

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

Form 10-Q

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

For the quarterly period ended March 31, 2018

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 001-35231

MITEK SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

600 B Street, Suite 100
San Diego, California
(Address of Principal Executive Offices)

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

92101
(Zip Code)

(619) 269-6800
(Registrant's Telephone Number, Including Area Code)

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 whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 35,059,283 shares of the registrant's common stock outstanding as of May 1, 2018.

MITEK SYSTEMS, INC.
FORM 10-Q
For The Quarterly Period Ended March 31, 2018
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**PART I
FINANCIAL INFORMATION**

ITEM 1. FINANCIAL STATEMENTS.

**MITEK SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS**
(amounts in thousands except share data)

	March 31, 2018	September 30, 2017
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,238	\$ 12,289
Short-term investments	19,146	30,279
Accounts receivable, net	7,797	7,099
Other current assets	3,359	1,209
Total current assets	<u>55,540</u>	<u>50,876</u>
Long-term investments	939	3,780
Property and equipment, net	2,278	613
Intangible assets, net	7,947	2,297
Goodwill	10,298	3,014
Deferred income taxes	14,903	11,065
Other non-current assets	430	74
Total assets	<u>\$ 92,335</u>	<u>\$ 71,719</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,304	\$ 1,918
Accrued payroll and related taxes	3,411	3,709
Deferred revenue, current portion	3,953	3,305
Other current liabilities	4,659	602
Total current liabilities	<u>14,327</u>	<u>9,534</u>
Deferred revenue, non-current portion	609	85
Other non-current liabilities	3,678	692
Total liabilities	<u>18,614</u>	<u>10,311</u>
Stockholders' equity:		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.001 par value, 60,000,000 shares authorized, 35,058,864 and 33,724,392 issued and outstanding, as of March 31, 2018 and September 30, 2017, respectively	35	34
Additional paid-in capital	89,109	78,677
Accumulated other comprehensive income	668	147
Accumulated deficit	(16,091)	(17,450)
Total stockholders' equity	<u>73,721</u>	<u>61,408</u>
Total liabilities and stockholders' equity	<u>\$ 92,335</u>	<u>\$ 71,719</u>

See accompanying notes to consolidated financial statements.

MITEK SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(amounts in thousands except per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Revenue				
Software and hardware	\$ 8,773	\$ 7,797	\$ 15,979	\$ 13,780
SaaS, maintenance, and consulting	5,504	3,622	10,434	6,908
Total revenue	14,277	11,419	26,413	20,688
Operating costs and expenses				
Cost of revenue—software and hardware	485	154	1,204	368
Cost of revenue—SaaS, maintenance, and consulting	1,232	676	2,130	1,353
Selling and marketing	5,348	3,704	10,123	7,542
Research and development	3,501	2,401	6,781	4,852
General and administrative	3,773	2,742	7,290	4,985
Acquisition-related costs and expenses	1,203	518	2,462	1,036
Total operating costs and expenses	15,542	10,195	29,990	20,136
Operating income (loss)	(1,265)	1,224	(3,577)	552
Other income, net	204	67	394	132
Income (loss) before income taxes	(1,061)	1,291	(3,183)	684
Income tax provision	(99)	(74)	(3,713)	(74)
Net income (loss)	\$ (1,160)	\$ 1,217	\$ (6,896)	\$ 610
Net income (loss) per share—basic	\$ (0.03)	\$ 0.04	\$ (0.20)	\$ 0.02
Net income (loss) per share—diluted	\$ (0.03)	\$ 0.03	\$ (0.20)	\$ 0.02
Shares used in calculating net income (loss) per share—basic	34,976	32,786	34,587	32,582
Shares used in calculating net income (loss) per share—diluted	34,976	34,815	34,587	34,818
Other comprehensive income (loss)				
Net income (loss)	\$ (1,160)	\$ 1,217	\$ (6,896)	\$ 610
Foreign currency translation adjustment	403	74	592	(296)
Unrealized gain (loss) on investments	(12)	3	(71)	(18)
Other comprehensive income (loss)	\$ (769)	\$ 1,294	\$ (6,375)	\$ 296

See accompanying notes to consolidated financial statements.

MITEK SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(amounts in thousands)

	Six Months Ended March 31,	
	2018	2017
Operating activities:		
Net income (loss)	\$ (6,896)	\$ 610
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation expense	3,947	2,308
Amortization of closing and earnout shares	355	752
Amortization of intangible assets	1,119	287
Depreciation and amortization	200	216
Amortization of investment premiums and other	(26)	16
Deferred taxes	4,417	—
Changes in assets and liabilities:		
Accounts receivable	949	(181)
Other assets	(1,951)	325
Accounts payable	(367)	510
Accrued payroll and related taxes	66	(875)
Deferred revenue	1,156	90
Other liabilities	589	314
Net cash provided by operating activities	<u>3,558</u>	<u>4,372</u>
Investing activities:		
Purchases of investments	(15,412)	(12,317)
Sales and maturities of investments	29,365	12,150
Acquisition, net of cash acquired	(2,991)	—
Purchases of property and equipment	(1,742)	(254)
Net cash provided by (used in) investing activities	<u>9,220</u>	<u>(421)</u>
Financing activities:		
Proceeds from exercise of stock options, net	166	30
Net cash provided by financing activities	166	30
Foreign currency effect on cash and cash equivalents	5	(32)
Net increase in cash and cash equivalents	12,949	3,949
Cash and cash equivalents at beginning of period	12,289	9,010
Cash and cash equivalents at end of period	<u>\$ 25,238</u>	<u>\$ 12,959</u>
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	<u>\$ 85</u>	<u>\$ 36</u>
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized holding loss on available-for-sale investments	<u>\$ (71)</u>	<u>\$ (18)</u>

See accompanying notes to consolidated financial statements.

MITEK SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Mitek Systems, Inc. ("Mitek" or the "Company") is a leading innovator of mobile identity verification solutions. Mitek is a software development company with expertise in artificial intelligence and machine learning. As of March 31, 2018, over 6,100 financial services organizations have signed agreements to deploy Mobile Deposit®. These include all of the top ten, and nearly all of the top 50 U.S. retail banks. The Company's solutions are embedded in native mobile apps and mobile optimized websites to facilitate better mobile user experiences and compliant transactions.

Mitek's Mobile Deposit® solution is used today by millions of consumers in the U.S. and Canada for mobile check deposit. Following the success of Mobile Deposit®, Mitek introduced a multi-check capture solution that enables businesses to deposit multiple checks in one batch using a mobile device. As of March 31, 2018, the Company has been granted 39 patents and it has an additional 16 patent applications pending.

Mitek is also applying its artificial intelligence and machine learning science to digital identity verification globally. Mitek's Mobile Verify™ is empowering the digital transformation of companies by enabling them to identify with whom they are conducting business. To be in compliance with many governmental Know Your Customer and Anti-Money-Laundering regulatory requirements around the globe identity verification is mandatory. In addition to regulated markets, digital identity verification is also becoming an imperative in the new trust-based sharing economy.

The Company's identity verification solutions are for use with digital/mobile onboarding, trust establishment, and to facilitate money movement. Today, the financial services verticals (banks, credit unions, lenders, payments processors, card issuers, insurers, etc.) represent the most usage of our solutions, but we are also seeing growing adoption by telecommunications, healthcare, travel, retail, sharing economy, and online marketplaces.

In October 2017 (as more fully described below) Mitek acquired ICAR Vision Systems, S.L. ("ICAR"), a leading provider of consumer identity verification solutions in Spain and Latin America. The acquisition expands Mitek's digital identity verification capabilities with several new factors of authentication and further enhances Mitek's desktop capture capabilities, which will enable customer on-boarding and authentication using computers in addition to mobile devices.

The Company markets and sells its products and services worldwide through internal, direct sales teams located in the U.S., Europe, and Latin America, as well as through channel partners. The partner sales strategy includes channel partners who are financial services technology providers and identity verification providers. These partners integrate Mitek's products into their solutions to meet the needs of their customers.

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company as of March 31, 2018 have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, they do not include all information and footnote disclosures required by accounting principles generally accepted in the U.S. ("GAAP"). The Company believes the footnotes and other disclosures made in the financial statements are adequate for a fair presentation of the results of the interim periods presented. The financial statements include all adjustments (solely of a normal recurring nature) which are, in the opinion of management, necessary to make the information presented not misleading. You should read these financial statements and the accompanying notes in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2017, filed with the U.S. Securities and Exchange Commission on November 30, 2017.

Results for the three and six months ended March 31, 2018 are not necessarily indicative of results for any other interim period or for a full fiscal year.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Foreign Currency

The Company has foreign subsidiaries that operate and sell products and services in various countries and jurisdictions around the world. As a result, the Company is exposed to foreign currency exchange risks. For those subsidiaries whose

functional currency is not the U.S. dollar, assets and liabilities are translated into U.S. dollars equivalents at the exchange rate in effect on the balance sheet date and revenues and expenses are translated into U.S. dollars using the average exchange rate over the period. Resulting currency translation adjustments are recorded in accumulated other comprehensive income (loss) in the consolidated balance sheets. The Company recorded net gains resulting from foreign exchange translation of \$0.4 million and \$74,000 for the three months ended March 31, 2018 and 2017, respectively. The Company recorded a net gain resulting from foreign exchange translation of \$0.6 million for the six months ended March 31, 2018 and a net loss resulting from foreign exchange translation of \$0.3 million for the six months ended March 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, deferred taxes, and related disclosure of contingent assets and liabilities. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ materially from those estimates. These estimates include, but are not limited to, assessing the collectability of accounts receivable, estimation of the value of stock-based compensation awards, fair value of assets and liabilities acquired, impairment of goodwill, useful lives of intangible assets, vendor specific objective evidence (“VSOE”) of fair value related to revenue recognition, contingent consideration, and income taxes.

Revenue Recognition

Revenue from sales of software licenses sold through direct and indirect channels is recognized upon shipment of the related product, if the requirements of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 985-605, *Software Revenue Recognition* (“ASC 985-605”) are met, including evidence of an arrangement, delivery, fixed or determinable fee, collectability and VSOE of the fair value of the undelivered element. If the requirements of ASC 985-605 are not met at the date of shipment, revenue is not recognized until such elements are known or resolved. Revenue from customer support services, or maintenance revenue, includes post-contract support and the rights to unspecified upgrades and enhancements. VSOE of fair value for customer support services is determined by reference to the price the customer pays for such element when sold separately; that is, the renewal rate offered to customers. In those instances when objective and reliable evidence of fair value exists for the undelivered items but not for the delivered items, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items. Revenue from post-contract customer support is recognized ratably over the term of the contract. Certain customers have agreements that provide for usage fees above fixed minimums. Usage fees above fixed minimums are recognized as revenue when such amounts are reasonably estimable and billable. Revenue from professional services is recognized when such services are delivered. When a software sales arrangement requires professional services related to significant production, modification or customization of software, or when a customer considers professional services essential to the functionality of the software product, revenue is recognized based on predetermined milestone objectives required to complete the project, as those milestone objectives are deemed to be substantive in relation to the work performed. Any expected losses on contracts in progress are recorded in the period in which the losses become probable and reasonably estimable.

The Company provides hosting services that give customers access to software that resides on its servers. The Company’s model typically includes an up-front fee and a periodic commitment from the customer that commences upon completion of the implementation through the remainder of the customer life. The up-front fee is the initial setup fee, or the implementation fee. The periodic commitment includes, but is not limited to, a fixed periodic fee or a transactional fee based on system usage that exceeds committed minimums. If the up-front fee does not have standalone value, revenue is deferred until the date the customer commences use of the Company’s services, at which point the up-front fees are recognized ratably over the life of the customer arrangement. The Company does not view the signing of the contract or the provision of initial setup services as discrete earnings events that have standalone value.

As a result of the acquisition of ICAR, the Company also generates revenues from the sale of hardware scanner boxes. Revenue allocated to the delivered hardware and the related essential software is recognized at the time of sale provided the conditions for recognition of revenue have been met. Revenue allocated to post contract support is deferred and recognized on a straight-line basis over the estimated term of the support period.

Net Income (Loss) Per Share

The Company calculates net income (loss) per share in accordance with FASB ASC Topic 260, *Earnings per Share*. Basic net income (loss) per share is based on the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share also gives effect to all potentially dilutive securities outstanding during the period, such as options and restricted stock units (“RSUs”), if dilutive. In a period with a net loss position, potentially dilutive securities are not

included in the computation of diluted net loss because to do so would be antidilutive, and the number of shares used to calculate basic and diluted net loss is the same.

For the three and six months ended March 31, 2018 and 2017, the following potentially dilutive common shares were excluded from the calculation of net income (loss) per share, as they would have been antidilutive (*amounts in thousands*):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Stock options	3,047	707	3,047	680
RSUs	2,670	107	2,670	107
IDchecker closing shares	—	91	—	88
IDchecker earnout shares	—	74	—	72
Total potentially dilutive common shares outstanding	5,717	979	5,717	947

The calculation of basic and diluted net income (loss) per share is as follows (*amounts in thousands, except per share data*):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net income (loss)	\$ (1,160)	\$ 1,217	\$ (6,896)	\$ 610
Weighted-average shares outstanding—basic	34,976	32,786	34,587	32,582
Common stock equivalents	—	2,029	—	2,236
Weighted-average shares outstanding—diluted	34,976	34,815	34,587	34,818
Net income (loss) per share:				
Basic	\$ (0.03)	\$ 0.04	\$ (0.20)	\$ 0.02
Diluted	\$ (0.03)	\$ 0.03	\$ (0.20)	\$ 0.02

Investments

Investments consist of corporate notes and bonds, commercial paper, and U.S. Treasury securities. The Company classifies investments as available-for-sale at the time of purchase and reevaluates such classification as of each balance sheet date. All investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive income, a component of stockholders' equity. The Company evaluates its investments to assess whether those with unrealized loss positions are other-than-temporarily impaired. Impairments are considered to be other-than-temporary if they are related to deterioration in credit risk or if it is likely that the Company will sell the securities before the recovery of its cost basis. Realized gains and losses and declines in value judged to be other-than-temporary are determined based on the specific identification method and are reported in other income, net in the consolidated statements of operations and other comprehensive income (loss). No other-than-temporary impairment charges were recognized in the three and six months ended March 31, 2018 or 2017.

All investments whose maturity or sale is expected within one year are classified as "current" on the consolidated balance sheets. All other securities are classified as "long-term" on the consolidated balance sheets.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. Allowances for doubtful accounts are established based on various factors, including credit profiles of the Company's customers, contractual terms and conditions, historical payments, and current economic trends. The Company reviews its allowances by assessing individual accounts receivable over a specific aging and amount. Accounts receivable are written off on a case-by-case basis, net of any amounts that may be collected. The Company had no write-offs of the allowance for doubtful accounts for the three and six months ended March 31, 2018 and 2017. The Company maintained an allowance for doubtful accounts of \$140,000 and \$31,000 as of March 31, 2018 and September 30, 2017, respectively.

Capitalized Software Development Costs

Costs incurred for the development of software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. Software development costs consist primarily of compensation of development

personnel and related overhead incurred to develop new products and upgrade and enhance the Company's current products, as well as fees paid to outside consultants. Capitalization of software development costs ceases, and amortization of capitalized software development costs commences when the products are available for general release. For the three and six months ended March 31, 2018 and 2017, no software development costs were capitalized because the time period and costs incurred between technological feasibility and general release for all software product releases were not material or were not realizable. We had no amortization expense from capitalized software costs during the three and six months ended March 31, 2018 and 2017.

Costs related to software acquired, developed, or modified solely to meet our internal requirements, with no substantive plans to market such software at the time of development, are capitalized. Costs incurred during the preliminary planning and evaluation stage of the project and during post implementation operational stage are expensed as incurred. Costs incurred during the application development stage of the project are capitalized. The Company defines the design, configuration, and coding process as the application development stage. The Company capitalized \$0.3 million of costs related to computer software developed for internal use during the six months ended March 31, 2018, which are recorded in property and equipment in the consolidated balance sheets. The Company did not capitalize any costs related to computer software developed for internal use during the six months ended March 31, 2017. The Company had no amortization expense from internal use software during the three and six months ended March 31, 2018 and 2017.

Goodwill and Purchased Intangible Assets

The Company's goodwill and intangible assets resulted from the acquisitions of IDChecker (as defined below) and ICAR in June 2015 and October 2017, respectively. Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually or as circumstances indicate that their value may no longer be recoverable. In accordance with ASC Topic 350, *Intangibles—Goodwill and Other* ("ASC 350"), the Company reviews its goodwill and indefinite-lived intangible assets for impairment at least annually in its fiscal fourth quarter and more frequently if events or changes in circumstances occur that indicate a potential reduction in the fair value of its reporting unit and/or its indefinite-lived intangible asset below their respective carrying values. Examples of such events or circumstances include: a significant adverse change in legal factors or in the business climate, a significant decline in the Company's stock price, a significant decline in the Company's projected revenue or cash flows, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, or the presence of other indicators that would indicate a reduction in the fair value of a reporting unit. No such events or circumstances have occurred since the last impairment assessment was performed.

The Company's goodwill is considered to be impaired if management determines that the carrying value of the reporting unit to which the goodwill has been assigned exceeds management's estimate of its fair value. Based on the guidance provided by ASC 350 and ASC Topic 280, *Segment Reporting* ("ASC 280"), management has determined that the Company operates in one segment and consists of one reporting unit given the similarities in economic characteristics between its operations and the common nature of its products, services and customers. Because the Company has only one reporting unit, and because the Company is publicly traded, the Company determines the fair value of the reporting unit based on its market capitalization as it believes this represents the best evidence of fair value. In the fourth quarter of fiscal 2017, management completed its annual goodwill impairment test and concluded that the Company's goodwill was not impaired. The Company's conclusion that goodwill was not impaired was based on a comparison of its net assets to its market capitalization.

Because the Company determines the fair value of its reporting unit based on its market capitalization, the Company's future reviews of goodwill for impairment may be impacted by changes in the price of its common stock. For example, a significant decline in the price of the Company's common stock may cause the fair value of its goodwill to fall below its carrying value. Therefore, the Company cannot assure that when it completes its future reviews of goodwill for impairment a material impairment charge will not be recorded.

Intangible assets are amortized over their useful lives. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. The carrying amounts of these assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparing the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate. The carrying amount of such assets is reduced to fair value if the undiscounted cash flows used in the test for recoverability are less than the carrying amount of such assets.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes* ("ASC 740"). Deferred tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years.

Management evaluates the available evidence about future taxable income and other possible sources of realization of deferred tax assets. The valuation allowance reduces deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized. See Note 6 of the consolidated financial statements for additional details.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to income tax matters in income tax expense. See Note 6 of the consolidated financial statements for additional details.

Stock-Based Compensation

The Company issues restricted stock units ("RSUs"), stock options, and Senior Executive Long Term Incentive Restricted Stock Units ("Senior Executive Performance RSUs") as awards to its employees. Employee stock awards are measured at fair value on the date of grant and expense is recognized using the straight-line single-option method in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation* ("ASC 718"). Forfeitures are recorded as they occur.

The Company assigns fair value to RSUs based on the closing stock price on the date of grant.

The Company estimates the fair value of stock options using the Black-Scholes option pricing model. The Black-Scholes option pricing 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.

The Company estimates the fair value of Senior Executive Performance RSUs and similar awards using the Monte-Carlo simulation. The Monte-Carlo simulation requires subjective assumptions, including the Company's valuation date stock price, the annual risk-free interest rate, expected volatility, the probability of reaching the performance targets, and a 20-trading-day average stock price.

