 13, 2009

Washington, D.C. 20549

SECURITIES AND EXCHANGE COMMISSION

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2008

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-15235

MITEK SYSTEMS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

87-0418827  
(I.R.S. Employer Identification No.)

8911 Balboa Ave., Suite B  
San Diego, California  
(Address of principal executive offices)

92123  
(Zip Code)

Registrant's telephone number: (858) 503-7810

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 the registrant's knowledge, in definitive proxy or information

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statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The aggregate market value of voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of January 8, 2009 (See definition of affiliate in Rule 12b-2 of the Exchange Act.) is \$1,187,332.

There were 16,751,137 shares outstanding of the registrant's Common Stock as of January 8, 2009.

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## MITEK SYSTEMS, INC.

## FORM 10-K

For The Fiscal Year Ended September 30, 2008

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IMPORTANT NOTE ABOUT FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this report, particularly in Item 1. "Business" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations", and in the documents that are incorporated by reference into this report, if any. These forward-looking statements relate to Mitek's outlook or expectations for earnings, revenues, expenses, asset quality or other future financial or business performance, strategies or expectations, or the impact of legal, regulatory or supervisory matters on Mitek's business, results of operations or financial condition. Specifically, forward looking statements used in this report may include statements relating to future business prospects, revenue, income and financial condition of Mitek.

Forward-looking statements can be identified by the use of words such as "estimate," "may," "plan," "project," "forecast," "intend," "expect," "anticipate," "believe," "seek," "target" or similar expressions. These statements reflect Mitek's judgment based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements.

In addition to those factors discussed under the heading "Risk Factors" in Part I, Item 1A of this report, and in Mitek's other public filings with the Security and Exchange Commission, important factors could cause actual results to differ materially from our expectations. These factors include, but are not limited to:

- adverse economic conditions;
- general decreases in demand for Mitek products and services;
- intense competition (including entry of new competitors), including among competitors with substantially greater resources than Mitek;
- loss of key customers or contracts;
- increased or adverse federal, state and local government regulation;
- inadequate capital;
- unexpected costs;
- lower revenues and net income than forecast;
- inability to raise prices;
- the risk of litigation and administrative proceedings;
- higher than anticipated labor costs;
- the possible fluctuation and volatility of operating results and financial condition;
- adverse publicity and news coverage;
- inability to carry out marketing and sales plans;
- loss of key employees and executives;
- changes in interest rates; and
- inflationary factors.

You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date hereof, or in the case of a document incorporated by reference, as of the date of that document. Except as required by law, we undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect any events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

The above list is not intended to be exhaustive and there may be other factors that would preclude us from realizing the predictions made in the forward-looking statement. We operate in a continually changing business environment and new factors emerge from time to time. We cannot predict such factors or assess the impact, if any, of such factors on their respective financial positions or results of operations.

(i)



PART I

ITEM 1. BUSINESS.

Overview

Mitek Systems, Inc., referred to as "we," "our," "us," "Mitek," or the "Company" in this report, was incorporated under the laws of the State of Delaware in 1986. We are primarily engaged in the development and sale of software solutions.

During our most recent completed fiscal year, our business was primarily focused on document image processing and image analytics. Our business also focuses on intelligent character recognition and forms processing technology, products and services used in the financial services markets. We also develop fraud detection and prevention products, which find signatures on any document and, using patented algorithms, convert them into compact numeric codes, which are then compared against one or more reference codes of trusted signatures for highly accurate signature verification. Most recently, we have been expanding our business focus to include a software product that captures and reads data from mobile devices using our proprietary technology. We refer to this software product as Mobile Capture. Mobile Capture technology converts a camera-equipped mobile phone into a mobile scanner that has the ability to read and extract data from any digital photo or video image.

Products and Related Markets

During fiscal year ended September 30, 2008, we had one operating segment based on our product and service offerings: document image processing and image analytics.

Document Image Processing and Image Analytics

Since 1992, we have developed and marketed pattern recognition products which enable the automation of costly, labor-intensive business functions such as check and remittance processing, forms processing, order entry and fraud detection. Our proprietary software algorithms allow us to process images of scanned documents in many ways, including image "cleanup" and repair, image quality analysis, document identification, and the extraction of hand-printed as well as machine-printed text. These capabilities work on a multitude of scanned documents: checks, coupons and other financial documents, as well as most types of other business forms including images captured on a camera-equipped mobile phone. Our software can find data on so-called unstructured documents which contain the data in variable locations and formats. Our fraud detection and prevention products find signatures on any document and, using patented algorithms, convert them into compact numeric codes, which are then compared against one or more reference codes of trusted signatures for highly accurate signature verification. Other capabilities include the detection of forged or illegally modified checks. To further reduce manual labor, our software automatically distinguishes between common document types such as personal and business checks, substitute checks (so-called IRDs, permitted by the Check 21 law), pre-authorized drafts, and other document types specified by the customer.

