UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): September 30, 2002

AMERICAN WATER WORKS COMPANY, INC.
(Exact name of registrant specified in its charter)

Delaware	0001-03437	51-0063696
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1025 Laurel Oak Road, P.O. Box 1770 Voorhees, NJ	08043
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (856) 346-8200

ITEM 9. REGULATION FD DISCLOSURE.

American Water Works Company, Inc. is furnishing herewith a copy of an employee communication relating to its proposed merger with a subsidiary of RWE. This information is attached to this Form 8-K as Exhibit 99.1.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ W. Timothy Pohl

Name: W. Timothy Pohl
Title: General Counsel and Secretary

Date: September 30, 2002

EXHIBIT INDEX

Exhibit No.	Description
99.1	RWE Acquisition Update #28 dated September 30, 2002.

[LOGO]

RW Acquisition
Update #28

September 30, 2002

This is an update on the RWE/Thames transaction for American Water Associates. Future updates will be distributed in the coming weeks via email. They are then archived, along with other important materials, in the "RWE Acquisition Update" database on Lotus Notes. The information in this "Update" will also be filed with the US Securities and Exchange Commission and can be viewed on the commission's EDGAR database at www.sec.gov/edgar.shtml.

Responses to Recently Asked Questions

The following are responses to questions that have been received about the transaction. A portion of these questions request clarification of responses provided in previous updates and demonstrate associate interest in learning about the future direction of this company.

We continue to receive numerous questions about compensation and benefits and these fill the majority of this update. Questions that address similar issues have been combined wherever possible.

Future updates will continue to address these types of issues as more information becomes available. If you have questions or concerns that apply to your specific circumstances, please contact your HR representative.

1. Has RWE had any problems regarding business fraud/corruption that has surfaced in corporate America?

No. RWE operates with openness and the highest integrity in its relationships with employees, customers, regulators, vendors and shareholders. There is also a significant amount of regulatory oversight for the vast majority of RWE's businesses. A broad mixture of external and internal bodies provides the independent review of RWE's operation that is so vital to assuring its continued success under the highest ethical standards.

Continued . . .

2. Will our management team stay in place after the RWE acquisition is completed?

As RWE has previously stated, it considers the high caliber of management and associates of American Water Works one of the key aspects of its acquisition. Other than associate turnover that occurs naturally such as retirements or the continuation of American Water Works transition to shared services, it is not envisioned that there will be any significant workforce changes upon completion of the acquisition.

3. Previous updates have indicated that no "early retirement" program will be offered by RWE. Wouldn't such a program reduce on-going operating expenses?

As addressed in prior communications, RWE intends to grow this business and wants to make the existing workforce part of that growth. Therefore, the company has no plans to reduce the workforce or to offer special incentives to encourage early retirement.

4. What is RWE and Thames Water's current philosophy on benefits?

RWE and Thames Water's philosophy when designing compensation and benefit packages is very similar to the American Water Works philosophy. Reviews and studies are conducted regarding compensation and benefit packages within the market where they will be competing for talent. Based upon those studies, compensation packages are designed to pay market rates and provide market-related benefits. They believe it is important that compensation packages enable it to attract, appropriately reward and retain the caliber of people needed in the business to provide a high level of service to its customers.

5. What is the timeframe for developing and informing associates about the replacement of 401(k), ESOP matching and other benefit changes?

401(k) and ESOP

The ESOP and 401(k) plan changes are currently under review. The planned review will be completed in sufficient time prior to the financial close in order that new plans can become effective immediately after the transaction is closed. There will be detailed communication to associates describing the new arrangements and the choices individuals can make. The administration process will be in place to ensure an effective transition from current to new plans.

Healthcare, Pensions and Life Insurance

RWE and Thames Water have guaranteed continuation of these benefits for an 18-month period from financial close. Healthcare, pensions and life insurance plans will be reviewed and new plans developed when appropriate, during this 18-month period after financial close. Should any changes be planned thereafter these will be communicated in full.

Continued . . .

Other Benefits

All other associate benefits will be reviewed during the 18-month period after financial close. Once again, RWE and Thames Water are committed to providing competitive benefits and open communications.

6. Will associates that meet the "70 Rule" at the close of the RWE acquisition get the same postretirement benefits currently offered by the American Water Works retirement plan?

Yes. If you are at least 55 years of age and have 15 or more years of service prior to the financial close of the transaction, you will meet the "rule of 70" under the American Water Works Pension Plan. Provided you are covered by that plan, you will be eligible for the same post retirement health care and life insurance benefits defined in that plan when you retire.