Guarantees

In the ordinary course of business, the Company is not subject to potential obligations under guarantees that fall within the scope of FASB ASC Topic 460, *Guarantees* ("ASC 460"), except for standard indemnification and warranty provisions that are contained within many of the Company's customer license and service agreements and certain supplier agreements, and give rise only to the disclosure requirements prescribed by ASC 460. Indemnification and warranty provisions contained within the Company's customer license and service agreements and certain supplier agreements are generally consistent with those prevalent in the Company's industry. The Company has not historically incurred significant obligations under customer indemnification or warranty provisions and does not expect to incur significant obligations in the future. Accordingly, the Company does not maintain accruals for potential customer indemnification or warranty-related obligations.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss), unrealized gains and losses on available-for-sale securities, and foreign currency translation adjustments. Included on the consolidated balance sheets is accumulated other comprehensive income of \$0.7 million and \$0.1 million at March 31, 2018 and September 30, 2017, respectively.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-09, *Compensation – Stock Compensation (Topic 718)* ("ASU 2016-09") which simplified certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification in the statement of cash flows. The new standard requires excess tax benefits and tax deficiencies to be recorded in the consolidated statements of operations and other comprehensive income (loss) as a component of the provision for income taxes when stock awards vest or are settled. In addition, it eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the consolidated statements of cash flows. The standard also provides an accounting policy election to account for forfeitures as they occur and clarifies that all cash payments made to tax authorities on an employee's behalf for withheld shares should be presented as a financing activity on the cash flows statement.

The Company adopted ASU 2016-09 prospectively as of October 1, 2017, resulting in net cumulative-effect adjustment of \$8.3 million increase to retained earnings, primarily related to the recognition of the previously unrecognized excess tax benefits using the modified retrospective method. The previously unrecognized excess tax effects were recorded as an increase to deferred income taxes in the consolidated balance sheets.

Recently Issued Accounting Pronouncements

In February 2018, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (“ASU 2018-02”). Under previously existing GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in accumulated other comprehensive income are adjusted, certain tax effects become stranded in accumulated other comprehensive income. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). The amendments in this ASU also require certain disclosures about stranded tax effects. The guidance is required for fiscal years beginning after December 15, 2018 (our fiscal year 2020), and interim periods within those fiscal years. Early adoption in any period is permitted. The Company is currently evaluating the effect that ASU No. 2018-02 will have on its financial statements and related disclosures. See Note 6 to the consolidated financial statements for additional information on the effects of the Tax Act on our financial position and result of operations, including provisional transitional adjustments that were recorded in the six months ended March 31, 2018 related to the Tax Act.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting* (“ASU 2017-09”), which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 requires entities to account for the effects of a modification unless the fair value, vesting conditions, and classification of the modified award are all the same as the original award immediately before the original award is modified. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company does not expect the adoption of ASU 2017-09 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), which eliminates Step 2 of the goodwill impairment test that had required a hypothetical purchase price allocation. Rather, entities should apply the same impairment assessment to all reporting units and recognize an impairment loss for the amount by which a reporting unit’s carrying amount exceeds its fair value, without exceeding the total amount of goodwill allocated to that reporting unit. Entities will continue to have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 will be effective prospectively for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”), which clarifies the definition of a business with the objective of adding guidance and providing a more robust framework to assist reporting organizations with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. For public entities, ASU 2017-01 is effective prospectively for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for transactions occurring before the issuance or effective date of the standard for which financial statements have not yet been issued. The Company does not expect the adoption of ASU 2017-01 to have a material impact on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory (Topic 740)* (“ASU 2016-16”), which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the impact ASU 2016-16 will have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which requires entities to use a Current Expected Credit Loss model which is a new impairment model based on expected losses rather than incurred losses. Under this model, an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost. The entity’s estimate would consider relevant information about past events, current conditions and reasonable and supportable forecasts. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 31, 2019 with early adoption permitted for annual reporting periods beginning after December 31, 2018. The Company is currently evaluating the impact ASU 2016-13 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which modified lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for the Company beginning in its first quarter of fiscal 2020 and early adoption is permitted. The Company is currently evaluating the timing of its adoption and the impact of adopting the new lease standard on its consolidated financial statements.

In May 2014, the FASB issued guidance codified in FASB ASC Topic 606, *Revenue Recognition – Revenue from Contracts with Customers* (“ASC Topic 606”), which amends the guidance in former ASC 605, *Revenue Recognition*. The Company has performed a review of the requirements of the new revenue standard and related ASUs and is monitoring the activity of the FASB and the transition resource group as it relates to specific interpretive guidance. The Company is reviewing customer contracts and is in the process of applying the new revenue standard to its key identified revenue streams included within either software revenue or SaaS, maintenance, and consulting revenue and is comparing the results to its current accounting practices. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2019. Entities have the option of adopting this new guidance using either a full retrospective or a modified approach with the cumulative effect of applying the guidance recognized at the date of initial application. The Company currently plans to adopt this accounting standard update using the modified retrospective approach, which will result in a cumulative effect adjustment to retained earnings as of October 1, 2018. Under this method, the Company would not restate the prior consolidated financial statements presented. However, the Company will be required to provide additional disclosures in fiscal 2019 related to the amount by which each relevant fiscal 2019 financial statement line item is affected by adoption of the new standard, and an explanation of the reasons for significant changes.

The Company is continuing to assess the impact of adopting ASC Topic 606 on the consolidated financial statements and believes the new standard will impact the following policies and disclosures:

- Timing of revenue recognition of license revenue on term licenses and transactional revenue on guaranteed minimum fees related to on-premises software products. Under the new standard, the Company expects to recognize revenue when control of the license is transferred to the customer, rather than at the date payments become due and payable or ratably over the term of the contract required under the current standard; and
- Accounting for commissions under the new standard will result in the deferral of incremental commission costs for obtaining contracts.

The Company does not currently expect ASC Topic 606 to have a significant effect on the timing of revenue recognition for hardware or SaaS, maintenance, and consulting revenue.

No other new accounting pronouncement issued or effective during the three months ended March 31, 2018 had, or is expected to have, a material impact on the Company’s consolidated financial statements.

2. BUSINESS COMBINATION

On October 16, 2017 (the “Closing Date”), Mitek Holding B.V., a company incorporated under the laws of The Netherlands and a wholly owned subsidiary of the Company (“Mitek Holding B.V.”), acquired all of the issued and outstanding shares of ICAR, a company incorporated under the laws of Spain (the “ICAR Acquisition”), and each of its subsidiaries, pursuant to a Share Purchase Agreement (the “Purchase Agreement”), by and among, the Company, Mitek Holding B.V., and each of the shareholders of ICAR (the “Sellers”). Upon completion of the ICAR Acquisition, ICAR became a direct wholly owned subsidiary of Mitek Holding B.V. and an indirect wholly owned subsidiary of the Company. ICAR is a leading provider of consumer identity verification solutions in Spain and Latin America. The ICAR Acquisition strengthens the Company’s position as a global digital identity verification powerhouse in the Consumer Identity and Access Management solutions market.

As consideration for the ICAR Acquisition, the Company: (i) made a cash payment to Sellers of \$3.0 million, net of cash acquired and subject to adjustments for transaction expenses, escrow amounts, indebtedness, and working capital adjustments (the “Cash Payment”); and (ii) issued to Sellers of 584,291 shares, or \$5.6 million, of the Company’s common stock, par value \$0.001 per share (“Common Stock”). In addition to the foregoing, the Sellers may be entitled to additional cash consideration upon achievement of certain milestones as follows: (a) subject to achievement of the revenue target for the fourth quarter of calendar 2017, the Company will pay to Sellers up to \$1.5 million (the “Q4 Consideration”), which amount shall be deposited (as additional funds) into the escrow fund described below; and (b) subject to achievement of certain revenue and net income targets for ICAR for the twelve-month period ending on September 30, 2018, and the twelve-month period ending on September 30, 2019, the Company will pay to Sellers up to \$3.8 million in additional cash consideration (the “Earmout Consideration”); provided that if the revenue target set forth in clause (a) is not met, then the Q4 Consideration will instead be added to the Earmout Consideration payable upon (and subject to) achievement of the revenue and net income targets for the

twelve-month period ending on September 30, 2018. The Company estimated the fair value of the total Q4 Consideration and Earnout Consideration to be \$2.9 million on the Closing Date, which was determined using a discounted cash flow methodology based on financial forecasts determined by management that included assumptions about revenue growth and discount rates. Each quarter the Company revises the estimated fair value of the Q4 Consideration and Earnout Consideration. Accordingly, an additional \$0.7 million of expense was recognized in acquisition-related costs and expenses in the consolidated statements of operations and other comprehensive income (loss) during the six months ended March 31, 2018.

The Company incurred \$0.5 million of expense in connection with the ICAR Acquisition primarily related to legal fees, outside service costs, and travel expense, which are included in acquisition-related costs and expenses in the consolidated statements of operations and other comprehensive income (loss).

On the Closing Date, the Company deposited \$1.5 million of the Cash Payment into an escrow fund to serve as collateral and partial security for working capital adjustments and certain indemnification rights. As described above, the Q4 Consideration, will also be deposited into the escrow fund. The escrow fund will be maintained for up to 24 months following the completion of the ICAR Acquisition or until such earlier time as the escrow fund is exhausted.

The Company used cash on hand for the Cash Payment paid on the Closing Date, and under the terms of the Purchase Agreement, the Company has agreed to guarantee the obligations of Mitek Holding B.V. thereunder.

The ICAR Acquisition was accounted for using the purchase method of accounting in accordance with ASC Topic 805, *Business Combinations*. Accordingly, the results of operations of ICAR have been included in the accompanying consolidated financial statements since the date of acquisition. The purchase price has been allocated to the tangible and intangible assets acquired and liabilities assumed based upon the respective estimates of fair value as of the date of the ICAR Acquisition, which remain preliminary as of March 31, 2018, and are based on assumptions that the Company's management believes are reasonable given the information currently available. The Company is in the process of completing its valuation of certain intangible assets and the valuation of the acquired deferred income taxes. The final allocations of the purchase price to intangible assets and deferred income taxes may differ materially from the information presented in these unaudited consolidated financial statements.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as part of the ICAR Acquisition as of October 16, 2017 (*amounts shown in thousands*):

	October 16, 2017
Current assets	\$ 2,036
Property, plant, and equipment	83
Intangible assets	6,407
Goodwill	6,852
Other non-current assets	87
Current liabilities	(1,568)
Other non-current liabilities	(2,430)
Net assets acquired	<u>\$ 11,467</u>

The goodwill recognized is due to expected synergies and other factors and is not expected to be deductible for income tax purposes. The Company estimated the fair value of identifiable acquisition-related intangible assets with definite lives primarily based on discounted cash flow projections that will arise from these assets. The Company exercised significant judgment with regard to assumptions used in the determination of fair value such as with respect to discount rates and the determination of the estimated useful lives of the intangible assets. The following table summarizes the estimated fair values and estimated useful lives of intangible assets with definite lives related to the ICAR Acquisition as of October 16, 2017 (*amounts shown in thousands, except for years*):

	Amortization Period	October 16, 2017
Completed technologies	5.0 years	\$ 4,956
Customer relationships	2.0 years	1,298
Trade names	3.0 years	153
Total intangible assets		<u>\$ 6,407</u>

The following unaudited pro forma financial information is presented as if the ICAR Acquisition had taken place at the beginning of the periods presented and should not be taken as representative of the Company's future consolidated results of operations. The following unaudited pro forma information includes adjustments for the amortization expense related to the identified intangible assets.

The following table summarizes the Company's unaudited pro forma financial information (*amounts shown in thousands*):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Pro forma revenue	\$ 14,277	\$ 12,323	\$ 27,320	\$ 22,563
Pro forma net loss	\$ (1,160)	\$ 884	\$ (6,270)	\$ 104

3. INVESTMENTS

The following tables summarize investments by type of security as of March 31, 2018 and September 30, 2017, respectively (*amounts shown in thousands*):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
March 31, 2018:				
Available-for-sale securities:				
U.S. Treasury, short-term	\$ 8,654	\$ —	\$ (30)	\$ 8,624
Corporate debt securities, short-term	10,572	—	(50)	10,522
Corporate debt securities, long-term	945	—	(6)	939
Total	\$ 20,171	\$ —	\$ (86)	\$ 20,085
September 30, 2017:				
Available-for-sale securities:				
U.S. Treasury, short-term	\$ 3,897	\$ —	\$ (3)	\$ 3,894
Corporate debt securities, short-term	26,393	—	(8)	26,385
Corporate debt securities, long-term	3,785	—	(5)	3,780
Total	\$ 34,075	\$ —	\$ (16)	\$ 34,059

The cost of securities sold is based on the specific identification method. Amortization of premiums, accretion of discounts, interest, dividend income and realized gains and losses are included in investment income.

The Company determines the appropriate designation of investments at the time of purchase and reevaluates such designation as of each balance sheet date. All of the Company's investments are designated as available-for-sale debt securities. As of March 31, 2018 and September 30, 2017, the Company's short-term investments have maturity dates of less than one year from the balance sheet date and the Company's long-term investments have maturity dates of greater than one year from the balance sheet date.

Available-for-sale marketable securities are carried at fair value as determined by quoted market prices for identical or similar assets, with unrealized gains and losses, net of taxes, and reported as a separate component of stockholders' equity. Management reviews the fair value of the portfolio at least monthly and evaluates individual securities with fair value below amortized cost at the balance sheet date. For debt securities, in order to determine whether impairment is other-than-temporary, management must conclude whether the Company intends to sell the impaired security and whether it is more likely than not that the Company will be required to sell the security before recovering its amortized cost basis. If management intends to sell an impaired debt security or it is more likely than not that the Company will be required to sell the security prior to recovering its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. The amount of an other-than-temporary impairment on debt securities related to a credit loss, or securities that management intends to sell before recovery, is recognized in earnings. The amount of an other-than-temporary impairment on debt securities related to other factors is recorded consistent with changes in the fair value of all other available-for-sale securities as a component of stockholders' equity in other comprehensive income. No other-than-temporary impairment charges were recognized in the three and six months ended March 31, 2018 and 2017.

Fair Value Measurements and Disclosures

FASB ASC Topic 820, *Fair Value Measurements* ("ASC 820") defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most

advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 describes a fair value hierarchy based on the following three levels of inputs that may be used to measure fair value, of which the first two are considered observable and the last, unobservable:

- Level 1—Quoted prices in active markets for identical assets or liabilities;
- Level 2—Inputs other than Level 1 inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables represent the fair value hierarchy of the Company's investments and acquisition-related contingent consideration as of March 31, 2018 and September 30, 2017, respectively (*amounts shown in thousands*):

March 31, 2018:	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments:				
U.S. Treasury	\$ 8,624	\$ 8,624	\$ —	\$ —
Corporate debt securities				
Financial	2,840	—	2,840	—
Industrial	5,692	—	5,692	—
Commercial paper				
Financial	1,990	—	1,990	—
Total short-term investments at fair value	<u>19,146</u>	<u>8,624</u>	<u>10,522</u>	<u>—</u>
Long-term investments:				
Corporate debt securities				
Industrial	939	—	939	—
Total assets at fair value	<u>\$ 20,085</u>	<u>\$ 8,624</u>	<u>\$ 11,461</u>	<u>\$ —</u>
Liabilities:				
Acquisition-related contingent consideration	3,703	—	—	3,703
Total liabilities at fair value	<u>\$ 3,703</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,703</u>

September 30, 2017:	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments:				
U.S. Treasury	\$ 3,894	\$ 3,894	\$ —	\$ —
Corporate debt securities				
Financial	3,041	—	3,041	—
Industrial	9,503	—	9,503	—
Commercial paper				
Financial	10,850	—	10,850	—
Industrial	2,991	—	2,991	—
Total short-term investments at fair value	<u>30,279</u>	<u>3,894</u>	<u>26,385</u>	<u>—</u>
Long-term investments:				
Corporate debt securities				
Financial	1,858	—	1,858	—
Industrial	1,922	—	1,922	—
Total assets at fair value	<u>\$ 34,059</u>	<u>\$ 3,894</u>	<u>\$ 30,165</u>	<u>\$ —</u>
Liabilities:				
Acquisition-related contingent consideration	354	—	—	354
Total liabilities at fair value	<u>\$ 354</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 354</u>

Acquisition-related contingent consideration is recorded in other non-current liabilities in the consolidated balance sheets. The following table includes a summary of the contingent consideration measured at fair value using significant unobservable inputs (Level 3) during the six months ended March 31, 2018 (*amounts shown in thousands*):

Balance at September 30, 2017	\$ 354
Contingent consideration associated with the ICAR Acquisition	2,867
Expenses recorded due to changes in fair value	1,057
Foreign currency effect on contingent consideration	135
Issuance of common stock	(710)
Balance at March 31, 2018	<u>\$ 3,703</u>

4. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company had a goodwill balance of \$10.3 million at March 31, 2018, representing the excess of costs over fair value of assets of businesses acquired. Goodwill acquired in a business combination and determined to have an indefinite useful life is not amortized, but instead is tested for impairment at least annually in accordance with ASC 350. The following table summarizes changes in the balance of goodwill during the six months ended March 31, 2018 (*amounts shown in thousands*):

Balance at September 30, 2017	\$ 3,014
Acquisition of ICAR	6,852
Foreign currency effect on goodwill	432
Balance at March 31, 2018	<u>\$ 10,298</u>

Intangible assets

Intangible assets include the value assigned to purchased completed technology, customer relationships, and trade names. The estimated useful lives for all of these intangible assets range from two to six years. Intangible assets as of March 31, 2018 and September 30, 2017, respectively, are summarized as follows (amounts shown in thousands, except for years):

March 31, 2018:	Weighted Average Amortization Period	Cost	Accumulated Amortization	Net
Completed technologies	5.3 years	\$ 7,326	\$ 1,238	\$ 6,088
Customer relationships	3.8 years	2,268	656	1,612
Trade names	4.2 years	383	136	247
Total intangible assets		<u>\$ 9,977</u>	<u>\$ 2,030</u>	<u>\$ 7,947</u>

September 30, 2017:	Weighted Average Amortization Period	Cost	Accumulated Amortization	Net
Completed technologies	6.0 years	\$ 2,370	\$ 833	\$ 1,537
Customer relationships	6.0 years	970	341	629
Trade names	5.0 years	230	99	131
Total intangible assets		<u>\$ 3,570</u>	<u>\$ 1,273</u>	<u>\$ 2,297</u>

Amortization expense related to acquired intangible assets was \$0.6 million and \$0.1 million for the three months ended March 31, 2018 and 2017, respectively, and \$1.1 million and \$0.3 million for the six months ended March 31, 2018 and 2017, respectively, and is recorded within acquisition-related costs and expenses on the consolidated statements of operations and other comprehensive income (loss).

The estimated future amortization expense related to intangible assets for each of the five succeeding fiscal years is expected to be as follows (amounts shown in thousands):

	Estimated Future Amortization Expense
2018 (remaining six months)	\$ 1,213
2019	2,426
2020	1,761
2021	1,469
2022	1,035
Thereafter	43
Total	<u>\$ 7,947</u>

5. STOCKHOLDERS' EQUITY

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense related to stock options and RSUs, which was allocated as follows (amounts shown in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Cost of revenue	\$ 22	\$ 17	\$ 40	\$ 30
Selling and marketing	729	395	1,370	742
Research and development	449	234	816	441
General and administrative	858	577	1,721	1,095
Stock-based compensation expense included in expenses	<u>\$ 2,058</u>	<u>\$ 1,223</u>	<u>\$ 3,947</u>	<u>\$ 2,308</u>

The fair value calculations for stock-based compensation awards to employees for the six months ended March 31, 2018 and 2017 were based on the following assumptions:

	Six Months Ended March 31, 2018	Six Months Ended March 31, 2017
Risk-free interest rate	2.04%	1.68% – 1.92%
Expected life (years)	5.15	5.32
Expected volatility	60%	78%
Expected dividends	None	None

The expected life of options granted is derived using assumed exercise rates based on historical exercise patterns and vesting terms, and represents the period of time that options granted are expected to be outstanding. Expected stock price volatility is based upon implied volatility and other factors, including historical volatility. After assessing all available information on either historical volatility, or implied volatility, or both, the Company concluded that a combination of both historical and implied volatility provides the best estimate of expected volatility.