Our product family consists of Mobile Capture, software development toolkits, or "SDKs," and end-user applications. All our products are Internet-enabled and they integrate the use of the latest technologies.

Mobile Capture

Mobile Capture is a software solution that captures and reads data from mobile devices using proprietary technology. Mobile Capture technology converts a camera-equipped mobile phone into a mobile scanner that has the ability to read and extract data from any digital photo or video image. We created Mobile Capture by modifying our proprietary pattern recognition software that recognizes and reads typed or hand-written characters and specific

document features using a scanner attached to a personal computer. Utilizing Mobile Capture we have created business productivity applications specifically for camera-equipped mobile phones and recently developed our first mobile product, ImageNet Mobile Deposit. ImageNet Mobile Deposit is the first mobile product to utilize Mitek's image analytics and pattern recognition software that allow banks to accept paper check deposits and bill payments via camera-equipped mobile phones. As of September 30, 2008, we had recorded no revenue related to Mobile Capture.



We have also untethered our core technology from the personal computer to read and extract data from digital photos and video images from additional sources including images taken from security and Web cameras or images or video directly uploaded from the Web. This gives our customers the ability to read captured objects embedded in video stills or images such as license plates, street signs or billboards.

#### Intelligent Recognition Toolkits

Our Intelligent Recognition Toolkits include a suite of products, that we call "Image Net," that leverage our proprietary intelligent character recognition, or "ICR," image processing, and dynamic data extraction software engines. The Image Net suite of recognition toolkits includes Payments, Prep and ID, Data Capture, Fraud and Signature. These products are sold to original equipment manufacturers or "OEMs" such as Metavante Image Solutions, Harland Financial Solutions, a John Harland Company, SunGard, BancTec, J&B Software; and Leap, Inc.

Our products used in financial document processing, are a combination of the Legal Amount Recognition capabilities licensed from a vendor with our proprietary Image Net Payments Courtesy Amount Recognition technology. These products provide a high level of accuracy in remittance processing, proof of deposit, and lock box processing applications.

The ImageNet Payments product allows for the automatic reading of machine and hand print information found on scanned documents and forms from any structured form as well as bank documents, such as checks, deposit slips, and remittance coupons. ImageNet Payments integrates technology components from the "CheckReader" product licensed from a vendor which specifically increases read rates of the currency and legal amounts of checks drawn on US and Canadian financial institutions.

ImageNet Prep & ID is a software toolkit that provides automatic form ID, form registration and form/template removal. We believe it significantly improves automatic data capture (ICR/OCR), forms processing, document imaging and storage performance. Image Net Prep & ID 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 our 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 in accordance with 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.

ImageNet Data Capture is a software toolkit that captures data from many types of unstructured business documents. ImageNet Data Capture 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. ImageNet Data Capture locates this data on documents using contextual, positional, format and keyword specific information, even if it appears in a different location on each document. We have supplied ImageNet Data Capture as a stand alone application programming interface, or "API," to several important OEMs in the document processing field.

#### Identity Validation and Forgery Detection

Since 2001, we have applied and adapted our core competency in automatic document processes and image analytics creating a product offering, which is built on our portfolio of innovative recognition technologies used to test, clean, read and authenticate imaged documents.



Our capabilities include:

- Image analysis of signatures;
- Image repair and optimization;
- OCR/ICR;
- Dynamic data finding on any document or check; and
- Distributed Capture Courtesy Amount Recognition / Legal Amount Recognition

#### Forgery Detection Toolkits

Our FraudProtect™ Toolkit product detects check fraud and forgery using image analytics to uncover inconsistencies and alterations in checks as they are processed by banks. These products are sold to OEMs and System Integrators.

Signature & Check Stock Verification API is fully automated and incorporates advanced imaging, image analysis and data extraction technologies that can help verify the authenticity signatures on checks that pass through a bank, and analyzes paper stock for any indication that an item is a counterfeit.

Pre-authorized Draft, or "PAD," safe toolkit is the first toolkit of its kind using Mitek's patented technology to detect fraudulent preauthorized drafts. It automatically identifies PADs from checks, and 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.

Our PayeeFind™ product is designed to prevent payee-altered checks from clearing. As a result, PayeeFind™ can 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.