7. Will associates that meet the "70 Rule" within the 12 months following the close of the RWE acquisition get the same postretirement benefits currently offered by the American Water Works retirement plan?

Yes. Thames Water has committed to maintain the benefits of American Water Works that exist on the closing date for a period of 12 months following that date. The commitment to "leave existing benefits unchanged" for 12 months is an additional promise that RWE and Thames Water willingly made to demonstrate their desire to retain associates and grow the business. Therefore, associates covered by the American Water Works Pension Plan who retire within the 12 months following the financial close will also be eligible for the post retirement health care and life insurance benefits defined in that plan.

8. Will the Retirement Committee consider including a Money Market Fund as part of 401(k) investments for those who wish to periodically get in and out of the stock market?

Similar options are currently available under the 401(k) Savings Plan. Please contact your Human Resource representative or Merrill Lynch for details.

9. During the Merrill Lynch seminars we were advised that the sale of American Water Works stock held in an ESOP account and the eventual discontinuance of the ESOP program would result in proceeds that could be "rolled over" into another qualified retirement plan. Can all ESOP "proceeds" be "rolled over", or simply the portion not funded by employee contributions?

All proceeds realized from the ESOP can be "rolled over" into an Individual Retirement Account (IRA). Since this decision must be made by each associate, investment and tax counseling is encouraged

Continued . . .

10. Since it may take several weeks for a "roll-over" transaction to close, will ESOP accounts be held open for some period of time to allow for those transactions to be completed?

It is anticipated that ESOP accounts will be closed within a few days of completing the merger agreement. Since IRA's can be set up now to prepare for the ESOP "roll-over", associates are encouraged to take steps to prepare for the closing. Associates will be notified as early as possible to enable this transition to occur smoothly.

11. When the RWE acquisition is completed, will associates simply receive a check for the after-tax portion of contributions made to the ESOP plan?

Associates will only receive a check if a cash distribution is requested.

12. Is RWE offering stock to be bought by employees?

No. RWE does not at present offer an employee stock ownership plan (ESOP) to employees in its US subsidiaries.

13. My 401(k) plan is currently in the "Aggressive" category of the Goal Manager guidelines and I would like to put a portion of my 401(k) growth into less aggressive investments after the RWE acquisition is completed. Do I have to wait until the transaction is completed to make that switch?

No. Changes can be made to 401(k) plans at any time. Associates need to examine their investment strategies since circumstances can change and dictate adjusting investment mixes. Merrill Lynch may be contacted to make the change.

14. If a collective bargaining agreement expires during the 18-month period after the RWE acquisition is completed, will the company continue to match 401(k) contributions in accordance with the current agreement, or withhold matching funds until a new collective bargaining agreement is reached?

Associates represented by bargaining units that participate in the current contract provisions under the National Benefit Negotiations will continue to have the same 401(k) benefits delivered to them until July 31, 2005. Other collective bargaining agreements will stay in place until their expiration.

15. Will future benefit plans consolidate benefit plans for employees that have been added to the American Water Works team in recent years so that all associates have the same early retirement options, etc?

All benefit plans will be reviewed as part of the integration process. Some benefit plans are included in collective agreements and any changes would be subject to negotiation. RWE and Thames Water are committed to providing competitive benefits.

Continued . . .

16. Are all associates part of the employee retention bonus program described in the Proxy?

No. The Proxy identifies certain individuals included in the program and the obligations required to qualify for those retention bonuses. The proxy also states that only certain "other key employees" will be eligible to receive retention bonuses. The selection of those individuals was determined by the compensation committee of the company's Board of Directors, based on the recommendation of the Chief Executive Officer.

17. Other than a review of benefits such as the ESOP and 401(k) plans what other transition work is being completed by the Human Resource function?

American Water Works and Thames Water human resource professionals are jointly working on a number of issues. Currently, they are reviewing the design and structure of our current and new organization, Thames Water's existing operations in North and South America, associate and labor relation issues and cultural integration. They are also developing an understanding of the needs of the new organization and developing ways to evaluate the skills, competencies and capabilities of the current organization to meet those needs. RWE and Thames Water are committed to a timely and full communication of the outcomes of these joint programs.