As of March 31, 2018, the Company had \$19.4 million of unrecognized compensation expense related to outstanding stock options and RSUs expected to be recognized over a weighted-average period of approximately 2.4 years.

2012 Incentive Plan

In January 2012, the Company's board of directors (the "Board") adopted the Mitek Systems, Inc. 2012 Incentive Plan (the "2012 Plan"), upon the recommendation of the compensation committee of the Board. On March 10, 2017, the Company's stockholders approved the amendment and restatement of the 2012 Plan. The total number of shares of Common Stock reserved for issuance under the 2012 Plan is 9,500,000 shares plus that number of shares of Common Stock that would otherwise return to the available pool of unissued shares reserved for awards under its 1999 Stock Option Plan, 2000 Stock Option Plan, 2002 Stock Option Plan, 2006 Stock Option Plan and 2010 Stock Option Plan (collectively, the "Prior Plans"). As of March 31, 2018, (i) stock options to purchase 1,999,939 shares of Common Stock, 2,227,209 RSUs and 2,100,000 Senior Executive Performance RSUs were outstanding under the 2012 Plan, and 1,357,120 shares of Common Stock were reserved for future grants under the 2012 Plan and (ii) stock options to purchase an aggregate of 1,046,566 shares of Common Stock were outstanding under the Prior Plans.

Employee Stock Purchase Plan

In January 2018, the Board adopted the Mitek Systems, Inc. Employee Stock Purchase Plan, (the "ESPP"). On March 7, 2018, the Company's stockholders approved the ESPP. The total number of shares of Common Stock reserved for issuance thereunder is 1,000,000 shares. As of March 31, 2018, (i) no shares were outstanding under the ESPP and (ii) 1,000,000 shares of Common Stock were reserved for future purchases under the ESPP. The Company commenced the initial offering period on April 2, 2018.

Director Restricted Stock Unit Plan

In January 2011, the Board adopted the Mitek Systems, Inc. Director Restricted Stock Unit Plan, as amended and restated (the "Director Plan"). On March 10, 2017, the Company's stockholders approved an amendment to the Director Plan. The total number of shares of Common Stock reserved for issuance thereunder is 1,500,000 shares. As of March 31, 2018, (i) 442,838 RSUs were outstanding under the Director Plan and (ii) 445,733 shares of Common Stock were reserved for future grants under the Director Plan.

Stock Options

The following table summarizes stock option activity under the Company's equity plans during the six months ended March 31, 2018:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)
Outstanding, September 30, 2017	2,845,866	\$ 4.21	5.4
Granted	299,397	\$ 8.60	
Exercised	(72,527)	\$ 2.29	
Canceled	(26,231)	\$ 4.03	
Outstanding, March 31, 2018	3,046,505	\$ 4.68	5.4

The Company recognized \$0.3 million and \$0.2 million in stock-based compensation expense related to outstanding stock options in the three months ended March 31, 2018 and 2017, respectively. The Company recognized \$0.6 million and \$0.5 million in stock-based compensation expense related to outstanding stock options in the six months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, the Company had \$2.0 million of unrecognized compensation expense related to outstanding stock options expected to be recognized over a weighted-average period of approximately 2.3 years.

Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the weighted-average exercise price, multiplied by the number of options outstanding and exercisable. The total intrinsic value of options exercised during the six months ended March 31, 2018 and 2017 was \$0.5 million and \$32,000, respectively. The per-share weighted-average fair value of options granted during the six months ended March 31, 2018 was \$4.56. The aggregate intrinsic value of options outstanding as of March 31, 2018 and September 30, 2017, was \$10.2 million and \$15.6 million, respectively.

Restricted Stock Units

The following table summarizes RSU activity under the Company's equity plans during the six months ended March 31, 2018:

	Number of Shares	Weighted-Average Fair Market Value Per Share
Outstanding, September 30, 2017	2,357,021	\$ 5.65
Granted	961,809	\$ 8.56
Settled	(596,472)	\$ 4.74
Canceled	(52,311)	\$ 8.09
Outstanding, March 31, 2018	<u>2,670,047</u>	<u>\$ 6.83</u>

The cost of RSUs is determined using the fair value of Common Stock on the award date, and the compensation expense is recognized ratably over the vesting period. The Company recognized \$1.4 million and \$0.9 million in stock-based compensation expense related to outstanding RSUs in the three months ended March 31, 2018 and 2017, respectively. The Company recognized \$2.6 million and \$1.8 million in stock-based compensation expense related to outstanding RSUs in the six months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, the Company had \$14.3 million of unrecognized compensation expense related to outstanding RSUs expected to be recognized over a weighted-average period of approximately 2.7 years.

Senior Executive Performance RSUs

There were 2,100,000 Senior Executive Performance RSUs outstanding as of both March 31, 2018 and September 30, 2017. The Company recognized \$0.4 million and \$0.7 million in stock-based compensation expense related to outstanding Senior Executive Performance RSUs in the three and six months ended March 31, 2018, respectively. The Company recognized \$30,000 in stock-based compensation expense related to outstanding Senior Executive Performance RSUs in each of the three and six months ended March 31, 2017. As of March 31, 2018, the Company had \$3.1 million of unrecognized compensation expense related to outstanding RSUs expected to be recognized over a weighted-average period of approximately 2.3 years.

Closing Shares

On June 17, 2015, the Company completed the acquisition of IDchecker NL B.V., a company incorporated under the laws of The Netherlands ("IDC NL"), and ID Checker, Inc., a California corporation and wholly owned subsidiary of IDC NL ("IDC Inc." and together with IDC NL, "IDchecker"). In connection with the closing of this acquisition, the Company issued to the Sellers 712,790 shares of Common Stock (the "Closing Shares"). Vesting of these shares was subject to the continued employment of the founders of IDchecker and occurred over a period of 27 months (the "Service Period") from the date of issuance. The cost of the Closing Shares was determined using the fair value of Common Stock on the award date, and the stock-based compensation is recognized ratably over the vesting period. Stock-based compensation expense related to the Closing Shares is recorded within acquisition-related costs and expenses on the consolidated statements of operations and other comprehensive income (loss). The Company recognized no stock-based compensation expense related to the Closing Shares in the six months ended March 31, 2018. The Company recognized \$0.3 million and \$0.6 million in stock-based compensation expense related to the Closing Shares in the three and six months ended March 31, 2017, respectively.

Earnout Shares

In connection with the acquisition of IDChecker, the Company issued 137,306 shares of Common Stock (the “Earnout Shares”) to the Sellers for achievement by IDChecker of certain revenue targets for the nine-month period ended September 30, 2015. Additionally, 81,182 Earnout Shares were earned by the Sellers for achievement by IDChecker of certain revenue targets for the twelve-month period ended September 30, 2016. The Company estimated the fair value of the Earnout Shares using the Monte-Carlo simulation (using the Company’s valuation date stock price, the annual risk-free interest rate, expected volatility, the probability of reaching the performance targets and a 10-trading day average stock price). In November 2017, a contingency triggered the immediate vesting of all Earnout Shares, resulting in an acceleration of all stock-based compensation related to the earnout shares. Stock-based compensation expense related to the Earnout Shares is recorded within acquisition-related costs and expenses on the consolidated statements of operations and other comprehensive income (loss). The Company recognized \$0 and \$0.1 million in stock-based compensation expense related to the Earnout Shares for the three months ended March 31, 2018 and 2017, respectively. The Company recognized \$0.4 million and \$0.1 million in stock-based compensation expense related to the Earnout Shares for the six months ended March 31, 2018 and 2017, respectively.

6. INCOME TAXES

The Company’s tax provision for interim periods is determined using an estimate of the annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, management updates the estimate of the annual effective tax rate, and any changes in the annual effective tax rate are recorded in a cumulative adjustment in that quarter. The quarterly tax provision and quarterly estimate of the annual effective tax rate are subject to significant volatility due to several factors, including management’s ability to accurately predict the portion of income (loss) before income taxes in multiple jurisdictions, the tax effects of our stock-based compensation awards, and the effects of acquisitions and the integration of those acquisitions. The annual effective tax rate differs from the U.S. statutory rate primarily due to state taxes.

On December 22, 2017, the Tax Act was signed into law and was effective for the Company’s first quarter ending December 31, 2017. For the six months ended March 31, 2018, the Company recorded an income tax provision of \$3.7 million, which yielded an effective tax rate of approximately negative (117)%. Included in the tax provision is an expense of \$4.4 million, which is related to the enactment of the Tax Act.

As the Company has a fiscal year ending September 30th, it is subject to transitional tax rate rules. Therefore, a blended rate of 24.3% was computed as effective for the current fiscal year. The difference between the U.S. federal statutory tax rate and the Company’s effective tax rate for the six months ended March 31, 2018 is primarily due to the impact of U.S. tax reform and the impact of certain permanent items on its tax provision.

The Company adopted ASU 2016-09 prospectively as of October 1, 2017, resulting in net cumulative-effect adjustment of \$8.3 million increase to retained earnings, primarily related to the recognition of the previously unrecognized excess tax benefits using the modified retrospective method. The previously unrecognized excess tax effects were recorded as an increase to deferred income taxes in the consolidated balance sheets.

7. COMMITMENTS AND CONTINGENCIES

Rothschild Mobile Imaging Innovations, Inc.

On May 16, 2014, Rothschild Mobile Imaging Innovations, Inc. (“RMII”) filed a complaint against the Company in the U.S. District Court for the District of Delaware alleging that certain of the Company’s mobile imaging products infringe four RMII-owned patents related to mobile imaging technology. On June 1, 2014, RMII amended its complaint to add JPMorgan Chase & Co. and JPMorgan Chase Bank, N.A. (together, “Chase”), one of the Company’s customers, as a defendant in the lawsuit (as amended, the “Initial Lawsuit”). On September 8, 2014, RMII filed three additional complaints (the “Subsequent Lawsuits”) against the Company in the U.S. District Court for the District of Delaware. The Subsequent Lawsuits contain allegations substantially similar to the Initial Lawsuit regarding infringement by the Company’s mobile imaging products of the four RMII-owned patents related to mobile imaging technology, but name as co-defendants Citibank, N.A., Citigroup Inc., Wells Fargo & Company, Wells Fargo Bank, N.A., Bank of America Corporation and Bank of America, N.A., respectively (together with Chase, the “Bank Defendants”). RMII subsequently filed amended complaints (together with the Initial Lawsuit and the Subsequent Lawsuits, the “RMII Lawsuits”) adding as defendants both Fiserv and NCR (the “Distributor Defendants”), each of whom distributes the Company’s mobile imaging technology to one or more of the Bank Defendants. Based on the Company’s understanding of the claims, the Company agreed to accept the demands for indemnity and defense tendered by each of the Bank Defendants and Distributor Defendants in connection with the RMII Lawsuits.

On November 10, 2014, the Company filed a motion to sever and stay the claims against Chase in the Initial Lawsuit pending resolution of RMII’s claims against the Company, which motion was granted on August 3, 2015. On November 19, 2014, the Company filed joinders to the motion to stay with respect to the Subsequent Lawsuits, which joinders were also

granted on August 3, 2015. Additionally, the Patent Trial and Appeal Board (“PTAB”) of the Patent and Trademark Office instituted the Company’s petitions for Inter Partes Review (“IPR”) challenging the patentability of all four asserted patents, and the Court agreed to stay the litigation in its entirety until all of the decisions are rendered in the IPR proceedings.

On July 20, 2016, the PTAB entered its final decision in the IPR proceedings. The PTAB ruled that all claims asserted in the litigation in all four RMI patents were directed to unpatentable subject matter and thus not patent eligible. On September 16, 2016, the parties filed a joint status report notifying the Court of the PTAB’s decisions in the IPRs. Through that notice, the Company requested that the Court enter a judgment of non-infringement, or, in the alternative, dismiss all of RMI’s claims against all defendants with prejudice. On September 16, 2016, RMI filed a motion to dismiss without prejudice. On September 15, 2017, the Court granted the motion, but dismissed the cases with prejudice. On September 29, 2017, the Company filed a motion for attorneys’ fees and expenses. RMI subsequently filed a response to that motion. The Company’s motion remains pending before the court.

Other Legal Matters

In addition to the foregoing, the Company is subject to various claims and legal proceedings arising in the ordinary course of its business. The Company accrues for such liabilities when it is both (i) probable that a loss has occurred and (ii) the amount of the loss can be reasonably estimated in accordance with ASC 450. While any legal proceeding has an element of uncertainty, the Company believes that the disposition of such matters, in the aggregate, will not have a material effect on the Company’s financial condition or results of operations.

Facility Leases

The Company’s principal executive offices, as well as its research and development facility, are located in approximately 28,791 square feet of office space in San Diego, California and the term of the lease for the Company’s offices continues through June 30, 2024. The average annual base rent under this lease is approximately \$1.0 million per year. In connection with this lease, the Company received tenant improvement allowances totaling \$1.0 million. These lease incentives are being amortized as a reduction of rent expense over the term of the lease. As of March 31, 2018, the unamortized balance of the lease incentives was \$0.9 million, of which \$0.1 million has been included in other current liabilities and \$0.7 million has been included in other non-current liabilities. The offices of IDchecker are located in the Netherlands and the term of this lease continues through May 31, 2018 with annual base rent of approximately €48,000 (or approximately \$59,000) per year. In December, IDchecker signed a new lease for a new office building. This lease continues through December 31, 2023 with annual base rent of approximately €197,000 (or approximately \$243,000) per year. The Company has a sales office in London, UK. The term of this lease continues through May 31, 2020. The annual base rent under this lease is approximately £63,000 (or approximately \$88,000) per year. The Company believes its existing properties are in good condition and are sufficient and suitable for the conduct of its business.

8. REVENUE AND VENDOR CONCENTRATIONS

Revenue Concentration

For the three months ended March 31, 2018, the Company derived revenue of \$5.8 million from two customers, with such customers accounting for 24% and 17%, respectively, of the Company’s total revenue. For the three months ended March 31, 2017, the Company derived revenue of \$2.9 million from two customers, with such customers accounting for 14% and 12%, respectively, of the Company’s total revenue. For the six months ended March 31, 2018, the Company derived revenue of \$5.9 million from one customer, with such customer accounting for 22% of the Company’s total revenue. For the six months ended March 31, 2017, the Company derived revenue of \$4.8 million from one customer, with such customer accounting for 23% of the Company’s total revenue. The corresponding accounts receivable balances of customers from which revenues were in excess of 10% of total revenue were \$2.4 million and \$1.4 million at March 31, 2018 and 2017, respectively.

The Company’s revenue is derived primarily from sales by the Company to channel partners, including systems integrators and resellers, and end-users of licenses to sell products covered by the Company’s patented technologies. These contractual arrangements do not obligate the Company’s channel partners to order, purchase or distribute any fixed or minimum quantities of the Company’s products. In most cases, the channel partners purchase the license from the Company after they receive an order from an end-user. The channel partners receive orders from various individual end-users; therefore, the sale of a license to a channel partner may represent sales to multiple end-users. End-users can purchase the Company’s products through more than one channel partner.

Revenues can fluctuate based on the timing of license renewals by channel partners. When a channel partner purchases or renews a license, the Company receives a license fee in consideration for the grant of a license to sell the Company’s products and there are no future payment obligations related to such agreement; therefore, the license fee the Company receives with respect to a particular license renewal in one period does not have a correlation with revenue in future periods. During the

last several quarters, sales of licenses to one or more channel partners have comprised a significant part of the Company's revenue. This is attributable to the timing of renewals or purchases of licenses and does not represent a dependence on any single channel partner. The Company believes that it is not dependent upon any single channel partner, even those from which revenues were in excess of 10% of the Company's total revenue in a specific reporting period, and that the loss or termination of the Company's relationship with any such channel partner would not have a material adverse effect on the Company's future operations because either the Company or another channel partner could sell the Company's products to the end-user that had purchased from the channel partner the Company lost.

International sales accounted for approximately 23% and 26% of the Company's total revenue for the three and six months ended March 31, 2018, respectively. International sales accounted for approximately 14% of the Company's total revenue for both the three and six months ended March 31, 2017.

Vendor Concentration

The Company purchases its integrated software components from multiple third-party software providers at competitive prices. For the three and six months ended March 31, 2018 and 2017, the Company did not make purchases from any one vendor comprising 10% or more of the Company's total purchases. The Company has entered into contractual relationships with some of its vendors; however, the Company does not believe it is substantially dependent upon nor exposed to any significant concentration risk related to purchases from any of its vendors given the availability of alternative sources for its necessary integrated software components.

9. SUBSEQUENT EVENT

Revolving Credit Facility

On May 3, 2018, the Company and IDChecker, Inc. (together, the "Co-Borrowers") entered into a Loan and Security Agreement (the "Loan Agreement") with Silicon Valley Bank ("SVB"). Pursuant to the Loan Agreement, the Company arranged for a \$10.0 million secured revolving credit facility (the "Revolver") with a floating per annum interest rate equal to the greater of the Wall Street Journal prime rate, plus 0.25%, or 4.5%. The Co-Borrowers must maintain, at all times when any amounts are outstanding under the Revolver, either (i) minimum unrestricted cash at SVB and unused availability on the Revolver of at least \$15.0 million and (ii) Adjusted Quick Ratio of 1.75:1.00. The Revolver has a maturity date of May 3, 2019.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This Quarterly Report on Form 10-Q (this "Form 10-Q"), contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or they prove incorrect, could cause our results to differ materially and adversely from those expressed or implied by such forward-looking statements. The forward-looking statements are contained principally in Part I, Item 2—"Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A—"Risk Factors," but appear throughout this Form 10-Q. Forward-looking statements may include, but are not limited to, statements relating to our outlook or expectations for earnings, revenues, expenses, asset quality, volatility of our common stock, financial condition or other future financial or business performance, strategies, expectations, or business prospects, or the impact of legal, regulatory or supervisory matters on our business, results of operations or financial condition.

Forward-looking statements can be identified by the use of words such as "estimate," "plan," "project," "forecast," "intend," "expect," "anticipate," "believe," "seek," "target", "will," "would," "could," "can," "may," or similar expressions. Forward-looking statements reflect our judgment based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Part II, Item 1A—"Risk Factors" in this Form 10-Q and in our other filings with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, filed with the SEC on November 30, 2017 (the "Form 10-K"). Additionally, there may be other factors that could preclude us from realizing the predictions made in the forward-looking statements. 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 our financial position or results of operations. All forward-looking statements included in this Form 10-Q speak only as of the date of this Form 10-Q and you are cautioned not to place undue reliance on any such forward-looking statements. 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 Form 10-Q or to reflect the occurrence of unanticipated events.

In this Form 10-Q, unless the context indicates otherwise, the terms "Mitek," "the Company," "we," "us," and "our" refer to Mitek Systems, Inc., a Delaware corporation and its subsidiaries.

Overview

Mitek is a leading innovator of mobile identity verification solutions. We are a software development company with expertise in artificial intelligence and machine learning. We are currently serving over 6,100 financial services organizations and leading brands across the globe. Our solutions are embedded in native mobile apps and mobile optimized websites to facilitate better mobile user experiences and compliant transactions.

Mitek's Mobile Deposit® solution is used today by millions of consumers in the U.S. and Canada for mobile check deposit. Following the success of Mobile Deposit®, Mitek introduced a multi-check capture solution that enables businesses to deposit multiple checks in one batch using a mobile device.

Mitek is also applying our artificial intelligence and machine learning science to digital identity verification globally. Mitek's Mobile Verify™ is empowering the digital transformation of companies by enabling them to identify with whom they are conducting business. To be in compliance with many governmental Know Your Customer ("KYC") and Anti-Money-Laundering regulatory requirements around the globe identity verification is mandatory. In addition to regulated markets, digital identity verification is also becoming an imperative in the new trust-based sharing economy.

Our identity verification solutions are for use with digital/mobile onboarding, trust establishment, and to facilitate money movement. Today, the financial services verticals (banks, credit unions, lenders, payments processors, card issuers, insurers, etc.) represent the most use of our solutions, but we are also seeing growing adoption by telecommunications, healthcare, travel, retail, sharing economy, and online marketplaces.