#### Forgery Detection Solution

FraudProtect™ System is a comprehensive, automated software application that allows banks to detect the most common forms of check fraud from forged signatures and counterfeit checks, as well as the detection of pre-authorized drafts and payee name alterations.

#### Research and Development

Typically, our software products are developed internally. We also purchase or license intellectual property rights. We believe that our future success depends in part on our ability to maintain and improve our core technologies, enhance our existing products and develop new products that meet an expanding range of customer requirements. We do not believe we are materially dependent upon licenses or other agreements with third parties relating to the development of our products. Internal development allows us to maintain closer technical control over our products and gives us the freedom to designate which modifications and enhancements are most important and when they should be implemented. We devise 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 document image processing. We intend to expand our existing product offerings and to introduce new document image processing software solutions. In the development of new products and enhancements to existing products, we use our own tools extensively. We perform all quality assurance and develop documentation internally. We strive to become informed at the earliest possible time about changing usage patterns and hardware advances that may affect software design. We intend to continue to support industry standard operating environments.

Our 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 our products. In addition to research and development, the engineering staff provides customer technical support on an as needed basis, along with technical sales support.

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In order to improve the accuracy of our Document Image Processing products, we devote significant research and development resources to enhance our core technology including our database of millions of character images that are used to "train" the neural network software that forms the core of our ICR engine. In addition, we have expanded our research and development tasks to include pre- and post-processing of data subject to automated processing.

Our research and development organization included fourteen software engineers, including five with advanced degrees, and three consultants as of September 30, 2008. We balance our engineering resources between development of ICR technology and applications development. All of our software engineers are involved in applications development, including ICR research and development of the Service Oriented Architecture compliant ImageNet API recognition engine suite, with solutions for Payments Prep & ID, Mobile Capture, Data Capture, Fraud Detection and Signatures, quality assurance, and customer services and support.

### Intellectual Property

Our success depends significantly upon our proprietary technology. We attempt to protect our intellectual property rights primarily through copyrights, trade secrets, employee and third party nondisclosure agreements and other measures. If we are unable to protect our intellectual property or infringe intellectual property of a third party, our operating results could be harmed.

As of September 30, 2008, we have been awarded a total of five patents, one of which was awarded in 2008. Four of the patents generally cover System and Method for Check Fraud detection using Signature Validation, which we believe could provide us with a material competitive advantage. In addition, as of September 30, 2008, we had two patent applications on file.

We have 21 registered trademarks and we will continue to evaluate the registration of additional trademarks as appropriate. We claim common law protection for, and may seek to register, other trademarks. In addition, we generally enter into confidentiality agreements with our employees.

### Sales and Marketing

We market our products and services primarily through our internal, direct sales organization. We contract the services of marketing companies to assist us with our marketing strategy during new product introduction and provide us insight in marketing materials design. We employ a technically oriented sales force with management assistance to identify the needs of existing and prospective customers. Our sales strategy concentrates on OEMs, systems integrators and distributors and software solution companies that we believe are key users and designers of automated document processing systems for high performance, large volume applications, in addition to small and large financial institutions that are positioning themselves in the emerging mobile capture and remote data capture market. We currently maintain our sales and support office in California. In addition, we sell and support our products through foreign resellers. The sales process is supported with a broad range of marketing programs which include trade shows, direct marketing, public relations and advertising.

We license our software to organizations on a term or perpetual basis. We also license 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 mostly appeal to large organizations that want to acquire perpetual licenses to software products for their entire enterprise.

International sales accounted for approximately 35% and 28%, of our net sales for the fiscal years ended September 30, 2008 and 2007, respectively. International sales in fiscal year 2008 were made to customers in 14 countries including Canada, Finland, Greece, India, Italy, Japan, Portugal, Spain, Switzerland, and the United Kingdom. We sell our products in United States currency only. We recorded a significant portion of our revenues

from two customers in fiscal year 2008 and fiscal year 2007. Net sales from these customers aggregated 31% and 32% for the fiscal years 2008 and 2007, respectively.

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## 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. We have 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, after customer consent, can log on to our customers' systems remotely. Occasionally, visits to the customers' 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 customers purchase post contract support from us. These services are a significant source of our recurring revenue and they are typically contracted on an annual basis and priced at approximately 10% to 20% of the license fee of the particular software product.

We typically provide telephone maintenance and support on a contractual basis after the initial product warranty of 90 days has expired. On site support is made at the customer's request along with pre-approval of reimbursable expenses from the customer. Customers with maintenance coverage receive software updates from us on an if-and-when-available basis only. Foreign distributors generally provide customer training, service and support for the products they sell. Additionally, our products are supported internationally by distributors. Technical support is provided by telephone as well as technical visits if necessary in addition to those previously mentioned.