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U.S. and Parascript has operations outside of the U.S., including sales, research and development and customer support. Parascript s international operations are subject to special risks in addition to those faced by its domestic operations, including:

potential loss of proprietary information due to piracy, misappropriation or laws that may be less protective of Parascript s intellectual property rights than those in the U.S.;

imposition of foreign laws and other governmental controls, including trade and employment restrictions;

fluctuations in currency exchange rates and economic instability such as higher interest rates and inflation, which could reduce its customers ability to obtain financing for software products or which could make its products more expensive in those countries;

difficulties in hedging foreign currency transaction exposures;

longer payment cycles for sales in foreign countries and potential difficulties in collecting accounts receivable;

difficulties in staffing, managing and operating international operations, including difficulties related to administering stock plans in some foreign countries;

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difficulties in coordinating the activities of its geographically dispersed and culturally diverse operations;

seasonal reductions in business activity in the summer months in Europe and in other periods in other countries;

costs and delays associated with developing software in multiple languages; and

war or terrorism, particularly in Russia, in which Parascript has facilities.

The market for some of Parascript s products appears to be reaching maturity which could result in Parascript retaining its market share, but finding that the market itself is shrinking.

There may be a time-limited opportunity to achieve and maintain a significant share of the check and remittance processing market as financial institutions have been promoting electronic payments which could significantly reduce the amount of check processing traffic. The reduction in the size of the check and remittance processing market could result in declining revenues which could have a negative effect on Parascript s operating results.

Similarly, if the volume of mail currently being handled in the United States decreases due to changes in technology, cultural changes or economic uncertainties, the effect on Parascript s ability to license new products as well as decrease royalty revenues from existing licenses could be significant. This decrease could have a negative effect on Parascript s operating results.

Parascript incurs considerable expenses to develop products for operating systems that are either owned by others or that are part of the open source community. If it does not receive cooperation in its development efforts from others and access to operating system technologies, Parascript may face higher expenses or fail to expand its product lines and revenues

Many of Parascript s products operate primarily on the Linux, UNIX and Windows computer operating systems. As part of Parascript s efforts to develop products for operating systems that are part of the open source community, Parascript may have to license portions of its products on a royalty free basis or may have to expose its source code. Open source describes general practices in production and development which promote access to the end product s sources. The open source community emphasizes collaborative development and requires licensing that allows modifications and enhancements of registered open source code be made available to whoever would like to use it. Developers who use open source code in proprietary products risk exposing the intellectual property developed in conjunction with the open source code to the public. Parascript continues to develop new products for these operating systems. It may not accomplish its development efforts quickly or cost-effectively, and it is not clear what the relative growth rates of these operating systems will be. Parascript s development efforts require substantial capital investment, the devotion of substantial employee resources and the cooperation of the owners of the operating systems to or for which the products are being ported or developed. If the market for a particular operating system does not develop as anticipated, or demand for Parascript s products and services in such market does not materialize or occurs more slowly than it expects, Parascript may have expended substantial resources and capital without realizing sufficient revenue, and its business and operating results could be adversely affected.

In addition, for some operating systems, Parascript must obtain from the owner of the operating system a source code license to portions of the operating system software to port some of its products to or develop products for the operating system. Operating system owners have no obligation to assist in these porting or development efforts. If they do not grant Parascript a license or if they do not renew its license, Parascript may not be able to expand its product lines into other areas.

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Parascript faces increasing competition, which places pressure on its pricing and which could prevent Parascript from increasing revenue or maintaining profitability. In addition, Parascript may face competition from better-established companies that have significantly greater resources.

The market for Parascript s products is intensely competitive and is likely to become even more so in the future. Parascript s current principal competitors may offer their products at a significantly lower price than Parascript s products, which has resulted in pricing pressures on sales of Parascript s products. Parascript also faces the possibilities of competitors achieving technological success rates that are comparable with Parascript s. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins or the failure of Parascript s products to achieve or maintain more widespread market acceptance, any of which could have a material adverse effect on its business, results of operations and financial condition.

Parascript also faces current and potential competition from current strategic partners and integrators who may develop or acquire comparable pattern recognition software in an attempt to differentiate their systems. If device manufacturers can develop their own software that is as reliable as the Parascript products, the demand for Parascript s products will decrease. Furthermore, even if Parascript s products provide greater functionality and are more effective than certain other competitive products, potential customers might accept limited functionality as part of a bundled solution in lieu of purchasing separate products which require more administration. Many of Parascript s potential competitors have substantial competitive advantages, such as:

- greater name recognition and larger marketing budgets and resources;
- established marketing relationships and access to larger customer bases; and
- substantially greater financial, technical and other resources.

As a result, they may be able to respond more quickly and effectively than Parascript can to new or changing opportunities, technologies, standards or customer requirements. For the foregoing reasons, the combined company may not be able to compete successfully against Parascript s current and future competitors, and its results of operations could be adversely affected.