The core of our user experience is Mitek MiSnap™, a touch-free automated capture technology, which can be incorporated across our product line. It provides a simple and superior user experience, making transactions on mobile devices fast and easy for the consumer while helping organizations drive revenue from the increasingly popular mobile channel.

Our Mobile Verify™ products can combine the Mitek MiSnap™ auto capture experience with a variety of advanced computer vision techniques to provide verification of ID documents. These products enable banks and other businesses to improve KYC processes. This is especially valuable to highly regulated industries with a large and growing percentage of transactions conducted remotely via mobile devices. These products also enable trust to be achieved on peer-to-peer and merchant processing networks where identity is an inherent part of the transaction. Mobile Verify™ users include international payments, financial services and information services providers.

Mobile Fill™, our mobile identity capture solution, enables the camera to serve as a keyboard. Using Mobile Fill™, consumers can quickly pre-fill any form with personal data by simply snapping a picture of their driver license, credit card, or other document. Organizations use Mobile Fill™ to verify identity for service. This can include streamlining the process of opening a customer checking, savings or credit card account, paying a bill, activating a ‘switch and save’ offer, and more. Mitek’s prime customers for Mobile Fill™ include national and regional banks, credits unions, wireless telecom operators and insurance providers. The second generation of our Mobile Fill™ product, Mobile Fill™ for Mobile Web™, enables potential new customers to use their camera as a keyboard right from the organization’s mobile website, eliminating the need to download an application.

Mitek’s Mobile Identity Suite has been developed pursuant to the success of Mobile Deposit®, a category leading product that allows individuals and businesses to remotely deposit checks using their camera-equipped smartphone or tablet. Our Mobile Deposit® solution has now processed over two billion check deposits. We began selling Mobile Deposit® in the second fiscal quarter of 2008 and received our first patent issued for this product in August 2010. Our Commercial Mobile Deposit Capture™ utilizes the same core technology as Mobile Deposit® but is specific to small and medium size businesses. It adds capabilities such as mobile multi-check capture to help businesses reduce or eliminate their need for check scanners and trips to the ATM or bank branch. Many businesses are seeking to lower operating costs through mobile tools that enable them to quickly process payments without a trip to the bank, extra hardware or interchange fees associated with credit cards.

In October 2017 (as more fully described below) we acquired ICAR Vision Systems, S.L. (“ICAR”), a leading provider of consumer identity verification solutions in Spain and Latin America. The ICAR Acquisition (as defined below) expands our digital identity verification capabilities with several new factors of authentication and further enhances our desktop capture capabilities, which will enable customer on-boarding and authentication using computers in addition to mobile devices.

We market and sell our products and services worldwide through internal, direct sales teams located in the U.S., Europe, and Latin America as well as through channel partners. Our partner sales strategy includes channel partners who are financial services technology providers and identity verification providers. These partners integrate our products into their solutions to meet the needs of their customers.

Second Quarter Fiscal 2018 Highlights

- Revenues for the three months ended March 31, 2018 were \$14.3 million, an increase of 25% compared to revenues of \$11.4 million in the three months ended March 31, 2017.
- Net loss was \$1.2 million, or \$0.03 per share, during the three months ended March 31, 2018, compared to net income of \$1.2 million, or \$0.03 per dilutive share, during the three months ended March 31, 2017.
- During the second quarter of fiscal 2018 the total number of financial institutions licensing our technology grew to over 6,100. All of the top 10 U.S. retail banks, and nearly all of the top 50 U.S. retail banks, utilize our technology.
- We added new patents to our portfolio during fiscal 2018 bringing our total number of issued patents to 39 as of March 31, 2018. In addition, we have 16 domestic and international patent applications pending as of March 31, 2018.

Acquisition of ICAR Vision Systems, S.L.

On October 16, 2017, Mitek Holding B.V., a company incorporated under the laws of The Netherlands and our wholly owned subsidiary (“Mitek Holding B.V.”), acquired all of the issued and outstanding shares of ICAR (the “ICAR Acquisition”) and each of its subsidiaries, pursuant to a Share Purchase Agreement (the “ICAR Purchase Agreement”), by and among, Mitek, Mitek Holding B.V., and each of the shareholders of ICAR (the “ICAR Sellers”). Upon completion of the ICAR Acquisition, ICAR became a direct wholly owned subsidiary of Mitek Holding B.V. and our indirect wholly owned subsidiary. Under the terms of the ICAR Purchase Agreement, Mitek Holding B.V. agreed to purchase all of the outstanding shares of ICAR for an aggregate purchase price of up to \$13.9 million, net of cash acquired. On closing, \$3.0 million was paid in cash, net of cash acquired and \$5.6 million in shares of common stock, or 584,291 shares, were issued to the ICAR Sellers. The ICAR Purchase Agreement also provides for additional payments of up to approximately \$5.3 million upon the achievement of certain financial milestones during fiscal 2018 and fiscal 2019.

Market Opportunities, Challenges & Risks

The increase in the acceptance of mobile banking by financial institutions and their customers has helped drive our recent growth in revenue. In the past year, we experienced an increase in the number of financial institutions that have integrated and launched our mobile applications, particularly our Mobile Deposit® product, as part of their offering of mobile banking choices for their customers. We believe that financial institutions see our patented solutions as a way to provide an enhanced customer experience and reduce the cost of sales and service.

To sustain our growth in 2018 and beyond, we believe we must continue to offer imaging technology for mobile applications that address a growing market for mobile banking and mobile imaging solutions sold into other vertical markets. Our entry into the ID capture and verification market has expanded our addressable market and we intend to leverage the success of our mobile check deposit solution at more than 6,100 financial institutions to increase adoption of our ID capture and verification solutions.

Factors adversely affecting the pricing of or demand for our mobile applications, such as competition from other products or technologies, any decline in the demand for mobile applications, or negative publicity or obsolescence of the software environments in which our products operate, could result in lower revenues or gross margins. Further, because most of our revenues are from a single type of technology, our product concentration may make us especially vulnerable to market demand and competition from other technologies, which could reduce our revenues.

Results of Operations

Comparison of the Three Months Ended March 31, 2018 and 2017

The following table summarizes certain aspects of our results of operations for the three months ended March 31, 2018 and 2017 (*amounts in thousands, except percentages*):

	Three Months Ended March 31,					
			Percentage of Total Revenue		Increase (Decrease)	
	2018	2017	2018	2017	\$	%
Revenue						
Software and hardware	\$ 8,773	\$ 7,797	61%	68%	976	13%
SaaS, maintenance, and consulting	5,504	3,622	39%	32%	1,882	52%
Total revenue	\$ 14,277	\$ 11,419	100%	100%	2,858	25%
Cost of revenue	1,717	830	12%	7%	887	107%
Selling and marketing	5,348	3,704	37%	32%	1,644	44%
Research and development	3,501	2,401	25%	21%	1,100	46%
General and administrative	3,773	2,742	26%	24%	1,031	38%
Acquisition-related costs and expenses	1,203	518	8%	5%	685	132%
Other income, net	204	67	1%	1%	137	204%
Income tax provision	(99)	(74)	1%	1%	25	34%

Revenue

Total revenue increased \$2.9 million or 25%, to \$14.3 million in the three months ended March 31, 2018 compared to \$11.4 million in the three months ended March 31, 2017. The increase was due to an increase in SaaS, maintenance, and consulting revenue of \$1.9 million, or 52%, to \$5.5 million in the three months ended March 31, 2018 compared to \$3.6 million in the three months ended March 31, 2017. In addition, sales of software and hardware increased \$1.0 million, or 13%, to \$8.8 million in the three months ended March 31, 2018 compared to \$7.8 million in the three months ended March 31, 2017. Services revenue increased primarily due to additional Mobile Verify™ and Mobile Fill™ SaaS revenue of \$1.6 million in the three months ended March 31, 2018 compared to the same period in 2017, as well as an increase in maintenance associated with an increase in Mobile Deposit® software sales. The increase in software and hardware revenue primarily relates to increases in sales in our Mobile Fill™ software products as well as additional revenue generated from the sale of ICAR products.

Cost of Revenue

Cost of revenue includes personnel costs related to billable services and software support, hosting costs, and the costs of royalties for third party products embedded in our products. Cost of revenue increased \$0.9 million, or 107%, to \$1.7 million in the three months ended March 31, 2018 compared to \$0.8 million in the three months ended March 31, 2017. As a percentage of revenue, cost of revenue increased to 12% in the three months ended March 31, 2018 from 7% in the three months ended March 31, 2017. The increase in cost of revenue is primarily due to an increase in variable personnel, hosting, and royalty costs

associated with a higher volume of Mobile Verify™ transactions processed during the three months ended March 31, 2018 compared to the same period in 2017, as well as additional costs associated with the sale of ICAR products.

Selling and Marketing Expenses

Selling and marketing expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with sales, marketing, and product management personnel, non-billable costs of professional services personnel, and advertising, promotions, trade shows, seminars, and other programs. Selling and marketing expenses increased \$1.6 million, or 44%, to \$5.3 million in the three months ended March 31, 2018 compared to \$3.7 million in the three months ended March 31, 2017. As a percentage of revenue, selling and marketing expenses increased to 37% in the three months ended March 31, 2018 from 32% in the three months ended March 31, 2017. The increase in selling and marketing expense is primarily due to higher personnel-related costs of \$1.6 million, including an increase in share-based compensation expense of \$0.3 million, resulting from our increased headcount, as well as additional personnel-related costs associated with the ICAR Acquisition in the three months ended March 31, 2018 compared to the same period in 2017.

Research and Development Expenses

Research and development expenses include payroll, employee benefits, stock-based compensation, consultant expenses and other headcount-related costs associated with software engineering and mobile capture science. Research and development expenses increased \$1.1 million, or 46%, to \$3.5 million in the three months ended March 31, 2018 compared to \$2.4 million in the three months ended March 31, 2017. As a percentage of revenue, research and development expenses increased to 25% in the three months ended March 31, 2018 from 21% in the three months ended March 31, 2017. The increase in research and development expenses is primarily due to higher personnel-related costs of \$1.1 million, including an increase in share-based compensation expense of \$0.2 million, resulting from increased research and development personnel, as well as additional personnel costs associated with the ICAR Acquisition in the three months ended March 31, 2018 compared to the same period in 2017.

General and Administrative Expenses

General and administrative expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with finance, legal, administration and information technology functions, as well as third party legal and accounting and other administrative costs. General and administrative expenses increased \$1.0 million, or 38%, to \$3.8 million in the three months ended March 31, 2018 compared to \$2.7 million in the three months ended March 31, 2017. As a percentage of revenue, general and administrative expenses increased to 26% in the three months ended March 31, 2018 from 24% in the three months ended March 31, 2017. The increase in general and administrative expenses is primarily due to higher personnel-related costs of \$0.8 million, including an increase in share-based compensation expense of \$0.3 million, which is due to an increase in the number of employees engaged in general and administrative activities as well as additional personnel costs associated with the ICAR Acquisition. The remaining increase was due to additional outside professional service fees of \$0.2 million in the three months ended March 31, 2018 compared to the same period in 2017.

Acquisition-Related Costs and Expenses

Acquisition-related costs and expenses include amortization of intangible assets, expenses recorded due to changes in the fair value of contingent consideration, stock-based compensation, and other costs associated with acquisitions. Acquisition-related costs and expenses increased \$0.7 million, or 132%, to \$1.2 million in the three months ended March 31, 2018 compared to \$0.5 million in the three months ended March 31, 2017. As a percentage of revenue, acquisition-related costs and expenses increased to 8% in the three months ended March 31, 2018 from 5% in the three months ended March 31, 2017. The increase in acquisition-related costs and expenses was primarily due to \$0.5 million in additional expense related to the amortization of intangible assets associated with the ICAR Acquisition and an increase of \$0.1 million in expense due to changes in the fair value of contingent consideration.

Other Income, Net

Other income, net includes interest income net of amortization on our marketable securities portfolio and foreign currency transactional gains or losses. Other income, net increased \$137,000, or 204%, to \$204,000 in the three months ended March 31, 2018 compared to \$67,000 in the three months ended March 31, 2017, primarily due to an increase in the average balance of our investments in marketable securities combined with an overall increase in investment yield.

Income Tax Provision

Income tax provision for the three months ended March 31, 2018 and 2017 was \$99,000 and \$74,000, respectively. The increase in the income tax provision is primarily due to federal tax expense.

Comparison of the Six Months Ended March 31, 2018 and 2017

The following table summarizes certain aspects of our results of operations for the six months ended March 31, 2018 and 2017 (amounts in thousands, except percentages):

	Six Months Ended March 31,					
			Percentage of Total Revenue		Increase (Decrease)	
	2018	2017	2018	2017	\$	%
Revenue						
Software and hardware	\$ 15,979	\$ 13,780	60%	67%	2,199	16%
SaaS, maintenance and consulting	10,434	6,908	40%	33%	3,526	51%
Total revenue	\$ 26,413	\$ 20,688	100%	100%	5,725	28%
Cost of revenue	3,334	1,721	13%	8%	1,613	94%
Selling and marketing	10,123	7,542	38%	36%	2,581	34%
Research and development	6,781	4,852	26%	23%	1,929	40%
General and administrative	7,290	4,985	28%	24%	2,305	46%
Acquisition-related costs and expenses	2,462	1,036	9%	5%	1,426	138%
Other income, net	394	132	1%	1%	262	198%
Income tax provision	(3,713)	(74)	14%	—%	3,639	*

* Not meaningful.

Revenue

Total revenue increased \$5.7 million or 28%, to \$26.4 million in the six months ended March 31, 2018 compared to \$20.7 million in the six months ended March 31, 2017. The increase was due to an increase in SaaS, maintenance, and consulting revenue of \$3.5 million, or 51%, to \$10.4 million in the six months ended March 31, 2018 compared to \$6.9 million in the six months ended March 31, 2017. In addition, sales of software and hardware increased \$2.2 million, or 16%, to \$16.0 million in the six months ended March 31, 2018 compared to \$13.8 million in the six months ended March 31, 2017. Services revenue primarily increased due to additional Mobile Verify™ SaaS revenue of \$3.0 million in the six months ended March 31, 2018 compared to the six months ended March 31, 2017 as well as additional maintenance associated with the increase in our Mobile Deposit® software license revenue. The increase in software license revenue primarily relates to an increase in sales of our Mobile Fill™ and Mobile Deposit® software products as well as additional revenue generated from the sale of ICAR products.

Cost of Revenue

Cost of revenue includes personnel costs related to billable services and software support, hosting costs, and the costs of royalties for third party products embedded in our products. Cost of revenue increased \$1.6 million, or 94%, to \$3.3 million in the six months ended March 31, 2018 compared to \$1.7 million in the six months ended March 31, 2017. As a percentage of revenue, cost of revenue increased to 13% in the six months ended March 31, 2018 from 8% in the six months ended March 31, 2017. The increase in cost of revenue is primarily due to an increase in variable personnel, hosting, and royalty costs associated with a higher volume of Mobile Verify™ transactions processed during the six months ended March 31, 2018 compared to the same period in 2017, as well as additional costs associated with the sale of ICAR products.

Selling and Marketing Expenses

Selling and marketing expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with sales, marketing, and product management personnel, non-billable costs of professional services personnel, and advertising, promotions, trade shows, seminars and other programs. Selling and marketing expenses increased \$2.6 million, or 34%, to \$10.1 million in the six months ended March 31, 2018 compared to \$7.5 million in the six months ended March 31, 2017. As a percentage of revenue, selling and marketing expenses increased to 38% in the six months ended March 31, 2018 from 36% in the six months ended March 31, 2017. The increase in sales and marketing expense is primarily due to higher personnel-related costs of \$2.4 million, including an increase in share-based compensation expense of \$0.6

million, resulting from our increased headcount, as well as additional personnel-related costs associated with the ICAR Acquisition in the six months ended March 31, 2018 compared to the same period in 2017. The remaining increase is related to additional travel costs of \$0.2 million resulting from a general increase in sales and marketing activity during the six months ended March 31, 2018 compared to the same period in 2017.

Research and Development Expenses

Research and development expenses include payroll, employee benefits, stock-based compensation, consultant expenses and other headcount-related costs associated with software engineering and mobile capture science. Research and development expenses increased \$1.9 million, or 40%, to \$6.8 million in the six months ended March 31, 2018 compared to \$4.9 million in the six months ended March 31, 2017. As a percentage of revenue, research and development expenses increased to 26% in the six months ended March 31, 2018 from 23% in the six months ended March 31, 2017. The increase in research and development expenses is primarily due to higher personnel-related costs of \$1.9 million, including an increase in share-based compensation expense of \$0.4 million, resulting from increased research and development personnel, as well as additional personnel costs associated with the ICAR Acquisition in the six months ended March 31, 2018 compared to the same period in 2017.

General and Administrative Expenses

General and administrative expenses include payroll, employee benefits, stock-based compensation, and other headcount-related costs associated with finance, legal, administration and information technology functions, as well as third party legal and accounting and other administrative costs. General and administrative expenses increased \$2.3 million, or 46%, to \$7.3 million in the six months ended March 31, 2018 compared to \$5.0 million in the six months ended March 31, 2017. As a percentage of revenue, general and administrative expenses increased to 28% in the six months ended March 31, 2018 from 24% in the six months ended March 31, 2017. The increase in general and administrative expenses is primarily due to higher personnel-related costs of \$1.8 million, including an increase in share-based compensation expense of \$0.6 million, which is due to an increase in the number of employees engaged in general and administrative activities, as well as additional personnel costs associated with the ICAR Acquisition. The remaining increase was due to additional outside professional service fees of \$0.5 million in the six months ended March 31, 2018 compared to the same period in 2017.

Acquisition-Related Costs and Expenses

Acquisition-related costs and expenses include amortization of intangible assets, expenses recorded due to changes in the fair value of contingent consideration, stock-based compensation, and other costs associated with acquisitions. Acquisition-related costs and expenses increased \$1.4 million, or 138%, to \$2.5 million in the six months ended March 31, 2018 compared to \$1.0 million in the six months ended March 31, 2017. As a percentage of revenue, acquisition-related costs in expenses increased to 9% in the six months ended March 31, 2018 from 5% in the six months ended March 31, 2017. The increase in acquisition-related costs and expenses is primarily due to \$0.8 million in additional expense related the amortization of intangible assets related to the ICAR Acquisition, an increase of \$0.3 million in expense due to changes in the fair value of contingent consideration, and \$0.3 million in legal and integration costs associated with the ICAR Acquisition.

Other Income, Net

Other income, net includes interest income net of amortization on our marketable securities portfolio and foreign currency transactional gains or losses. Other income, net increased \$0.3 million, or 198%, to \$0.4 million in the six months ended March 31, 2018 compared to \$0.1 million in the six months ended March 31, 2017, primarily due to an increase in the average balance of our investments in marketable securities combined with an overall increase in investment yield.

Income Tax Provision

Income tax provision for the six months ended March 31, 2018 and 2017 was \$3.7 million and \$74,000, respectively. The increase in the income tax provision is primarily due \$4.4 million of tax expense related to the enactment of the Tax Cuts and Jobs Act, partially offset by an income tax benefit related to our net loss before income taxes for the six months ended March 31, 2017.

Liquidity and Capital Resources

On March 31, 2018, we had \$45.3 million in cash and cash equivalents and investments compared to \$46.3 million on September 30, 2017, a decrease of \$1.0 million, or 2%. The decrease in cash and cash equivalents and investments was primarily due to cash paid in conjunction with the ICAR Acquisition of \$3.0 million and capital expenditures of \$1.7 million, partially offset by net cash provided by operating activities of \$3.6 million and net proceeds from the exercise of stock options of \$0.2 million.