We believe that as the installed base of our 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 as income over the contract period on a straight-line basis. Costs incurred by us to supply maintenance and support services are charged to cost of sales.

## Competition

The market for our Document Image Processing products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. We face direct and indirect competition from a broad range of competitors who offer a variety of products and solutions to our current and potential customers. Our 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 we will face competition from participants new to the industry. 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 we have could attempt to enter or increase their presence in our market either independently or by acquiring or forming strategic alliances with our competitors 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 our current and prospective customers.

Our Service Oriented Architecture compliant ImageNet API products and licensed Payments, Prep & ID, Fraud Detection and Signatures products compete, to various degrees, with products produced by a number of substantial competitors. Competition among product providers in this market generally focuses on price, accuracy, reliability and technical support. We believe our primary competitive advantages are (i) recognition accuracy with regard to hand printed characters, (ii) flexibility, since our products may operate in several Microsoft Web Services environments, (iii) scalability and (iv) an architectural software design, which allows our products to be more readily modified, improved with added functionality and configured for new products allowing our software to be easily upgraded. Despite these advantages, Image Net competitors have existed longer and have far greater financial resources and industry connections than we have.





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 our business, operating results and financial condition.

#### Employees and Labor Relations

As of September 30, 2008, we employed a total of 27 persons, consisting of six in sales and marketing, 16 in research and development, product management and support, one in operations, and four in finance, administration and other capacities. We engaged various consultants in the area of product development and marketing during the fiscal year ended September 30, 2008. We have never had a work stoppage. None of our employees are represented by a labor organization, and we consider our relations with our employees to be good.

#### Available Information

Our Internet address is [www.miteksystems.com](http://www.miteksystems.com). There we make available, free of charge, our annual report, quarterly reports, current reports 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 website. Our public filings may also be obtained from the SEC Public Reference Room by calling the SEC at 1-800-SEC-0330. The information found on our website is not part of this or any other report we file with or furnish to the SEC.

#### ITEM 1A.

#### RISK FACTORS.

The risks described below could materially and adversely affect our business, results of operations, financial condition and liquidity. These risks are not the only risks that we face. Our business operations could also be affected by additional factors that apply to all businesses operating in the United States and globally, as well as other risks that are not presently known to us or that we currently consider to be immaterial to our operations.

#### Risks Associated With Our Business

We may need to raise additional capital to fund continuing operations. If our financing efforts are not successful, we may not be able to continue as a going concern.

We may require additional financing in order to complete our stated plan of operations for the next twelve months. There can be no assurance, however, that such financing will be available or, if it is available, that we will be able to structure such financing on terms acceptable to us or that it will be sufficient to fund our cash requirements until we can reach a level of profitable operations and positive cash flows. If we are unable to obtain the financing necessary to support our operations, we will be unable to continue as a going concern.

The trading price of our shares of common stock and the recent downturn in the United States stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Any additional equity financing will be dilutive to our stockholders, and debt financing, if available, may include restrictive covenants and require significant collateral. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our shares of common stock.

While we believe that we will be successful in generating additional cash through outside financing, the outcome of these matters cannot be predicted at this time. If we are not able to secure additional funding, we may be required to defer, reduce or eliminate certain planned expenditures or significantly curtail our operations.

Note 1 to our financial statements included in Item 8 of this report has additional disclosures related to our ability to continue as a going concern.

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We have a history of losses and we may not achieve profitability in the future.

Our operations resulted in a net loss of approximately \$749,000 and \$384,000 for the years ended September 30, 2008 and 2007, respectively. In addition, as a public company, we incur significant legal, accounting, and other expenses related to being a public company. As a result of these expenditures, we will have to generate and sustain increased revenue to achieve and maintain future profitability. We may not achieve sufficient revenue to achieve or maintain profitability. We have incurred and may continue to incur significant losses in the future for a number of reasons, including due to the other risks described in this report, and we may encounter unforeseen expenses, difficulties, complications, delays, and other unknown factors. Accordingly, we may not be able to achieve or maintain profitability and we may continue to incur significant losses for the foreseeable future.

We do not have a current credit facility.

We have experienced a significant decline in working capital over the last fiscal year. We do not currently have any credit facilities in place, or any arrangement that we can draw upon for additional capital. Our current cash on hand and cash generated from operations may not be sufficient to sustain our business 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.

Because most of our revenues are from a single type of technology, our