Parascript s growth could strain its personnel and infrastructure resources, and if it is unable to implement appropriate controls and procedures to manage its growth, Parascript may not be able to successfully implement its business plan.

Parascript continues to experience rapid growth in its operations, which has placed, and will continue to place, a significant strain on its management, administrative, operational and financial infrastructure. Parascript s future success will depend in part upon the ability of its senior management to manage growth effectively. This will require the combined company to hire and train additional personnel to manage its expanding operations. In addition, the combined company will be required to continue to improve its operational, financial and management controls and its reporting systems and procedures. If the combined company fails to successfully manage its growth, it will be unable to execute its business plan.

Parascript products may contain significant errors and failures, which may subject it to liability for damages suffered by end-users.

Software products frequently contain errors or failures, especially when first introduced or when new versions are released. Parascript s end-user customers use its products in applications that are critical to their businesses, including for signature verification and fraud protection, and may have a greater sensitivity to defects in Parascript s products than to defects in other, less critical software products. Particularly in the area of payment and remittance processing, through an error in or failure of Parascript s software products or as a result of the customer s misuse of Parascript s software products, the customer could suffer significant damages and seek to recover those damages from Parascript. Although Parascript s software licenses generally contain protective provisions limiting its liability, a court could rule that these provisions are unenforceable. If a

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customer is successful in proving its damages and a court does not enforce the protective provisions in Parascript s software licenses, Parascript could be liable for the damages suffered by its customers and other related expenses, which could adversely affect its operating results.

Product errors or failures could cause delays in new product releases or product upgrades, or Parascript s products might not work in combination with other hardware or software, which could adversely affect market acceptance of Parascript s products or a strategic partner s ability to integrate the Parascript software into its equipment. If Parascript s customers were dissatisfied with product functionality or performance, or if Parascript were to experience significant delays in the release of new products or new versions of products, it could lose competitive position and revenue and its business and operating results could be adversely affected.

Parascript s customer base is heavily concentrated.

Parascript relies heavily upon and derives the majority of its revenues from sales to two companies that provide products and service to the United States Postal Service under multiple licensing agreements. During 2005, 2004, and 2003, Parascript generated approximately 65%, 76% and 64%, respectively, of its revenue from these two companies. Parascript will continue to have a relatively highly concentrated customer base for the foreseeable future. If existing contracts with these customers are terminated or if either of these customers were to use other suppliers for the software products that Parascript currently provides, Parascript may not be able to replace the business. This could have a material adverse effect on Parascript s business.

A significant portion of Parascript s postal revenues are based upon performance-improvement contracts, under which payment amounts are contingent and uncertain.

A significant portion of Parascript s postal revenues are based upon performance-improvement contracts. Parascript is paid based on pre-negotiated process improvement metrics such as read rate, error reduction and depth of sort. Payments on performance improvement contracts are fully contingent and based on actual improvements versus a test sample deck. If Parascript is unable to provide actual improvements, Parascript s financial condition and results of operations would be adversely affected.

Failure to protect its intellectual property rights could impair Parascript s ability to protect its proprietary technology and establish the Parascript brand.

Intellectual property is critical to Parascript s success, and it relies upon trademark, copyright and trade secret laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect its proprietary technology and the Parascript brand. Any of its trademarks may be challenged by others or invalidated through administrative process or litigation. Parascript currently has four issued patents in the United States with three additional patents pending and six corresponding patents applied for internationally, and it may be unable to obtain further patent protection in the future. In addition, any issued patents may not provide Parascript with any competitive advantages, or may be challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to Parascript in every country in which its products are available. The laws of some foreign countries may not be as protective of intellectual property rights as United States laws, and mechanisms for enforcement of intellectual property rights may be inadequate. As a result Parascript s means of protecting its proprietary technology and brands may not be adequate. Furthermore, despite its efforts, Parascript may be unable to prevent third parties from infringing upon or misappropriating its intellectual property, including the misappropriation or misuse of the content of its proprietary databases. Any such infringement or misappropriation could have a material adverse effect on Parascript s business, results of operations and financial condition.

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Parascript s operating results may be volatile and difficult to predict.