Cash Flows from Operating Activities

Net cash provided by operating activities during the six months ended March 31, 2018 was \$3.6 million and resulted primarily from a net loss of \$6.9 million adjusted for non-cash charges of \$10.0 million as well as favorable changes in operating assets and liabilities of \$0.4 million. The primary non-cash adjustments to operating activities were deferred taxes, stock-based compensation expense, amortization of intangible assets, amortization of closing shares and earnout shares, and depreciation and amortization totaling \$4.4 million, \$3.9 million, \$1.1 million, \$0.4 million, and \$0.2 million, respectively.

Net cash provided by operating activities during the six months ended March 31, 2017 was \$4.4 million and resulted primarily from net income of \$0.6 million adjusted for non-cash charges of \$3.6 million as well as favorable changes in operating assets and liabilities of \$0.2 million. The primary non-cash adjustments to operating activities were stock-based compensation expense, amortization of closing shares and earnout shares, amortization of intangible assets, and depreciation and amortization totaling \$2.3 million, \$0.8 million, \$0.3 million, and \$0.2 million, respectively.

Cash Flows from Investing Activities

Net cash provided by investing activities was \$9.2 million during the six months ended March 31, 2018, which consisted primarily of net sales and maturities of investments of \$14.0 million, partially offset by net cash paid in conjunction with the ICAR Acquisition of \$3.0 million and capital expenditures of \$1.7 million.

Net cash used in investing activities was \$0.4 million during the six months ended March 31, 2017, which consisted primarily of net purchases of investments of \$0.2 million and capital expenditures of \$0.3 million.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$0.2 million during the six months ended March 31, 2018, which consisted of proceeds from the exercise of stock options.

Net cash provided by financing activities was \$30,000 during the six months ended March 31, 2017, which consisted of proceeds from the exercise of stock options.

Revolving Credit Facility

On May 3, 2018, the Company and IDCChecker, Inc. (together, the “Co-Borrowers”) entered into a Loan and Security Agreement (the “Loan Agreement”) with Silicon Valley Bank (“SVB”). Pursuant to the Loan Agreement, we arranged for a \$10.0 million secured revolving credit facility (the “Revolver”) with a floating per annum interest rate equal to the greater of the Wall Street Journal prime rate, plus 0.25%, or 4.5%. The Co-Borrowers must maintain, at all times when any amounts are outstanding under the Revolver, either (i) minimum unrestricted cash at SVB and unused availability on the Revolver of at least \$15.0 million and (ii) Adjusted Quick Ratio of 1.75:1.00. The Revolver has a maturity date of May 3, 2019.

The Loan Agreement contains representations and warranties as well as negative and affirmative covenants customary for transactions of this type. The representations, warranties, and other terms contained in the Loan Agreement were made only for the purposes of such agreement and as of specified dates, were solely for the benefit of the parties to such agreements and may be subject to limitations agreed upon by the contracting parties. Such representations, warranties, covenants, and other agreements should not be and may not be relied on by any other party.

The Revolver is secured by a first priority perfected security interest in the Co-Borrowers’ existing and after acquired personal property, other than certain excluded assets, among which are: (i) accounts; (ii) equipment; (iii) inventory; (iv) contract rights or rights to payment of money; (v) leases; (vi) license agreements; (vii) general intangibles; (viii) cash; (ix) securities; and (x) financial assets.

The Loan Agreement is subject to events of default customary for transactions of this type, upon which SVB may declare all obligations under the Loan Agreement immediately due and payable. Upon default, the obligations under the Loan Agreement would bear interest at a rate per annum 5.0% greater than the rate otherwise applicable there.

The above description is qualified in its entirety by the terms and conditions of the Loan Agreement, a copy of which is filed herewith as Exhibit 10.1.

Other Liquidity Matters

On March 31, 2018, we had investments of \$20.1 million, designated as available-for-sale debt securities, which consisted of U.S. Treasury notes, commercial paper, and corporate issuances, carried at fair value as determined by quoted market prices for identical or similar assets, with unrealized gains and losses, net of tax, and reported as a separate component of stockholders’ equity. All securities whose maturity or sale is expected within one year are classified as “current” on the consolidated balance sheets. All other securities are classified as “long-term” on the consolidated balance sheets. At March 31,

2018, we had \$19.1 million of our available-for-sale securities classified as current and \$0.9 million of our available-for-sale securities classified as long-term. At September 30, 2017, we had \$30.3 million of our available-for-sale securities classified as current and \$3.8 million of our available-for-sale securities classified as long-term.

We had working capital of \$41.2 million at March 31, 2018 compared to \$41.3 million at September 30, 2017.

Based on our current operating plan, we believe the current cash balance and cash expected to be generated from operations will be adequate to satisfy our working capital needs for the next twelve months from the date the financial statements are filed.

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements as of March 31, 2018.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of the consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. We review our estimates on an on-going basis, including those related to revenue recognition, stock-based compensation, income taxes and the valuation of goodwill, intangibles and other long-lived assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. The critical accounting policies and estimates used in the preparation of our consolidated financial statements are described in Item 7—“Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in the Form 10-K. We believe that there were no significant changes in our critical accounting policies and estimates since September 30, 2017.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rates

The primary objective of our investment activities is to preserve principal while at the same time maximizing after-tax yields without significantly increasing risk. To achieve this objective, we maintain our investment portfolio of cash equivalents and marketable securities in a variety of securities, including corporate debt securities, commercial paper and certificates of deposit. We have not used derivative financial instruments in our investment portfolio, and none of our investments are held for trading or speculative purposes. Short-term and long-term debt securities are generally classified as available-for-sale and consequently are recorded on the consolidated balance sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of estimated tax. As of March 31, 2018, our marketable securities had remaining maturities between approximately one and eighteen months and a fair market value of \$20.1 million, representing 22% of our total assets.

The fair value of our cash equivalents and debt securities is subject to change as a result of changes in market interest rates and investment risk related to the issuers’ credit worthiness. We do not utilize financial contracts to manage our investment portfolio’s exposure to changes in market interest rates. A hypothetical 100 basis point increase or decrease in market interest rates would not have a material impact on the fair value of our cash equivalents and debt securities due to the relatively short maturities of these investments. While changes in market interest rates may affect the fair value of our investment portfolio, any gains or losses will not be recognized in our results of operations until the investment is sold or if the reduction in fair value was determined to be an other-than-temporary impairment.

Foreign Currency Risk

As a result of past acquisitions, we have operations in the Netherlands and Spain that are exposed to fluctuations in the foreign currency exchange rate between the U.S. dollar, the Euro, and the British pound sterling. The functional currency of our Dutch and Spanish operations is the Euro. Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro. Translation adjustments resulting from translating the functional currency financial statements into U.S. dollar equivalents are reported separately in the consolidated statements of operations and comprehensive income (loss).

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. We recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2018.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended March 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Scope of Management’s Report on Internal Control over Financial Reporting

As described throughout this Form 10-Q, on October 16, 2017, the Company acquired ICAR. While our financial statements for the quarter ended March 31, 2018 include the results of ICAR from October 16, 2017 (the date on which the ICAR Acquisition was completed) through March 31, 2018, as permitted by the rules and regulations of the SEC, our management’s assessment of our internal control over financial reporting did not include an evaluation of ICAR’s internal control over financial reporting. Further, our management’s conclusion regarding the effectiveness of our internal control over financial reporting as of March 31, 2018 does not extend to ICAR’s internal control over financial reporting.

We are currently integrating policies, processes, technology, and operations for the combined company and will continue to evaluate our internal control over financial reporting as we develop and execute our integration plans. Until the companies are fully integrated, we will maintain the operational integrity of each company’s legacy internal control over financial reporting. Excluding acquired goodwill and other intangible assets, ICAR represented less than 5% of our total assets as of March 31, 2018 and we expect both the revenue and net income attributable to ICAR to be less than 10% of total revenue and total net income for the year ended September 30, 2018.

**PART II
OTHER INFORMATION**

ITEM 1. LEGAL PROCEEDINGS

For information regarding our legal proceedings, see Note 7 to the consolidated financial statements included in this Form 10-Q and Item 3—“Legal Proceedings” in the Form 10-K. There have been no material developments in our historical legal proceedings since September 30, 2017.

ITEM 1A. RISK FACTORS

While we attempt to identify, manage, and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A—“Risk Factors” in the Form 10-K describes some of the risks and uncertainties associated with our business, which we strongly encourage you to review. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results, and future prospects. There have been no material changes in our risk factors from those disclosed in the Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered sales of the Company’s equity securities during the quarter ended March 31, 2018, that were not previously disclosed in a Current Report on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

On May 3, 2018, the “Co-Borrowers” entered into the Loan Agreement with SVB. Pursuant to the Loan Agreement, the Company arranged for a \$10.0 million “Revolver” with a floating per annum interest rate equal to the greater of the Wall Street Journal prime rate, plus 0.25%, or 4.5%. The Co-Borrowers must maintain, at all times when any amounts are outstanding under the Revolver, either (i) minimum unrestricted cash at SVB and unused availability on the Revolver of at least \$15.0 million and (ii) Adjusted Quick Ratio of 1.75:1.00. The Revolver has a maturity date of May 3, 2019.

The Loan Agreement contains representations and warranties as well as negative and affirmative covenants customary for transactions of this type. The representations, warranties, and other terms contained in the Loan Agreement were made only for the purposes of such agreement and as of specified dates, were solely for the benefit of the parties to such agreements and may be subject to limitations agreed upon by the contracting parties. Such representations, warranties, covenants, and other agreements should not be and may not be relied on by any other party.

The Revolver is secured by a first priority perfected security interest in the Co-Borrowers’ existing and after acquired personal property, other than certain excluded assets, among which are: (i) accounts; (ii) equipment; (iii) inventory; (iv) contract rights or rights to payment of money; (v) leases; (vi) license agreements; (vii) general intangibles; (viii) cash; (ix) securities; and (x) financial assets.

The Loan Agreement is subject to events of default customary for transactions of this type, upon which SVB may declare all obligations under the Loan Agreement immediately due and payable. Upon default, the obligations under the Loan Agreement would bear interest at a rate per annum 5.0% greater than the rate otherwise applicable there.

The above description is qualified in its entirety by the terms and conditions of the Loan Agreement, a copy of which is filed herewith as Exhibit 10.1.

ITEM 6. EXHIBITS

Exhibit No.	Description	Incorporated by Reference from Document
2.1**	Share Purchase Agreement, dated May 26, 2015, by and among Mitek Systems, Inc., ID Checker NL B.V., ID Checker Holding B.V., Stichting Administratiekantoor OPID, Pierre L.M. deBoer, and Michael Hagen.	(1)
2.2**	Share Purchase Agreement, dated October 16, 2017, by and among Mitek Systems, Inc., Mitek Systems Holdings B.V., and the shareholders of ICAR Vision Systems, S.L.	(2)
3.1	Restated Certificate of Incorporation of Mitek Systems, Inc., as amended.	(3)
3.2	Second Amended and Restated Bylaws of Mitek Systems, Inc.	(4)
10.1	Loan and Security Agreement, by and between Mitek Systems, Inc. and Silicon Valley Bank.	*
10.2	Amended and Restated Executive Severance and Change of Control Plan, dated February 27, 2018, by and between Mitek Systems, Inc. and Jeffrey C. Davison.	(5)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.	*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.	*
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
101	Financial statements from the Quarterly Report on Form 10-Q of Mitek Systems, Inc. for the quarter ended March 31, 2018, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Other Comprehensive Income (Loss), (iii) the Consolidated Statements of Cash Flows, (iv) the Notes to Consolidated Financial Statements.	*

* Filed herewith.

** Certain schedules, appendices and exhibits to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished supplementally to the SEC upon request.

(1) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on June 17, 2015.

(2) Incorporated by reference to the Company's Current Report on Form 8-K/A filed with the SEC on October 20, 2017.

(3) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

(4) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on November 10, 2014.

(5) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on February 27, 2018.

SIGNATURES

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 thereunto duly authorized.

May 4, 2018

MITEK SYSTEMS, INC.

By: /s/ James B. DeBello

James B. DeBello
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jeffrey C. Davison

Jeffrey C. Davison
Chief Financial Officer
(Principal Financial and Accounting Officer)

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (this "Agreement") dated as of May 3, 2018 (the "**Effective Date**"), by and among **SILICON VALLEY BANK**, a California corporation ("**Bank**"), **MITEK SYSTEMS, INC.**, a Delaware corporation ("**Parent**"), and **IDCHECKER, INC.**, a California corporation (together with Parent, each a "**Co-Borrower**" and collectively, "**Co-Borrowers**"), and provides the terms on which Bank shall lend to Co-Borrowers, and Co-Borrowers shall repay Bank. The parties agree as follows:

1 ACCOUNTING AND OTHER TERMS

Accounting terms not defined in this Agreement shall be construed following GAAP. Calculations and determinations must be made following GAAP. Notwithstanding the foregoing, no effect shall be given to any change in GAAP requiring leases which were previously classified as operating leases to be treated as capitalized leases and such leases shall continue to be treated as operating leases consistent with GAAP as in effect on the date hereof and all financial covenants and other financial calculations shall be computed with respect to Co-Borrower (taken as a whole) only, and not on a consolidated basis with its Subsidiaries (except to the extent constituting a Co-Borrower). Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 13. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein.

2 LOAN AND TERMS OF PAYMENT

2.1 Promise to Pay. Co-Borrowers hereby unconditionally promise to pay Bank the outstanding principal amount of all Credit Extensions and accrued and unpaid interest thereon as and when due in accordance with this Agreement.

2.2 Revolving Line.

(a) Availability. Subject to the terms and conditions of this Agreement and to deduction of Reserves, Bank shall make Advances not exceeding the Availability Amount. Amounts borrowed under the Revolving Line may be repaid and, prior to the Revolving Line Maturity Date, reborrowed, subject to the applicable terms and conditions precedent herein.

(b) Termination; Repayment. The Revolving Line terminates on the Revolving Line Maturity Date, when the principal amount of all Advances, the unpaid interest thereon, and all other Obligations relating to the Revolving Line shall be immediately due and payable.

2.3 Overadvances. If, at any time, the outstanding principal amount of any Advances exceeds the Revolving Line, Co-Borrowers shall immediately pay to Bank in cash the amount of such excess (such excess, the "**Overadvance**"). Without limiting Co-Borrowers' obligation to repay Bank any Overadvance, Co-Borrowers agree to pay Bank interest on the outstanding amount of any Overadvance, on demand, at a per annum rate equal to the rate that is otherwise applicable to Advances plus five percent (5.0%).

2.4 Payment of Interest on the Credit Extensions.

(a) Interest Rate. Subject to Section 2.4(b), the principal amount outstanding under the Revolving Line shall accrue interest at a floating per annum rate equal to the greater of (i) one quarter of one percentage point (0.25%) above the Prime Rate or (ii) four and one half percentage points (4.50%), which interest shall be payable monthly in accordance with Section 2.4(d) below.

(b) Default Rate. Immediately upon the occurrence and during the continuance of an Event of Default, Obligations shall bear interest at a rate per annum which is five percent (5.0%) above the rate that is otherwise applicable thereto (the "**Default Rate**"). Fees and expenses which are required to be paid by Co-Borrowers pursuant to the Loan Documents (including, without limitation, Bank Expenses) but are not paid when due shall bear interest

until paid at a rate equal to the highest rate applicable to the Obligations. Payment or acceptance of the increased interest rate provided in this Section 2.4(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Bank.

(c) Adjustment to Interest Rate. Changes to the interest rate of any Credit Extension based on changes to the Prime Rate shall be effective on the effective date of any change to the Prime Rate and to the extent of any such change.

(d) Payment; Interest Computation. Interest is payable monthly on the Payment Date of each month and shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed. In computing interest, (i) all payments received after 12:00 p.m. Pacific time on any day shall be deemed received at the opening of business on the next Business Day, and (ii) the date of the making of any Credit Extension shall be included and the date of payment shall be excluded; provided, however, that if any Credit Extension is repaid on the same day on which it is made, such day shall be included in computing interest on such Credit Extension.

2.5 Fees. Co-Borrowers shall pay to Bank:

(a) Revolving Line Commitment Fee. A fully earned, non-refundable commitment fee of Thirty Thousand Dollars (\$30,000), on the Effective Date;

(b) Unused Revolving Line Facility Fee. Payable quarterly in arrears on the last day of each calendar quarter prior to the Revolving Line Maturity Date, and on the Revolving Line Maturity Date, a fee (the “**Unused Revolving Line Facility Fee**”) in an amount equal to one quarter of one percentage point (0.25%) per annum of the average unused portion of the Revolving Line, as determined by Bank, computed on the basis of a year with the applicable number of days as set forth in Section 2.4(d). The unused portion of the Revolving Line, for purposes of this calculation, shall be calculated on a calendar year basis and shall equal the difference between (i) the Revolving Line, and (ii) the average for the period of the daily closing balance of the Revolving Line outstanding;

(c) Bank Expenses. All Bank Expenses (including reasonable attorneys’ fees and expenses for documentation and negotiation of this Agreement) incurred through and after the Effective Date, when due (or, if no stated due date, upon demand by Bank).

(d) Fees Fully Earned. Unless otherwise provided in this Agreement or in a separate writing by Bank, Co-Borrowers shall not be entitled to any credit, rebate, or repayment of any fees earned by Bank pursuant to this Agreement notwithstanding any termination of this Agreement or the suspension or termination of Bank’s obligation to make loans and advances hereunder. Bank may deduct amounts owing by Co-Borrowers under the clauses of this Section 2.5 pursuant to the terms of Section 2.6(c). Bank shall provide Co-Borrowers written notice of deductions made from the Designated Deposit Account pursuant to the terms of the clauses of this Section 2.5.

2.6 Payments; Application of Payments; Debit of Accounts.

(a) All payments to be made by Co-Borrowers under any Loan Document shall be made in immediately available funds in Dollars, without setoff or counterclaim, before 12:00 p.m. Pacific time on the date when due. Payments of principal and/or interest received after 12:00 p.m. Pacific time are considered received at the opening of business on the next Business Day. When a payment or other obligation is due on a day that is not a Business Day, the payment or other obligation shall be due the next Business Day, and, in the case of payments, additional fees or interest, as applicable, shall continue to accrue until paid.

(b) So long as no Event of Default has occurred and is continuing, (a) payments matching specific scheduled payments then due shall be applied to those scheduled payments and (b) other payments shall be applied at the direction of Co-Borrowers. During the continuance of an Event of Default, Bank has the exclusive right to determine the order and manner in which all payments with respect to the Obligations may be applied. Co-Borrowers shall have no right to specify the order or the accounts to which Bank shall allocate or apply any payments required to

be made by Co-Borrowers to Bank or otherwise received by Bank under this Agreement when any such allocation or application is not specified elsewhere in this Agreement.

(c) To the extent permitted by applicable law, Bank may debit any of Co-Borrowers' deposit accounts including the Designated Deposit Account, for principal and interest payments or any other amounts Co-Borrowers owe Bank when due and owing. The provisions of the previous sentence shall not apply to deposit accounts exclusively used for payroll, payroll taxes, and other employee wage, trust and benefit payments to or for the benefit of Co-Borrowers' employees and identified to Bank by Co-Borrowers as such. These debits shall not constitute a set-off.

2.7 Withholding. Provided that Bank (and any party to whom Bank sells, transfers, assigns, negotiates, or grants participation in all or any part of, or any interest in, Bank's obligations, rights, and benefits under this Agreement and the other Loan Documents pursuant to Section 12.2) provides Co-Borrowers with an executed original IRS Form W-9 on or prior to the date on which Bank or such other party becomes a lender under this Agreement (and from time to time thereafter upon the reasonable request of the Co-Borrowers), (i) payments received by Bank from Co-Borrowers under this Agreement will be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority (including any interest, additions to tax or penalties applicable thereto), (ii) if at any time any Governmental Authority, applicable law, regulation or international agreement requires Co-Borrowers to make any withholding or deduction from any such payment or other sum payable hereunder to Bank, Co-Borrowers hereby covenant and agree that the amount due from Co-Borrowers with respect to such payment or other sum payable hereunder will be increased to the extent necessary to ensure that, after the making of such required withholding or deduction, Bank receives a net sum equal to the sum which it would have received had no withholding or deduction been required, and Co-Borrowers shall pay the full amount withheld or deducted to the relevant Governmental Authority; and (iii) Co-Borrowers will, upon request, furnish Bank with proof reasonably satisfactory to Bank indicating that Co-Borrowers have made such withholding payment; provided, however, that Co-Borrowers need not make any withholding payment if the amount or validity of such withholding payment is contested in good faith by appropriate and timely proceedings and as to which payment in full is bonded or reserved against by Co-Borrowers. The agreements and obligations of Co-Borrowers and Bank contained in this Section 2.7 shall survive the termination of this Agreement.