The susceptibility of Parascript s operating results to significant fluctuations makes any prediction, including Parascript s estimates of future operating results, unreliable. In addition, Parascript believes that period-to-period comparisons of its operating results are not necessarily meaningful and you should not rely on them as indications of Parascript s future performance. Parascript s operating results have in the past varied, and may in the future vary significantly due to factors such as the following:

- demand for its products;
- size and timing of significant orders for its products;
- slowdown or a decrease in spending on information technology by its current and/or prospective customers;
- marketing by its competitors of products that are directly competitive with its products;
- management, performance and expansion of its international operations;
- foreign currency exchange rate fluctuations;
- customers desire to consolidate their purchases of enterprise reporting and business intelligence software to one or a very small number of vendors from which a customer has already purchased software;
- general domestic and international economic and political conditions, including war, terrorism, and the threat of war or terrorism;
- sales cycles and sales performance of its indirect channel partners;
- changes in the way it and its competitors price their respective products and services, including maintenance and transfer fees;
- continued successful relationships and the establishment of new relationships with integrators;
- changes in its level of operating expenses and its ability to control costs;
- outcome or publicity surrounding any pending or threatened lawsuits;
- ability to make new products and product enhancements commercially available in a timely manner;

- budgeting cycles of its customers;
- failure to successfully manage its acquisitions;
- defects in its products and other product quality problems;
- failure to successfully meet hiring needs and unexpected personnel changes;
- changes in perpetual licensing models to term or subscription-based models with respect to which license revenue is not fully recognizable at the time of initial sale; and
- changes in service models with respect to which consulting services are performed on a fixed-fee, rather than variable fee, basis.

Because the Parascript software products are typically shipped shortly after orders are received, total revenues in any quarter are substantially dependent on orders booked and shipped throughout that quarter. Furthermore, several factors may require Parascript, in accordance with accounting principles generally accepted in the United States, to defer recognition of license fee revenue for a significant period of time after entering into a license agreement, including:

- Whether the license agreement includes both software products that are then currently available and software products or other enhancements that are still under development;
- Whether the license agreement relates entirely or partly to software products that are currently not available;

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Whether the license agreement requires the performance of services that may preclude revenue recognition until successful completion of such services;

Whether the license agreement includes acceptance criteria that may preclude revenue recognition prior to customer acceptance; and

Whether the license agreement includes undelivered elements (including limited terms or durations) that may preclude revenue recognition prior to customer acceptance.

Parascript s business historically has been seasonal.

Parascript s business historically has been seasonal. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Parascript s quarterly revenues have historically been highest in the fourth calendar quarter, corresponding to the typical installation and completion cycles of its largest integrators. Based on the historically higher revenues in the fourth quarter and the relatively consistent nature of Parascript s fixed costs throughout the year, Parascript has typically generated a very significant percentage of its full year profits during the calendar fourth quarter. Since Parascript typically earns a disproportionate part of its annual profits in the calendar fourth quarter as a result of the seasonal buying patterns, it is difficult to forecast future results with certainty. If for any reason Parascript s revenues fall below those normally expected during its fourth quarter, Parascript s business, financial condition, and results of operations could be adversely affected.

If Parascript is sued by third parties for alleged infringement of their proprietary rights, its results of operations could suffer.

The software and pattern recognition software industry is characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of patent infringement or other violations of intellectual property rights. As the number of entrants into Parascript s market increases, the possibility of an intellectual property claim against it grows. Parascript s technologies and products may not be able to withstand any third-party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming and expensive to litigate or settle, and could divert management attention from executing its business plan. There can be no assurance that Parascript would be successful in any such suit.

Changing regulations in the check and remittance processing industry may affect Parascript adversely.

As electronic payment processing continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. Such regulation is likely in the areas of electronic transmission, non-signature check verification, and digital processing. Any of these could potentially have a material adverse effect on Parascript s business, results of operations and financial condition.

Risks Related to Mitek

The following are risk related to Mitek s business as currently conducted. Parascript and Mitek anticipate that immediately following the merger, a substantial part of the business of the combined company will be the business conducted by Mitek immediately prior to the merger. As a result, the following risks, and the risk factors set forth under the heading Risks Related to the Combined Company, are among the most significant you will face if the merger is completed.

Mitek currently derives substantially all of its product revenues from a single product line.

Mitek currently derives substantially all of its product revenues from licenses and sales of software products incorporating its intelligent recognition technology. Because most of Mitek s revenues are from a single type of

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technology, product concentration may make it especially vulnerable to market demand and competition from other technologies, which could reduce Mitek s revenues and cause it to be unable to continue its business. As a result, any decline in the demand for automated entry of hand printed characters, negative publicity or obsolescence of the software environments in which its products operate could result in lower revenues or gross margins and would have a material adverse effect on Mitek s business, operating results and financial condition.

The market price of Mitek s securities prior to the merger has been and likely will continue to be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond its control, including:

- announcements of technological innovations or new products or services by its competitors;
- demand for its products, including fluctuations in subscription renewals;
- changes in the pricing policies of its competitors; and
- changes in government regulations.

In addition, the market price of the combined company s securities could be subject to wide fluctuations in response to a number of factors, including:

- announcements of technological innovations or new products or services by Parascript;
- changes in its pricing policies;
- quarterly variations in its revenues and operating expenses; and
- its technological capabilities to accommodate the future growth in its operations or its customers.

Further, the stock market has experienced significant price and volume fluctuations that have particularly affected the market price of the stock of many Internet-related companies, and that often have been unrelated or disproportionate to the operating performance of these companies. Market fluctuations such as these may seriously harm the market price of Mitek s securities. In the past, securities class action suits have been filed following periods of market volatility in the price of a company s securities. If such an action were instituted, Mitek would incur substantial costs and a diversion of management attention and resources, which would seriously harm its business, results of operations and financial condition.

The market for Mitek s products is intensely competitive.

The market for Mitek s ADR products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. Mitek faces direct and indirect competition from a broad range of competitors who offer a variety of products and solutions to its current and potential customers. Mitek 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.

Mitek may also 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 Mitek could attempt to enter or increase their presence in its market either independently or by acquiring or forming strategic alliances with Mitek s 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 Mitek s current and prospective customers. Many of Mitek s competitors have existed longer and have far greater financial resources and industry connections than Mitek has. 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 Mitek s business, operating results and financial condition.

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Mitek s quarterly operating results are subject to significant fluctuation.

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

The protection of Mitek s proprietary rights may be inadequate.

Mitek s success and ability to compete is dependent in part upon its proprietary technology. Mitek relies on a combination of patent, copyright and trade secret laws and non-disclosure agreements to protect its proprietary technology. Mitek may seek to file additional patents to expand the scope of patent coverage or to cover technologies under development. There can be no assurance that patents will be issued with respect to future patent applications or that Mitek s patents will be upheld as valid or will prevent the development of competitive products.

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

Mitek is also subject to the risk of adverse claims and litigation alleging infringement on the intellectual property rights of others. In this regard, third parties may assert infringement claims in the future with respect to Mitek s current or future products and any such claims may require Mitek 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.

Section 404 and other regulatory requirements may cause Mitek to incur increased costs and operating expenses and may make it more difficult for Mitek to attract and retain qualified officers and directors.

Mitek is not yet subject to Section 404 of the Sarbanes-Oxley Act of 2002; however when applicable, Section 404 will cause Mitek to incur significant increased costs as it implements and responds to its requirements. The standards that must be met for management to assess its internal controls over financial reporting under Section 404 are complex and require significant documentation, testing and possible remediation. This ongoing process of reviewing, documenting and testing Mitek s internal controls over financial reporting will likely result in, a significant strain on Mitek s management, information systems and resources. Furthermore, achieving and maintaining compliance with Section 404, other requirements of Sarbanes-Oxley and other constantly evolving rules and regulations will require Mitek to either hire additional personnel on contract with external sources and will continue to require it to use additional outside legal, accounting and advisory services.

Mitek s success is dependent on its key technical and management personnel.

Mitek s success depends in large part on the continued service of its key technical and management personnel. Mitek does not currently have employment contracts with, or key person life insurance policies on,

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any of its employees. Loss of services of key employees could have a material adverse effect on Mitek s operations and financial condition. Mitek is also dependent on its ability to identify, hire, train, retain and motivate high quality personnel, especially highly skilled engineers involved in the ongoing developments required to refine its technologies and to introduce future applications. The high technology industry is characterized by a high level of employee mobility and aggressive recruiting of skilled personnel. Mitek can make no assurances that it will be successful in attracting, assimilating and retaining additional qualified personnel in the future. If Mitek were to lose the services of one or more of its key personnel, or if it failed to attract and retain additional qualified personnel, it could materially and adversely affect its customer relationships, competitive position and revenues.

Mitek s stockholders will no longer control Mitek as a result of the merger and the merger financing.

The merger will result in a change of control of Mitek. Upon completion of the merger and on a fully-diluted and as-if converted basis, current Mitek stockholders will own approximately 22% of the company, Parascript unitholders will own approximately 55% and Plainfield will own approximately 23%. (Does not include certain shares of the combined company to be issued to certain officers thereof upon completion of the merger. Please see Agreements with Executive Officers Following the Merger on page 125.) Because Mitek stockholders will not control Mitek, they will not have the ability to control the election of directors or the adoption of proposals which require stockholder approval.