3 CONDITIONS OF LOANS

3.1 Conditions Precedent to Initial Credit Extension. Bank's obligation to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, such documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate, including, without limitation:

- (a) duly executed original signatures to the Loan Documents;
- (b) each Co-Borrower's Operating Documents and long-form good standing certificates of each Co-Borrower certified by the Secretary of State (or equivalent agency) of such Co-Borrower's jurisdiction of organization or formation and each jurisdiction in which such Co-Borrower is qualified to conduct business, each as of a date no earlier than thirty (30) days prior to the Effective Date;
- (c) a secretary's certificate of each Co-Borrower with respect to such Co-Borrower's Operating Documents, incumbency, specimen signatures and resolutions authorizing the execution and delivery of this Agreement and the other Loan Documents to which it is a party;
- (d) duly executed original signatures to the completed Borrowing Resolutions for each Co-Borrower;
- (e) certified copies, dated as of a recent date, of financing statement searches, as Bank may request, accompanied by written evidence (including any UCC termination statements) that the Liens indicated in any

such financing statements either constitute Permitted Liens or have been or, in connection with the initial Credit Extension, will be terminated or released;

(f) the Perfection Certificate of each Co-Borrower, together with the duly executed original signatures thereto;

(g) evidence satisfactory to Bank that the insurance policies and endorsements required by Section 6.7 hereof are in full force and effect, together with appropriate evidence showing lender loss payable and/or additional insured clauses or endorsements in favor of Bank; and

(h) payment of the fees and Bank Expenses then due as specified in Section 2.5 hereof.

3.2 Conditions Precedent to all Credit Extensions. Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

(a) timely receipt of the Credit Extension request and any materials and documents required by Section 3.4;

(b) the representations and warranties in this Agreement shall be true, accurate, and complete in all material respects on the date of the proposed Credit Extension and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is each Co-Borrower's representation and warranty on that date that the representations and warranties in this Agreement remain true, accurate, and complete in all material respects; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; and

(c) Bank determines to its satisfaction that there has not been a Material Adverse Change.

3.3 Covenant to Deliver. Co-Borrowers agree to deliver to Bank each item required to be delivered to Bank under Section 3.1 or Section 3.2 of this Agreement as a condition precedent to any such Credit Extension. Co-Borrowers expressly agree that a Credit Extension made prior to the receipt by Bank of any such item shall not constitute a waiver by Bank of Co-Borrowers' obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in Bank's sole discretion.

3.4 Procedures for Borrowing. Subject to the prior satisfaction of all other applicable conditions to the making of an Advance set forth in this Agreement, to obtain an Advance, Co-Borrowers (via an individual duly authorized by an Administrator) shall notify Bank (which notice shall be irrevocable) by electronic mail by 12:00 p.m. Pacific time on the Funding Date of the Advance. Such notice shall be made by Co-Borrowers through Bank's online banking program, provided, however, if Co-Borrowers are not utilizing Bank's online banking program, then such notice shall be in a written format acceptable to Bank that is executed by an Authorized Signer. Bank shall have received satisfactory evidence that the Board has approved that such Authorized Signer may provide such notices and request Advances. In connection with any such notification, Co-Borrowers must promptly deliver to Bank by electronic mail or through Bank's online banking program such reports and information, including without limitation, sales journals, cash receipts journals, accounts receivable aging reports, as Bank may request in its sole discretion. Bank shall credit proceeds of an Advance to the Designated Deposit Account. Bank may make Advances under this Agreement based on instructions from an Authorized Signer or without instructions if the Advances are necessary to meet Obligations which have become due and payable.

4 CREATION OF SECURITY INTEREST

4.1 Grant of Security Interest. Co-Borrowers hereby grant Bank, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Bank, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof.

Each Co-Borrower acknowledges that it previously has entered, and/or may in the future enter, into Bank Services Agreements with Bank. Regardless of the terms of any Bank Services Agreement, Co-Borrowers agree that any amounts Co-Borrowers owe Bank thereunder shall be deemed to be Obligations hereunder and that it is the intent of Co-Borrowers and Bank to have all such Obligations secured by the first priority perfected security interest in the Collateral granted herein (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien in this Agreement).

If this Agreement is terminated, Bank's Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are repaid in full in cash. Upon payment in full in cash of the Obligations (other than inchoate indemnity obligations) and at such time as Bank's obligation to make Credit Extensions has terminated, Bank shall, at the sole cost and expense of Co-Borrowers, release its Liens in the Collateral and all rights therein shall revert to Co-Borrowers. In the event (x) all Obligations (other than inchoate indemnity obligations), except for Bank Services, are satisfied in full, and (y) this Agreement is terminated, Bank shall terminate the security interest granted herein upon Co-Borrowers providing cash collateral acceptable to Bank in its good faith business judgment for Bank Services, if any. In the event such Bank Services consist of outstanding Letters of Credit, Co-Borrowers shall provide to Bank cash collateral in an amount equal to (x) if such Letters of Credit are denominated in Dollars, then at least one hundred five percent (105%); and (y) if such Letters of Credit are denominated in a Foreign Currency, then at least one hundred ten percent (110%), of the Dollar Equivalent of the face amount of all such Letters of Credit plus all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its business judgment), to secure all of the Obligations relating to such Letters of Credit.

4.2 Priority of Security Interest. Co-Borrowers represent, warrant, and covenant that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien under this Agreement). If any Co-Borrower shall acquire a commercial tort claim with an amount in controversy in excess of One Hundred Thousand Dollars (\$100,000), such Co-Borrower shall promptly notify Bank in a writing signed by Co-Borrower of the general details thereof and grant to Bank in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Bank.

4.3 Authorization to File Financing Statements. Each Co-Borrower hereby authorizes Bank to file financing statements, without notice to such Co-Borrower, with all appropriate jurisdictions to perfect or protect Bank's interest or rights hereunder. Such financing statements may indicate the Collateral as "all assets of the Debtor" or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in Bank's discretion.

5 REPRESENTATIONS AND WARRANTIES

Each Co-Borrower represents and warrants as follows:

5.1 Due Organization, Authorization; Power and Authority . Co-Borrower is duly existing and in good standing as a Registered Organization in its jurisdiction of formation and is qualified and licensed to do business and is in good standing in any jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified except where the failure to do so could not reasonably be expected to have a material adverse effect on Co-Borrower's business. In connection with this Agreement, Co-Borrower has delivered to Bank completed certificates each signed by Co-Borrower and Guarantor (if any), respectively, entitled "Perfection Certificate" (as may be updated from time to time with the consent of Bank, the "**Perfection Certificate**"). Co-Borrower represents and warrants to Bank that: (a) Co-Borrower's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof; (b) Co-Borrower is an organization of the type and is organized in the jurisdiction set forth in

the Perfection Certificate; (c) the Perfection Certificate accurately sets forth Co-Borrower's organizational identification number or accurately states that Co-Borrower has none; (d) the Perfection Certificate accurately sets forth Co-Borrower's place of business, or, if more than one, its chief executive office as well as Co-Borrower's mailing address (if different than its chief executive office); (e) Co-Borrower (and each of its predecessors) has not, in the past five (5) years, changed its jurisdiction of formation, organizational structure or type, or any organizational number assigned by its jurisdiction; and (f) all other information set forth on the Perfection Certificate pertaining to Co-Borrower and each of its Subsidiaries is accurate and complete in all material respects (it being understood and agreed that Co-Borrower may from time to time update certain information in the Perfection Certificate after the Effective Date to the extent permitted by one or more specific provisions in this Agreement). If Co-Borrower is not now a Registered Organization but later becomes one, Co-Borrower shall promptly notify Bank of such occurrence and provide Bank with Co-Borrower's organizational identification number, if any.

The execution, delivery and performance by Co-Borrower of the Loan Documents to which it is a party have been duly authorized, and do not (i) conflict with any of Co-Borrower's organizational documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which Co-Borrower or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except for (i) the filing of financing statements in connection herewith or (ii) such Governmental Approvals which have already been obtained and are in full force and effect), or (v) conflict with, contravene, constitute a default or breach under, or result in or permit the termination or acceleration of, any material agreement by which Co-Borrower is bound. Co-Borrower is not in default under any agreement to which it is a party or by which it is bound in which the default could reasonably be expected to have a material adverse effect on Co-Borrower's business.

5.2 Collateral. Co-Borrower has good title to, rights in, and the power to transfer each item of the Collateral upon which it purports to grant a Lien hereunder, free and clear of any and all Liens except Permitted Liens. Co-Borrower has no Collateral Accounts at or with any bank or financial institution other than Bank or Bank's Affiliates except for the Collateral Accounts described in the Perfection Certificate delivered to Bank in connection herewith (such accounts, the "Other Accounts") and which Co-Borrower has taken such actions as are necessary to give Bank a perfected security interest therein, pursuant to the terms of Section 6.8(b). To the best of Co-Borrower's knowledge, the Accounts are bona fide, existing obligations of the Account Debtors, subject to bankruptcy, insolvency and similar laws affecting the enforceability of creditors' rights generally and to general principles of equity.

The Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in the Perfection Certificate. None of the components of the Collateral shall be maintained at locations other than as provided in the Perfection Certificate or as permitted pursuant to Section 7.2.

All Inventory is in all material respects of good and marketable quality, free from material defects.

Co-Borrower is the sole owner of the Intellectual Property which it owns or purports to own except for (a) non-exclusive licenses granted to its customers in the ordinary course of business, (b) over-the-counter software that is commercially available to the public, and (c) Intellectual Property licensed to Co-Borrower and noted on the Perfection Certificate or otherwise disclosed in writing to Bank. Each Patent which it owns or purports to own and which is material to Co-Borrower's business is valid and enforceable, and no part of the Intellectual Property which Co-Borrower owns or purports to own and which is material to Co-Borrower's business has been judged invalid or unenforceable, in whole or in part. To the best of Co-Borrower's knowledge, no claim has been made that any part of the Intellectual Property violates the rights of any third party except to the extent such claim would not reasonably be expected to have a material adverse effect on Co-Borrower's business.

Except as noted on the Perfection Certificate or as otherwise disclosed to Bank in writing, Co-Borrower is not a party to, nor is it bound by, any Restricted License.

5.3 Intentionally Omitted.

5.4 Litigation. There are no actions or proceedings pending or, to the knowledge of any Responsible Officer, threatened in writing by or against Co-Borrower or any of its Subsidiaries involving more than, individually or in the aggregate, One Hundred Thousand Dollars (\$100,000).

5.5 Financial Statements; Financial Condition. All consolidated financial statements for Co-Borrower and any of its Subsidiaries delivered to Bank fairly present in all material respects Co-Borrower's consolidated financial condition and Co-Borrower's consolidated results of operations. There has not been any material deterioration in Co-Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

5.6 Solvency. The fair salable value of Co-Borrower's consolidated assets (including goodwill minus disposition costs) exceeds the fair value of Co-Borrower's liabilities; Co-Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Co-Borrower is able to generally pay its debts (including trade debts) as they mature.

5.7 Regulatory Compliance. Co-Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Co-Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Co-Borrower (a) has complied in all material respects with all Requirements of Law, and (b) has not violated any Requirements of Law the violation of which could reasonably be expected to have a material adverse effect on its business. None of Co-Borrower's or any of its Subsidiaries' properties or assets has been used by Co-Borrower or any Subsidiary or, to the best of Co-Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Co-Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Governmental Authorities that are necessary to continue their respective businesses as currently conducted.

5.8 Subsidiaries; Investments. Co-Borrower does not own any stock, partnership, or other ownership interest or other equity securities except for Permitted Investments.

5.9 Tax Returns and Payments; Pension Contributions. Co-Borrower has timely filed all required tax returns and reports, and Co-Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Co-Borrower except to the extent (i) such taxes do not exceed Twenty Five Thousand Dollars (\$25,000) in the aggregate or (ii) such taxes are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, so long as such reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made therefor.

To the extent Co-Borrower defers payment of any contested taxes, Co-Borrower shall (i) notify Bank in writing of the commencement of, and any material development in, the proceedings, and (ii) post bonds or take any other steps required to prevent the Governmental Authority levying such contested taxes from obtaining a Lien upon any of the Collateral that is other than a "Permitted Lien." Co-Borrower is unaware of any claims or adjustments proposed for any of Co-Borrower's prior tax years which could result in additional taxes becoming due and payable by Co-Borrower. Co-Borrower has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and Co-Borrower has not withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Co-Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

5.10 Use of Proceeds. Co-Borrower shall use the proceeds of the Credit Extensions solely as working capital and to fund its general business requirements and not for personal, family, household or agricultural purposes.

5.11 Full Disclosure. No written representation, warranty or other statement of Co-Borrower in any certificate or written statement given to Bank, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to Bank, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or

statements not materially misleading (it being recognized by Bank that the projections and forecasts, pro formas, budgets, general industry information and other forward looking formation provided by Co-Borrower in good faith and based upon assumptions believed to be reasonable when made are not viewed as facts and that actual results during the period or periods covered by such forward looking information may differ from the projected or forecasted results).

5.12 Definition of “Knowledge.” For purposes of the Loan Documents, whenever a representation or warranty is made to Co-Borrower’s knowledge or awareness, to the “best of” Co-Borrower’s knowledge, or with a similar qualification, knowledge or awareness means the actual knowledge, after reasonable investigation, of any Responsible Officer.

6 AFFIRMATIVE COVENANTS

Co-Borrowers shall do all of the following:

6.1 Government Compliance.

(a) Maintain their and all of their Subsidiaries’ legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to have a material adverse effect on a Co-Borrower’s business or operations. Each Co-Borrower shall comply, and have each Subsidiary comply, in all material respects, with all laws, ordinances and regulations to which it is subject.

(b) Obtain all of the Governmental Approvals necessary for the performance by Co-Borrowers of their obligations under the Loan Documents to which they are a party and the grant of a security interest to Bank in all of their property. Co-Borrowers shall promptly provide copies of any such obtained Governmental Approvals to Bank.

6.2 Financial Statements, Reports, Certificates. Provide Bank with the following:

(a) as soon as available, but no later than thirty (30) days after the last day of each month, a company prepared consolidated and consolidating balance sheet and income statement covering Co-Borrowers’ and each of their Subsidiary’s operations for such month certified by a Responsible Officer and in a form acceptable to Bank (the “**Monthly Financial Statements**”);

(b) within thirty (30) days after the last day of each month and together with the Monthly Financial Statements, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month, no Event of Default has occurred or is continuing (or describing any such existing Events of Default), and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information as Bank may reasonably request;

(c) within sixty (60) days after the end of each fiscal year of Co-Borrowers, and contemporaneously with any updates or amendments thereto, (i) annual operating budgets (including income statements, balance sheets and cash flow statements, by month) for the upcoming fiscal year of Co-Borrowers, and (ii) annual financial projections for the then-current fiscal year (on a quarterly basis), in each case as approved by the Board;

(d) as soon as available, and in any event within one ninety (90) days following the end of Co-Borrowers’ fiscal year, audited consolidated financial statements of Parent and its Subsidiaries prepared under GAAP, consistently applied, together with an unqualified opinion (except for qualifications resulting from the Obligations being classified as short term indebtedness during the year period to the applicable maturity date) on the financial statements from an independent certified public accounting firm reasonably acceptable to Bank;

(e) in the event that a Co-Borrower becomes subject to the reporting requirements under the Exchange Act within five (5) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by such Co-Borrower and/or any Guarantor with the SEC, any Governmental Authority succeeding to any or all

of the functions of the SEC or with any national securities exchange, or distributed to its shareholders, as the case may be. Documents required to be delivered pursuant to the terms hereof (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which such Co-Borrower posts such documents, or provides a link thereto, on Co-Borrower's website on the internet at such Co-Borrower's website address; provided, however, such Co-Borrower shall promptly notify Bank in writing (which may be by electronic mail) of the posting of any such documents;

(f) within five (5) days of delivery, copies of all material statements, reports and notices made available to each Co-Borrower's security holders or to any holders of Subordinated Debt, in each case, in their capacity as such;

(g) promptly after any Responsible officer becomes aware thereof, a report of any legal actions pending or threatened in writing against a Co-Borrower or any of its Subsidiaries that could result in damages or costs to such Co-Borrower or any of its Subsidiaries of, individually or in the aggregate, Two Hundred Fifty Thousand Dollars (\$250,000) or more; and

(h) promptly, from time to time, such other information regarding Co-Borrowers or compliance with the terms of any Loan Documents as reasonably requested by Bank.

6.3 Accounts Receivable.

(a) Schedules and Documents Relating to Accounts. Co-Borrowers shall deliver to Bank transaction reports and schedules of collections, as provided in Section 6.2, on Bank's standard forms; provided, however, that Co-Borrowers' failure to execute and deliver the same shall not affect or limit Bank's Lien and other rights in all of Co-Borrowers' Accounts, nor shall Bank's failure to advance or lend against a specific Account affect or limit Bank's Lien and other rights therein. If requested by Bank, Co-Borrowers shall furnish Bank with copies (or, at Bank's request, originals) of all contracts, orders, invoices, and other similar documents, and all shipping instructions, delivery receipts, bills of lading, and other evidence of delivery, for any goods the sale or disposition of which gave rise to such Accounts. In addition, Co-Borrowers shall deliver to Bank, on its request, the originals of all instruments, chattel paper, security agreements, guarantees and other documents and property evidencing or securing any Accounts, in the same form as received, with all necessary indorsements, and copies of all credit memos.

(b) Disputes. Co-Borrowers shall promptly notify Bank of all disputes or claims relating to Accounts. Co-Borrowers may forgive (completely or partially), compromise, or settle any Account for less than payment in full, or agree to do any of the foregoing so long as (i) Co-Borrowers do so in good faith, in a commercially reasonable manner, in the ordinary course of business, in arm's-length transactions, and reports the same to Bank in the regular reports provided to Bank; (ii) no Event of Default has occurred and is continuing; and (iii) after taking into account all such discounts, settlements and forgiveness, the total outstanding Advances will not exceed the Revolving Line.

(c) Collection of Accounts. Co-Borrowers shall direct Account Debtors to deliver or transmit all proceeds of Accounts into a lockbox account, or such other "blocked account" as specified by Bank (either such account, the "**Cash Collateral Account**"). Whether or not an Event of Default has occurred and is continuing, Co-Borrowers shall immediately deliver all payments on and proceeds of Accounts to the Cash Collateral Account. Subject to Bank's right to maintain a reserve pursuant to Section 6.3(d), so long as no Event of Default has occurred and is continuing, Bank shall transfer the proceeds of Accounts from the Cash Collateral Account into the Designated Deposit Account. Co-Borrowers hereby authorize Bank to transfer to the Cash Collateral Account any amounts that Bank reasonably determines are proceeds of the Accounts (provided that Bank is under no obligation to do so and this allowance shall in no event relieve Co-Borrowers of their obligations hereunder).

(d) Reserves. Notwithstanding any terms in this Agreement to the contrary, at times when an Event of Default exists, Bank may hold any proceeds of the Accounts and any amounts in the Cash Collateral Account that are not applied to the Obligations (including amounts otherwise transferred to the Designated Deposit Account) as a reserve to be applied to any Obligations regardless of whether such Obligations are then due and payable

(e) Verifications; Confirmations; Credit Quality; Notifications. Bank may, from time to time, (i) verify and confirm directly with the respective Account Debtors the validity, amount and other matters relating to the Accounts, either in the name of the relevant Co-Borrower or Bank or such other name as Bank may choose, and notify any Account Debtor of Bank's security interest in such Account and/or (ii) conduct a credit check of any Account Debtor to approve any such Account Debtor's credit.

(f) No Liability. Bank shall not be responsible or liable for any shortage or discrepancy in, damage to, or loss or destruction of, any goods, the sale or other disposition of which gives rise to an Account, or for any error, act, omission, or delay of any kind occurring in the settlement, failure to settle, collection or failure to collect any Account, or for settling any Account in good faith for less than the full amount thereof, nor shall Bank be deemed to be responsible for any of Co-Borrowers' obligations under any contract or agreement giving rise to an Account. Nothing herein shall, however, relieve Bank from liability for its own gross negligence or willful misconduct.

6.4 Remittance of Proceeds. Except as otherwise provided in Section 6.3(c), deliver, in kind, all proceeds arising from the disposition of any Collateral to Bank in the original form in which received by a Co-Borrower not later than the following Business Day after receipt by such Co-Borrower, to be applied to the Obligations (a) prior to an Event of Default, pursuant to the terms of Section 6.3(c) hereof, and (b) after the occurrence and during the continuance of an Event of Default, pursuant to the terms of Section 9.4 hereof; provided that, if no Event of Default has occurred and is continuing, Co-Borrowers shall not be obligated to remit to Bank the proceeds of the sale of worn out or obsolete Equipment disposed of by Co-Borrowers in good faith in an arm's length transaction for an aggregate purchase price of Twenty Five Thousand Dollars (\$25,000) or less (for all such transactions in any fiscal year). Each Co-Borrower agrees that it will not commingle proceeds of Collateral with any of Co-Borrower's other funds or property, but will hold such proceeds separate and apart from such other funds and property and in an express trust for Bank. Nothing in this Section 6.4 limits the restrictions on disposition of Collateral set forth elsewhere in this Agreement.

6.5 Taxes; Pensions. Timely file, and require each of its Subsidiaries to timely file, all required tax returns and reports and timely pay, and require each of its Subsidiaries to timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions owed by a Co-Borrower and each of its Subsidiaries, except (i) to the extent such taxes do not exceed Twenty Five Thousand Dollars (\$25,000) in the aggregate or (ii) for deferred payment of any taxes contested pursuant to the terms of Section 5.9 hereof, and shall deliver to Bank, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms so to avoid any material liability.

6.6 Access to Collateral; Books and Records. At reasonable times, on one (1) Business Day's notice (provided no notice is required if an Event of Default has occurred and is continuing), Bank, or its agents, shall have the right to inspect the Collateral and the right to audit and copy each Co-Borrower's Books. The foregoing inspections and audits shall be conducted no more often than once every twelve (12) months unless an Event of Default has occurred and is continuing in which case such inspections and audits shall occur as often as Bank shall determine is necessary. The foregoing inspections and audits shall be conducted at such Co-Borrower's expense and the charge therefor shall be One Thousand Dollars (\$1,000) per person per day (or such higher amount as shall represent Bank's then-current standard charge for the same), plus reasonable out-of-pocket expenses. In the event a Co-Borrower and Bank schedule an audit more than ten (10) days in advance, and such Co-Borrower cancels or seeks to or reschedule the audit with less than ten (10) days written notice to Bank, then (without limiting any of Bank's rights or remedies) Co-Borrowers shall pay Bank a fee of One Thousand Dollars (\$1,000) plus any out-of-pocket expenses incurred by Bank to compensate Bank for the anticipated costs and expenses of the cancellation or rescheduling.

6.7 Insurance.

(a) Keep its business and the Collateral insured for risks and in amounts standard for companies in Co-Borrowers' industry and location and as Bank may reasonably request. Insurance policies shall be in a form, with financially sound and reputable insurance companies that are not Affiliates of Co-Borrowers, and in amounts that are satisfactory to Bank. All property policies shall have a lender's loss payable endorsement showing Bank as lender loss payee. All liability policies shall show, or have endorsements showing, Bank as an additional insured. Bank shall

be named as lender loss payee and/or additional insured with respect to any such insurance providing coverage in respect of any Collateral.

(b) Ensure that proceeds payable under any property policy are, at Bank's option, payable to Bank on account of the Obligations.

(c) At Bank's request, Co-Borrowers shall deliver certified copies of insurance policies and evidence of all premium payments. Each provider of any such insurance required under this Section 6.7 shall agree, by endorsement upon the policy or policies issued by it or by independent instruments furnished to Bank, that it will give Bank thirty (30) days (or, in the case of non-payment of premiums, ten (10) days) prior written notice before any such policy or policies shall be materially altered or canceled. If Co-Borrowers fail to obtain insurance as required under this Section 6.7 or to pay any amount or furnish any required proof of payment to third persons and Bank, Bank may make all or part of such payment or obtain such insurance policies required in this Section 6.7, and take any action under the policies Bank deems prudent.

6.8 Accounts.

(a) Maintain its and all of its domestic Subsidiaries' primary operating and other deposit accounts, the Cash Collateral Account and primary securities/investment accounts with Bank and Bank's Affiliates, which accounts shall represent at least seventy five percent (75%) of the dollar value of Co-Borrowers' and all Co-Borrower's Subsidiaries accounts at all financial institutions. Any Guarantor shall maintain all depository, operating and securities/investment accounts with Bank and Bank's Affiliates.

(b) In addition to and without limiting the restrictions in (a), Co-Borrowers shall provide Bank five (5) days prior written notice before establishing any Collateral Account at or with any bank or financial institution other than Bank or Bank's Affiliates. For each Collateral Account that Co-Borrowers at any time maintain, Co-Borrowers shall cause the applicable bank or financial institution (other than Bank) at or with which any Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Bank's Lien in such Collateral Account in accordance with the terms hereunder which Control Agreement may not be terminated without the prior written consent of Bank. The provisions of the previous sentence shall not apply to deposit accounts exclusively used for payroll, payroll taxes, and other employee wage, trust and benefit payments to or for the benefit of Co-Borrowers' employees and identified to Bank by Co-Borrowers as such.

6.9 Financial Covenants. Maintain at all times, subject to periodic reporting as of the last day of each month, on a consolidated basis with respect to Co-Borrowers and their Subsidiaries:

(a) Minimum Cash. An aggregate balance of (i) unrestricted cash and Cash Equivalents at Bank plus (ii) the Availability Amount equal to or greater than Fifteen Million Dollars (\$15,000,000).

(b) Adjusted Quick Ratio. An Adjusted Quick Ratio of at least 1.75 to 1.00.

6.10 Protection of Intellectual Property Rights.

(a) Each Co-Borrower shall (i) protect, defend and maintain the validity and enforceability of its Intellectual Property that has any material value; (ii) promptly advise Bank in writing of material infringements or any other event that could reasonably be expected to materially and adversely affect the value of its Intellectual Property that has any material value; and (iii) not allow any Intellectual Property material to a Co-Borrower's business to be abandoned, forfeited or dedicated to the public without Bank's written consent.

(b) Provide written notice to Bank within thirty (30) days of entering or becoming bound by any Restricted License (other than over-the-counter software that is commercially available to the public). Each Co-Borrower shall take such steps as Bank reasonably requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for (i) any Restricted License to be deemed "Collateral" and for Bank to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms of any such Restricted License,

whether now existing or entered into in the future, and (ii) Bank to have the ability in the event of a liquidation of any Collateral to dispose of such Collateral in accordance with Bank's rights and remedies under this Agreement and the other Loan Documents.

6.11 Litigation Cooperation. From the date hereof and continuing through the termination of this Agreement, make available to Bank, without expense to Bank, Co-Borrowers and their officers, employees and agents and each Co-Borrower's books and records, to the extent that Bank may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or against Bank with respect to any Collateral or relating to a Co-Borrower.

6.12 Online Banking.

(a) Utilize Bank's online banking platform for all matters requested by Bank which shall include, without limitation (and without request by Bank for the following matters), uploading information pertaining to Accounts and Account Debtors, requesting approval for exceptions, requesting Credit Extensions, and uploading financial statements and other reports required to be delivered by this Agreement (including, without limitation, those described in Section 6.2 of this Agreement).

(b) Comply with the terms of the "Banking Terms and Conditions" and ensure that all persons utilizing the online banking platform are duly authorized to do so by an Administrator. Bank shall be entitled to assume the authenticity, accuracy and completeness on any information, instruction or request for a Credit Extension submitted via the online banking platform and to further assume that any submissions or requests made via the online banking platform have been duly authorized by an Administrator.

6.13 Formation or Acquisition of Subsidiaries. Notwithstanding and without limiting the negative covenants contained in Sections 7.3 and 7.7 hereof, at the time that a Co-Borrower or any Guarantor form any direct or indirect Subsidiary or acquire any direct or indirect Subsidiary after the Effective Date, such Co-Borrower and such Guarantor shall (a) cause any such new domestic Subsidiary to provide to Bank a joinder to this Agreement to become a co-borrower hereunder or a Guaranty to become a Guarantor hereunder, together with such appropriate financing statements and/or Control Agreements, all in form and substance reasonably satisfactory to Bank (including being sufficient to grant Bank a first priority Lien (subject to Permitted Liens) in and to the assets of such newly formed or acquired domestic Subsidiary), (b) provide to Bank appropriate certificates and powers and financing statements, pledging all of the direct or beneficial ownership interest in such new Subsidiary, in form and substance reasonably satisfactory to Bank (but limited to sixty five percent (65%) for any foreign Subsidiary); and (c) provide to Bank all other documentation in form and substance satisfactory to Bank, including one or more opinions of counsel satisfactory to Bank, which in its opinion is appropriate with respect to the execution and delivery of the applicable documentation referred to above. Any document, agreement, or instrument executed or issued pursuant to this Section 6.13 shall be a Loan Document.

6.14 Further Assurances. Execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's Lien in the Collateral or to effect the purposes of this Agreement. Deliver to Bank, within five (5) days after the same are sent or received, copies of all correspondence, reports, documents and other filings with any Governmental Authority regarding compliance with or maintenance of Governmental Approvals or Requirements of Law or that could reasonably be expected to have a material effect on any of the Governmental Approvals or otherwise on the operations of Co-Borrowers or any of their Subsidiaries.

7 NEGATIVE COVENANTS

Co-Borrowers shall not do any of the following without Bank's prior written consent:

7.1 Dispositions. Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) of Inventory in the ordinary course of business; (b) of worn-out or obsolete Equipment that is, in the reasonable judgment of a Co-Borrower, no longer economically practicable to maintain or useful in the ordinary course of business of such

Co-Borrower; (c) consisting of Permitted Liens and Permitted Investments; (d) consisting of the sale or issuance of any stock of a Co-Borrower permitted under Section 7.2 of this Agreement; (e) consisting of a Co-Borrower's use or transfer of money or Cash Equivalents in the ordinary course of its business for the payment of ordinary course business expenses in a manner that is not prohibited by the terms of this Agreement or the other Loan Documents; (f) of non-exclusive licenses for the use of the property of a Co-Borrower or its Subsidiaries in the ordinary course of business and licenses that could not result in a legal transfer of title of the licensed property but that may be exclusive in respects other than territory and that may be exclusive as to territory only as to discreet geographical areas outside of the United States; and (g) of accounts receivable in connection with the compromise, settlement or collection thereof in compliance with this Agreement;

7.2 Changes in Business, Management, Control, or Business Locations. (a) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Co-Borrowers and such Subsidiary, as applicable, or reasonably related or complementary thereto; (b) liquidate or dissolve (except into a Co-Borrower); (c) fail to provide notice to Bank of any Key Person departing from or ceasing to be employed by a Co-Borrower within five (5) days after his or her departure from such Co-Borrower; or (d) permit or suffer any Change in Control.

No Co-Borrower shall, without at least ten (10) days (or such shorter period as Bank may agree in writing) prior written notice to Bank: (1) add any new offices or business locations, including warehouses (unless such new offices or business locations contain less than One Hundred Thousand Dollars (\$100,000) in such Co-Borrower's assets or property) or deliver any portion of the Collateral valued, individually or in the aggregate, in excess of One Hundred Thousand Dollars (\$100,000) to a bailee at a location other than to a bailee and at a location already disclosed in the Perfection Certificate, (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization. If a Co-Borrower intends to deliver any portion of the Collateral valued, individually or in the aggregate, in excess of One Hundred Thousand Dollars (\$100,000) to a bailee, and Bank and such bailee are not already parties to a bailee agreement governing both the Collateral and the location to which such Co-Borrower intends to deliver the Collateral, then such Co-Borrower will first receive the written consent of Bank, and such bailee shall execute and deliver a bailee agreement in form and substance satisfactory to Bank.

7.3 Mergers or Acquisitions. Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person (including, without limitation, by the formation of any Subsidiary), except for (1) Permitted Investments or (2) acquisitions consented to by Bank in writing. A Subsidiary may merge or consolidate into another Subsidiary or into a Co-Borrower.

7.4 Indebtedness. Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness. Make any payments in respect of the Seller Earn Outs unless (i) no Event of Default has occurred and is continuing and (ii) Co-Borrowers can demonstrate pro forma compliance with all covenants contained in Section 6.9 hereof both before and after giving effect to any such payments.

7.5 Encumbrance. Create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, permit any Collateral not to be subject to the first priority security interest granted herein, or enter into any agreement, document, instrument or other arrangement (except with or in favor of Bank) with any Person which directly or indirectly prohibits or has the effect of prohibiting any Co-Borrower or any Subsidiary from assigning, mortgaging, pledging, granting a security interest in or upon, or encumbering any of a Co-Borrower's or any Subsidiary's Intellectual Property, except as is otherwise permitted in Section 7.1 hereof and the definition of "Permitted Liens" herein.

7.6 Maintenance of Collateral Accounts. Maintain any Collateral Account except pursuant to the terms of Section 6.8(b) hereof.

7.7 Distributions; Investments. (a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock, provided that Co-Borrowers may (i) convert any of their convertible securities into other securities pursuant to the terms of such convertible securities or otherwise in exchange thereof, (ii) pay dividends solely in common stock; and (iii) repurchase the stock of former employees or consultants pursuant to stock repurchase agreements so long as an Event of Default does not exist at the time of any such repurchase and would not exist after giving effect to any such repurchase, provided that the aggregate amount of all such repurchases does not exceed Fifty Thousand Dollars (\$50,000) per fiscal year; or (b) directly or indirectly make any Investment (including, without limitation, by the formation of any Subsidiary) other than Permitted Investments, or permit any of its Subsidiaries to do so other than Permitted Investments.

7.8 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of a Co-Borrower, except for (1) transactions set forth on the Perfection Certificate and, (2) Permitted Investments and transactions that are in the ordinary course of a Co-Borrower's business, upon fair and reasonable terms that are no less favorable to such Co-Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

7.9 Subordinated Debt. (a) Make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof, provide for earlier or greater principal, interest, or other payments thereon, or adversely affect the subordination thereof to Obligations owed to Bank.

7.10 Compliance. Become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on a Co-Borrower's business, or permit any of its Subsidiaries to do so; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of a Co-Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

8 EVENTS OF DEFAULT

Any one of the following shall constitute an event of default (an "**Event of Default**") under this Agreement:

8.1 Payment Default. A Co-Borrower fails to (a) make any payment of principal or interest on any Credit Extension when due, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Revolving Line Maturity Date). During the cure period, the failure to make or pay any payment specified under clause (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);

8.2 Covenant Default.

(a) A Co-Borrower fails or neglects to perform any obligation in Sections 6.2, 6.3, 6.4, 6.5, 6.6, 6.7, 6.8, 6.9, 6.10, 6.12, 6.13 or 6.14 or violates any covenant in Section 7; or

(b) A Co-Borrower fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents, and as to any default (other than those specified in this Section 8) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) Business Days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) Business Day period or cannot after diligent attempts by

such Co-Borrower be cured within such ten (10) Business Day period, and such default is likely to be cured within a reasonable time, then such Co-Borrower shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to cure the default shall not be deemed an Event of Default (but no Credit Extensions shall be made during such cure period). Cure periods provided under this section shall not apply, among other things, to financial covenants or any other covenants set forth in clause (a) above;

8.3 Material Adverse Change. A Material Adverse Change occurs;

8.4 Attachment; Levy; Restraint on Business.

(a) (i) The service of process seeking to attach, by trustee or similar process, any funds of a Co-Borrower or of any entity under the control of a Co-Borrower (including a Subsidiary), or (ii) a notice of lien or levy is filed against any of a Co-Borrower's assets by any Governmental Authority, and the same under subclauses (i) and (ii) hereof are not, within ten (10) Business Days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any ten (10) Business Day cure period; or

(b) (i) any material portion of a Co-Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents a Co-Borrower from conducting all or any material part of its business;

8.5 Insolvency. (a) A Co-Borrower or any of its Subsidiaries is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent; (b) a Co-Borrower or any of its Subsidiaries begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against a Co-Borrower or any of its Subsidiaries and is not dismissed or stayed within thirty (30) days (but no Credit Extensions shall be made while any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);

8.6 Other Agreements. After giving effect to any cure or notice requirements therein, there is, under any agreement to which any Co-Borrower or any Guarantor is a party with a third party or parties, (a) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of Five Hundred Thousand Dollars (\$500,000); or (b) any breach or default by a Co-Borrower or Guarantor, the result of which could have a material adverse effect on such Co-Borrower's or any Guarantor's business;

8.7 Judgments; Penalties. One or more fines, penalties or final judgments, orders or decrees for the payment of money in an amount, individually or in the aggregate, of at least Five Hundred Thousand Dollars (\$500,000) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against a Co-Borrower by any Governmental Authority, and the same are not, within ten (10) Business Days after the entry, assessment or issuance thereof, discharged, satisfied, or paid, or after execution thereof, stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions will be made prior to the satisfaction, payment, discharge, stay, or bonding of such fine, penalty, judgment, order or decree);

8.8 Misrepresentations. A Co-Borrower or any Person acting for a Co-Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;

8.9 Subordinated Debt. Any document, instrument, or agreement evidencing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect, any Person shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any further liability or obligation thereunder, or the Obligations shall for any reason be subordinated or shall not have the priority contemplated by this Agreement or any applicable subordination or intercreditor agreement;

8.10 Guaranty. (a) Any guaranty of any Obligations terminates or ceases for any reason to be in full force and effect; (b) any Guarantor does not perform any obligation or covenant under any guaranty of the Obligations; (c) any circumstance described in Sections 8.3, 8.4, 8.5, 8.6, 8.7, or 8.8 of this Agreement occurs with respect to any Guarantor, or (d) (i) a material impairment in the perfection or priority of Bank's Lien in the collateral provided by Guarantor or in the value of such collateral or (ii) a material adverse change in the general affairs, management, results of operation, condition (financial or otherwise) or the prospect of repayment of the Obligations occurs with respect to any Guarantor; or

8.11 Governmental Approvals. Any Governmental Approval shall have been (a) revoked, rescinded, suspended, modified in an adverse manner or not renewed in the ordinary course for a full term or (b) subject to any decision by a Governmental Authority that designates a hearing with respect to any applications for renewal of any of such Governmental Approval or that could result in the Governmental Authority taking any of the actions described in clause (a) above, and such decision or such revocation, rescission, suspension, modification or non-renewal (i) causes, or could reasonably be expected to cause, a Material Adverse Change, or (ii) adversely affects the legal qualifications of a Co-Borrower or any of its Subsidiaries to hold such Governmental Approval in any applicable jurisdiction and such revocation, rescission, suspension, modification or non-renewal could reasonably be expected to affect the status of or legal qualifications of a Co-Borrower or any of its Subsidiaries to hold any Governmental Approval in any other jurisdiction.