Risks Related to the Combined Company

Mitek and Parascript may be unable to successfully integrate their businesses and achieve the benefits expected to result from the merger.

Mitek and Parascript entered into the merger agreement with the expectation that the merger will result in mutual benefits including, among other things, shared administrative costs resulting in lower total expenses, improved research and development through a larger combined research group and the sharing of previously proprietary development, more complete products creating the possibility of better market share and better employee benefits due to a larger employee base after the combination. Achieving the benefits of the merger will depend in part on the integration of Mitek s and Parascript s operations and personnel in a timely and efficient manner so as to minimize the risk that the merger will result in the loss of market opportunity or key employees or the diversion of the attention of management. Factors that could affect Mitek s ability to achieve these benefits include:

- Difficulties in integrating and managing personnel, financial reporting and other systems used by Parascript into Mitek;
- The failure of Parascript s operations to perform in accordance with Mitek s expectations;
- Any future goodwill impairment charges that Mitek may incur with respect to the assets of Parascript;
- Failure to achieve anticipated synergies between Mitek s business units and the business units of Parascript;
- The loss of Parascript s customers; and
- The loss of any of the key employees of Parascript.

If the combination of the Parascript and Mitek businesses do not occur as planned, the businesses of each of Parascript and Mitek could be materially harmed.

Mitek and Parascript may be unable to realize the expected cost savings from the merger.

Even if Parascript and Mitek are able to successfully integrate the operations of the two companies, we cannot assure you that this integration will result in the realization of the full benefits of the cost savings or revenue enhancements that the companies expect or that these benefits will be achieved within the timeframe

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anticipated. The cost savings from the merger may be offset by costs incurred in integrating Parascript s and Mitek s operations, as well as by increases in other expenses, by operating losses or by problems with Mitek s or Parascript s businesses unrelated to the acquisition.

If the combined company is unable to maintain and expand, or enter into new, indirect sales channels relationships its operating results would decline.

Parascript s indirect sales channels accounted for approximately 28.9% and 33.4% of its revenues in 2005 and 2004, respectively. The combined company intends to continue to rely on Parascript s indirect sales channels for a significant portion of its revenue. Parascript depends on its indirect sales channels, including system integrators and resellers to offer its products to a larger customer base than can be reached through a direct sales effort. None of these parties is obligated to continue selling Parascript s products or to make any purchases from Parascript. If they are unsuccessful in their efforts or are unwilling or unable to market and sell Parascript s new product offerings, Parascript s operating results will suffer. Parascript cannot control the level of effort these parties expend or the extent to which any of them will be successful in marketing and selling its products. Some of Parascript s indirect sales channels also market and sell products that compete with Parascript s products or may decide to do so in the future. Parascript may not be able to prevent these parties from devoting greater resources to support its competitors products and/or eliminating their efforts to sell its products.

If the combined company is not able to develop new and enhanced products that achieve widespread market acceptance, it may be unable to recover product development costs, and its earnings and revenue may decline.

Recent changes in banking laws arising from the Check Clearing for the 21st Century Act (Check 21) have created an additional immediate need for banks to be able to process, verify and handle digital copies of checks. While Parascript has developed a product to address these new regulations, there is no certainty that the product will be accepted into the market, will reach the technological superiority of many of the other Parascript products or will be accepted and purchased by financial institutions as a solution to the challenges presented by Check 21. If companies do not address these emerging trends and laws, then the market for Parascript s products may develop more slowly than it expects, which could adversely affect its operating results. Developing and maintaining awareness of the Parascript brand is critical to achieving widespread acceptance of Parascript s existing and future products. Furthermore, Parascript believes that the importance of brand recognition will increase as competition in its market develops. Successful promotion of the Parascript brand will depend largely on the effectiveness of the combined company s marketing efforts and on its ability to develop reliable and useful products at competitive prices. If the combined company fails to successfully promote the Parascript brand, or if its expenses to promote and maintain the Parascript brand are greater than anticipated, its results of operations and financial condition could suffer.

Mitek intends to finance the business combination with Parascript with $95.0 million in debt financing. The combined company s ability to make required payments of principal and interest on the debt depends primarily on cash flow from operations, which may not be sufficient to service the debt.

In order to finance the merger Mitek intends to secure financing from Plainfield Offshore Holdings VIII Inc. Such financing will be provided in the form of a $55 million senior secured term facility at LIBOR plus 7.5% interest in the first year (interest rate as of September 30, 2006 was 12.87%), up to $5 million revolving line of credit at either LIBOR plus 7.5% interest in the first year or a rate based on the prime rate or federal funds rate plus 6.5% in the first year and the sale and issuance of $35 million senior subordinated convertible notes at 9.75% interest. The $55 million Senior Secured Term Facility will require quarterly payments of interest only commencing . X, 200X, and quarterly principal payments of $2,500,000 commencing in the fourth year after the financing, with any remaining principal balance due and payable at the end of the fifth year. The $35 million senior subordinated convertible notes will require quarterly payments of interest in cash or, prior to the fourth anniversary of the issuance of the notes, by adding to the principal of the senior subordinated convertible notes commencing on X, 2006 and the principal balance due and payable on the sixth anniversary of the

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date of issuance. See Financing the Merger below. Based on current interest rates, the quarterly cash interest payment associated with the Plainfield senior secured term facility and the senior subordinated convertible notes, beginning in the first calendar quarter of 2007, would be approximately , but interest rates could increase, resulting in a correspondingly higher rate of interest on the facilities. The actual required cash payments on the senior subordinated convertible notes will vary depending on whether and to what extent Mitek chooses to pay interest on the senior subordinated convertible notes by adding to the principal amount of the notes and the amount, if any, of the senior subordinated convertible notes which are converted into Mitek common stock.

The combined company s ability to make scheduled quarterly interest payments after year three of the senior subordinated convertible notes primarily will depend on its future performance and working capital, including its ability to increase revenues and cash flows. To a certain extent its ability to increase revenues and control costs are subject to a number of economic, financial, competitive, regulatory and other factors beyond its control. Mitek and Parascript believe that the combined company should have adequate available cash, available funds under the credit facility and cash flows from operations to meet its anticipated future requirements for working capital, capital expenditures, and scheduled payments of principal and interest on its debt through December 31, 2007.

However, if the combined company s cash flow is insufficient to enable us to service our debt, we may be forced to find alternative sources of financing, or to take further drastic measures, including significantly reducing operations, seeking to sell the company or significant assets, or pursuing liquidation. Any future alternative sources of debt or equity financing may not be available to us when needed or in amounts required and may not be permitted under the credit facilities or the senior subordinated convertible notes, and we currently do not have available to us a bank line of credit or other general borrowing facility. Alternatively, we may be forced to attempt to negotiate with our debt holders on our payment terms, which may not be successful or may be on terms onerous to us.

Upon completion of the merger Plainfield could exert considerable influence on Mitek by converting all or a substantial portion of the $35 million in subordinated convertible notes it is being issued in the merger.

Funding for the merger is to be provided by a combination of $35 million in subordinated convertible notes, $55 million in senior secured debt and a $5 million revolving line of credit from Plainfield. The senior subordinated notes will initially be convertible into approximately 21.9 million shares of Mitek common stock at a conversion price of $1.60 per share, subject to adjustment. Upon completion of the merger and on a fully-diluted basis, Plainfield will own approximately 23% of the common stock of Mitek on an as-if converted basis (not including certain shares of the combined company to be issued to certain officers thereof upon completion of the merger please see Agreements with Executive Officers Following the Merger on page 125). This high percentage of ownership could allow Plainfield to exert considerable influence over stockholder voting, such as regarding the election of directors or the adoption of other proposals presented to stockholders. To the extent Plainfield continues to hold a substantial portion of the secured debt after the closing of the financing, it will have interests which are different from those of other Mitek stockholders, and Plainfield may vote in a manner that is in alignment with its position as a Mitek creditor, rather than as a Mitek stockholder.

We are granting a blanket security interest in substantially all of our assets to the holders of our secured debt. If we are unable to make our required payments on the debt, or any other event of default under the credit facilities documents occurs, it could have a material adverse effect on our business and operations, and the debt holders may foreclose on our assets.

As part of our secured debt financing with Plainfield, we are granting to Plainfield a blanket security interest in substantially all of our assets. See Financing the Merger below. In the event we default in payment on the debt, or any other event of default occurs under the credit facilities documents, 100% of the outstanding principal amount under the credit facilities documents and accrued interest thereon may be accelerated and be due and payable in full. Events of default include, among others, the following:

- a failure to pay interest within three business days of when due or a failure to pay any principal payments on the loans;

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a breach by us of any covenant or term or condition in the credit facilities documents (subject to a 30-day cure right for certain covenants, conditions or agreements);

a breach by us of any representation or warranty in any material respect made in connection with any credit facilities documents;