9 BANK'S RIGHTS AND REMEDIES

9.1 Rights and Remedies. Upon the occurrence and during the continuance of an Event of Default, Bank may, without notice or demand, do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);

(b) stop advancing money or extending credit for Co-Borrowers' benefit under this Agreement or under any other agreement between Co-Borrowers and Bank;

(c) demand that Co-Borrowers (i) deposit cash with Bank in an amount equal to at least (A) one hundred five percent (105%) of the Dollar Equivalent of the aggregate face amount of all Letters of Credit denominated in Dollars remaining undrawn, and (B) one hundred ten percent (110%) of the Dollar Equivalent of the aggregate face amount of all Letters of Credit denominated in a Foreign Currency remaining undrawn (plus, in each case, all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment)), to secure all of the Obligations relating to such Letters of Credit, as collateral security for the repayment of any future drawings under such Letters of Credit, and Co-Borrowers shall forthwith deposit and pay such amounts, and (ii) pay in advance all letter of credit fees scheduled to be paid or payable over the remaining term of any Letters of Credit;

(d) terminate any FX Contracts;

(e) verify the amount of, demand payment of and performance under, and collect any Accounts and General Intangibles, settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Bank considers advisable, and notify any Person owing a Co-Borrower money of Bank's security interest in such funds. Such Co-Borrower shall collect all payments in trust for Bank and, if requested by Bank, immediately deliver the payments to Bank in the form received from the Account Debtor, with proper endorsements for deposit;

(f) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Co-Borrowers shall assemble the Collateral if Bank requests and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior

or superior to its security interest and pay all expenses incurred. Each Co-Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(g) apply to the Obligations any (i) balances and deposits of a Co-Borrower it holds, or (ii) amount held by Bank owing to or for the credit or the account of a Co-Borrower;

(h) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Bank is hereby granted a non-exclusive, royalty-free license or other right to use, without charge, each Co-Borrower's labels, Patents, Copyrights, mask works, rights of use of any name, trade secrets, trade names, Trademarks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, each Co-Borrower's rights under all licenses and all franchise agreements inure to Bank's benefit;

(i) place a "hold" on any account maintained with Bank and/or deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;

(j) demand and receive possession of each Co-Borrower's Books; and

(k) exercise all rights and remedies available to Bank under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).

9.2 Power of Attorney. Each Co-Borrower hereby irrevocably appoints Bank as their lawful attorney-in-fact, exercisable following the occurrence and during the continuance of an Event of Default, to: (a) endorse Co-Borrower's name on any checks, payment instruments, or other forms of payment or security; (b) sign Co-Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) demand, collect, sue, and give releases to any Account Debtor for monies due, settle and adjust disputes and claims about the Accounts directly with Account Debtors, and compromise, prosecute, or defend any action, claim, case, or proceeding about any Collateral (including filing a claim or voting a claim in any bankruptcy case in Bank's or Co-Borrower's name, as Bank chooses); (d) make, settle, and adjust all claims under Co-Borrower's insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, or other claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of Bank or a third party as the Code permits. Each Co-Borrower hereby appoints Bank as its lawful attorney-in-fact to sign Co-Borrower's name on any documents necessary to perfect or continue the perfection of Bank's security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations have been satisfied in full and the Loan Documents have been terminated. Bank's foregoing appointment as each Co-Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and the Loan Documents have been terminated.

9.3 Protective Payments. If a Co-Borrower fails to obtain the insurance called for by Section 6.7 or fails to pay any premium thereon or fails to pay any other amount which such Co-Borrower is obligated to pay under this Agreement or any other Loan Document or which may be required to preserve the Collateral, Bank may obtain such insurance or make such payment, and all amounts so paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then highest rate applicable to the Obligations, and secured by the Collateral. Bank will make reasonable efforts to provide Co-Borrowers with notice of Bank obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

9.4 Application of Payments and Proceeds. During the continuance of an Event of Default, Bank shall have the right to apply in any order any funds in its possession, whether from Co-Borrowers' account balances, payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations. Bank shall pay any surplus to Co-Borrowers by credit to the Designated Deposit Account or to other Persons legally entitled thereto; Co-Borrowers shall remain liable to Bank for any deficiency. If Bank, directly or

indirectly, enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Bank shall have the option, exercisable at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by Bank of cash therefor.

9.5 Bank's Liability for Collateral. So long as Bank complies with reasonable banking practices regarding the safekeeping of the Collateral in the possession or under the control of Bank, Bank shall not be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Co-Borrowers bear all risk of loss, damage or destruction of the Collateral.

9.6 No Waiver; Remedies Cumulative. Bank's failure, at any time or times, to require strict performance by Co-Borrowers of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Bank thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by the party granting the waiver and then is only effective for the specific instance and purpose for which it is given. Bank's rights and remedies under this Agreement and the other Loan Documents are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election and shall not preclude Bank from exercising any other remedy under this Agreement or other remedy available at law or in equity, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay in exercising any remedy is not a waiver, election, or acquiescence.

9.7 Demand Waiver. Each Co-Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which such Co-Borrower is liable.

9.8 Co-Borrower Liability. Any Co-Borrower may, acting singly, request Credit Extensions hereunder. Each Co-Borrower hereby appoints each other as agent for the other for all purposes hereunder, including with respect to requesting Credit Extensions hereunder. Each Co-Borrower hereunder shall be jointly and severally obligated to repay all Credit Extensions made hereunder, regardless of which Co-Borrower actually receives said Credit Extension, as if each Co-Borrower hereunder directly received all Credit Extensions. Each Co-Borrower waives (a) any suretyship defenses available to it under the Code or any other applicable law, including, without limitation, the benefit of California Civil Code Section 2815 permitting revocation as to future transactions and the benefit of California Civil Code Sections 1432, 2809, 2810, 2819, 2839, 2845, 2847, 2848, 2849, 2850, and 2899 and 3433, and (b) any right to require Bank to: (i) proceed against any Co-Borrower or any other person; (ii) proceed against or exhaust any security; or (iii) pursue any other remedy. Bank may exercise or not exercise any right or remedy it has against any Co-Borrower or any security it holds (including the right to foreclose by judicial or non-judicial sale) without affecting any Co-Borrower's liability. Notwithstanding any other provision of this Agreement or other related document, each Co-Borrower irrevocably waives all rights that it may have at law or in equity (including, without limitation, any law subrogating a Co-Borrower to the rights of Bank under this Agreement) to seek contribution, indemnification or any other form of reimbursement from any other Co-Borrower, or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by a Co-Borrower with respect to the Obligations in connection with this Agreement or otherwise and all rights that it might have to benefit from, or to participate in, any security for the Obligations as a result of any payment made by a Co-Borrower with respect to the Obligations in connection with this Agreement or otherwise. Any agreement providing for indemnification, reimbursement or any other arrangement prohibited under this Section 9.8 shall be null and void. If any payment is made to a Co-Borrower in contravention of this Section 9.8, such Co-Borrower shall hold such payment in trust for Bank and such payment shall be promptly delivered to Bank for application to the Obligations, whether matured or unmatured.

10 NOTICES

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by electronic mail or facsimile transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges

public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and orders applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure Section 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies, foreclose against collateral, or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

This Section 11 shall survive the termination of this Agreement.

12 GENERAL PROVISIONS

12.1 Termination Prior to Revolving Line Maturity Date; Survival. All covenants, representations and warranties made in this Agreement shall continue in full force until this Agreement has terminated pursuant to its terms and all Obligations have been satisfied. So long as Co-Borrowers have satisfied the Obligations (other than inchoate indemnity obligations, and any other obligations which, by their terms, are to survive the termination of this Agreement, and any Obligations under Bank Services Agreements that are cash collateralized in accordance with Section 4.1 of this Agreement), this Agreement may be terminated prior to the Revolving Line Maturity Date by Co-Borrowers, effective three (3) Business Days after written notice of termination is given to Bank. Those obligations that are expressly specified in this Agreement as surviving this Agreement's termination shall continue to survive notwithstanding this Agreement's termination.

12.2 Successors and Assigns. This Agreement binds and is for the benefit of the successors and permitted assigns of each party. No Co-Borrower may assign this Agreement or any rights or obligations under it without Bank's prior written consent (which may be granted or withheld in Bank's discretion). Bank has the right, without the consent of or notice to Co-Borrowers, to sell, transfer, assign, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights, and benefits under this Agreement and the other Loan Documents.

12.3 Indemnification. Co-Borrowers agree to indemnify, defend and hold Bank and its directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing Bank (each, an "**Indemnified Person**") harmless against: (i) all obligations, demands, claims, and liabilities (collectively, "**Claims**") claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (ii) all losses or expenses (including Bank Expenses) in any way suffered, incurred, or paid by such Indemnified Person as a result of, following from, consequential to, or arising from transactions between Bank and Co-Borrowers (including reasonable attorneys' fees and expenses), except for Claims and/or losses directly caused by such Indemnified Person's gross negligence or willful misconduct.

This Section 12.3 shall survive until all statutes of limitation with respect to the Claims, losses, and expenses for which indemnity is given shall have run.

12.4 Time of Essence. Time is of the essence for the performance of all Obligations in this Agreement.

12.5 Severability of Provisions. Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.6 Correction of Loan Documents. Bank may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties.

12.7 Amendments in Writing; Waiver; Integration. No purported amendment or modification of any Loan Document, or waiver, discharge or termination of any obligation under any Loan Document, shall be enforceable or admissible unless, and only to the extent, expressly set forth in a writing signed by the party against which enforcement or admission is sought. Without limiting the generality of the foregoing, no oral promise or statement, nor any action, inaction, delay, failure to require performance or course of conduct shall operate as, or evidence, an amendment, supplement or waiver or have any other effect on any Loan Document. Any waiver granted shall be limited to the specific circumstance expressly described in it, and shall not apply to any subsequent or other circumstance, whether similar or dissimilar, or give rise to, or evidence, any obligation or commitment to grant any further waiver. The Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of the Loan Documents merge into the Loan Documents.

12.8 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

12.9 Confidentiality. In handling any confidential information, Bank shall exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made: (a) to Bank's Subsidiaries or Affiliates (such Subsidiaries and Affiliates, together with Bank, collectively, "**Bank Entities**"); (b) to prospective transferees or purchasers of any interest in the Credit Extensions (provided, however, Bank shall use its best efforts to obtain any prospective transferee's or purchaser's agreement to the terms of this provision); (c) as required by law, regulation, subpoena, or other order; (d) to Bank's regulators or as otherwise required in connection with Bank's examination or audit; (e) as Bank considers appropriate in exercising remedies under the Loan Documents; and (f) to third-party service providers of Bank so long as such service providers have executed a confidentiality agreement with Bank with terms no less restrictive than those contained herein. Confidential information does not include information that is either: (i) in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain (other than as a result of its disclosure by Bank in violation of this Agreement) after disclosure to Bank; or (ii) disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

Bank Entities may use anonymous forms of confidential information for aggregate datasets, for analyses or reporting, and for any other uses not expressly prohibited in writing by Co-Borrowers. The provisions of the immediately preceding sentence shall survive the termination of this Agreement.

12.10 Attorneys' Fees, Costs and Expenses. In any action or proceeding between Co-Borrowers and Bank arising out of or relating to the Loan Documents, the prevailing party shall be entitled to recover its reasonable attorneys' fees and other costs and expenses incurred, in addition to any other relief to which it may be entitled.

12.11 Electronic Execution of Documents. The words "execution," "signed," "signature" and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

12.12 Right of Setoff. Except with respect to Excluded Collateral, each Co-Borrower hereby grants to Bank a Lien and a right of setoff as security for all Obligations to Bank, whether now existing or hereafter arising upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Bank or any entity under the control of Bank (including a subsidiary of Bank) or in transit to any of them. At any time after the occurrence and during the continuance of an Event of Default, without demand or notice, Bank may set off the same or any part thereof and apply the same to any liability or Obligation of any Co-Borrower even though unmatured and regardless of the adequacy of any other collateral securing the Obligations. ANY AND ALL RIGHTS TO REQUIRE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF ANY CO-BORROWER, ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

12.13 Captions. The headings used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

12.14 Construction of Agreement. The parties mutually acknowledge that they and their attorneys have participated in the preparation and negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to exist.

12.15 Relationship. The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm's-length contract.

12.16 Third Parties. Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the obligation or liability of any person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

13 DEFINITIONS

13.1 Definitions. As used in the Loan Documents, the word "shall" is mandatory, the word "may" is permissive, the word "or" is not exclusive, the words "includes" and "including" are not limiting, the singular includes the plural, and numbers denoting amounts that are set off in brackets are negative. As used in this Agreement, the following capitalized terms have the following meanings:

"**Account**" is, as to any Person, any "**account**" of such Person as "account" is defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to such Person.

"**Account Debtor**" is any "**account debtor**" as defined in the Code with such additions to such term as may hereafter be made.

"**Adjusted Quick Ratio**" means a ratio of (a) the sum of Co-Borrowers' (i) unrestricted cash and Cash Equivalents maintained at Bank plus (ii) net accounts receivable divided by (b) Current Liabilities minus the current portion of Deferred Revenue.

"**Administrator**" is an individual that is named:

(a) as an "Administrator" in the "SVB Online Services" form completed by Co-Borrowers with the authority to determine who will be authorized to use SVB Online Services (as defined in the "Banking Terms and Conditions") on behalf of a Co-Borrower; and

(b) as an Authorized Signer of a Co-Borrower in an approval by the Board.

"**Advance**" or "**Advances**" means a revolving credit loan (or revolving credit loans) under the Revolving Line.

"**Affiliate**" is, with respect to any Person, each other Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

"**Agreement**" is defined in the preamble hereof.

“**Authorized Signer**” is any individual listed in a Co-Borrower’s Borrowing Resolution who is authorized to execute the Loan Documents, including making (and executing if applicable) any Credit Extension request, on behalf of such Co-Borrower.

“**Availability Amount**” is the Revolving Line minus the outstanding principal balance of any Advances.

“**Bank**” is defined in the preamble hereof.

“**Bank Entities**” is defined in Section 12.9.

“**Bank Expenses**” are all audit fees and expenses, costs, and expenses (including reasonable attorneys’ fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Co-Borrowers or any Guarantor.

“**Bank Services**” are any products, credit services, and/or financial accommodations previously, now, or hereafter provided to a Co-Borrower or any of its Subsidiaries by Bank or any Bank Affiliate, including, without limitation, any letters of credit, cash management services (including, without limitation, merchant services, direct deposit of payroll, business credit cards, and check cashing services), interest rate swap arrangements, and foreign exchange services as any such products or services may be identified in Bank’s various agreements related thereto (each, a “**Bank Services Agreement**”).

“**Bank Services Agreement**” is defined in the definition of Bank Services.

“**Board**” is Parent’s board of directors.

“**Borrowing Resolutions**” are, with respect to any Person, those resolutions adopted by such Person’s board of directors (and, if required under the terms of such Person’s Operating Documents, stockholders) and delivered by such Person to Bank approving the Loan Documents to which such Person is a party and the transactions contemplated thereby, together with a certificate executed by its secretary on behalf of such Person certifying (a) such Person has the authority to execute, deliver, and perform its obligations under each of the Loan Documents to which it is a party, (b) that set forth as a part of or attached as an exhibit to such certificate is a true, correct, and complete copy of the resolutions then in full force and effect authorizing and ratifying the execution, delivery, and performance by such Person of the Loan Documents to which it is a party, (c) the name(s) of the Person(s) authorized to execute the Loan Documents, including making (and executing if applicable) any Credit Extension request, on behalf of such Person, together with a sample of the true signature(s) of such Person(s), and (d) that Bank may conclusively rely on such certificate unless and until such Person shall have delivered to Bank a further certificate canceling or amending such prior certificate.

“**Business Day**” is any day that is not a Saturday, Sunday or a day on which Bank is closed.

“**Cash Collateral Account**” is defined in Section 6.3(c).

“**Cash Equivalents**” means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor’s Ratings Group or Moody’s Investors Service, Inc.; (c) Bank’s certificates of deposit issued maturing no more than one (1) year after issue; and (d) money market funds at least ninety-five percent (95%) of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (c) of this definition.

“**Change in Control**” means (a) at any time, any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), shall become, or obtain rights (whether by means of warrants, options or otherwise) to become, the “beneficial owner” (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act), directly or indirectly, of thirty-five percent (35%) or more of the ordinary voting power for the election of directors of Parent (determined on a fully diluted basis) other than by the sale of such Co-Borrower’s equity securities in a public offering

or to venture capital or private equity investors so long as Co-Borrowers identify to Bank the venture capital or private equity investors at least seven (7) Business Days prior to the closing of the transaction and provide to Bank a description of the material terms of the transaction; (b) during any period of twelve (12) consecutive months, a majority of the members of the board of directors or other equivalent governing body of any Co-Borrower ceases to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body; or (c) at any time, a Co-Borrower shall cease to own and control, of record and beneficially, directly or indirectly, one hundred percent (100%) of each class of outstanding capital stock of each subsidiary of such Co-Borrower free and clear of all Liens (except Liens created by this Agreement).

“**Claims**” is defined in Section 12.3.

“**Co-Borrowers**” is defined in the preamble hereof.

“**Co-Borrowers’ Books**” are all of a Co-Borrower’s books and records including ledgers, federal and state tax returns, records regarding such Co-Borrower’s assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

“**Code**” is the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of California; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, Bank’s Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of California, the term “Code” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

“**Collateral**” is any and all properties, rights and assets of Co-Borrowers described on Exhibit A.

“**Collateral Account**” is any Deposit Account, Securities Account, or Commodity Account.

“**Commodity Account**” is any “commodity account” as defined in the Code with such additions to such term as may hereafter be made.

“**Compliance Certificate**” is that certain certificate in the form attached hereto as Exhibit B.

“**Contingent Obligation**” is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation, in each case, directly or indirectly guaranteed, endorsed, co made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but “Contingent Obligation” does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

“**Control Agreement**” is any control agreement entered into among the depository institution at which a Co-Borrower maintains a Deposit Account or the securities intermediary or commodity intermediary at which a Co-

Borrower maintains a Securities Account or a Commodity Account, such Co-Borrower, and Bank pursuant to which Bank obtains control (within the meaning of the Code) over such Deposit Account, Securities Account, or Commodity Account.

“**Copyrights**” are any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

“**Credit Extension**” is any Advance, any Overadvance, Letter of Credit, FX Contract, amount utilized for cash management services or any other extension of credit by Bank for Co-Borrowers’ benefit.

“**Current Liabilities**” are all obligations and liabilities of Co-Borrowers to Bank, plus, without duplication, the aggregate amount of Co-Borrowers’ Total Liabilities that mature within one (1) year.

“**Default Rate**” is defined in Section 2.4(b).

“**Deferred Revenue**” is all amounts received or invoiced in advance of performance under contracts and not yet recognized as revenue.

“**Deposit Account**” is any “**deposit account**” as defined in the Code with such additions to such term as may hereafter be made.

“**Designated Deposit Account**” is the account number ending xxx-xxxx-356 maintained by a Co-Borrower with Bank.

“**Dollars**,” “**dollars**” or use of the sign “\$” means only lawful money of the United States and not any other currency, regardless of whether that currency uses the “\$” sign to denote its currency or may be readily converted into lawful money of the United States.

“**Dollar Equivalent**” is, at any time, (a) with respect to any amount denominated in Dollars, such amount, and (b) with respect to any amount denominated in a Foreign Currency, the equivalent amount therefor in Dollars as determined by Bank at such time on the basis of the then-prevailing rate of exchange in San Francisco, California, for sales of the Foreign Currency for transfer to the country issuing such Foreign Currency.

“**Effective Date**” is defined in the preamble hereof.

“**Equipment**” is all “**equipment**” as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

“**ERISA**” is the Employee Retirement Income Security Act of 1974, and its regulations.

“**Event of Default**” is defined in Section 8.

“**Exchange Act**” is the Securities Exchange Act of 1934, as amended.

“**Excluded Collateral**” means (a) with respect to stock in foreign Subsidiaries, more than sixty-five percent (65.0%) of the presently existing and hereafter arising issued and outstanding shares of capital stock owned by Co-Borrowers of any foreign Subsidiary which shares entitle the holder thereof to vote for directors or any other matter, (b) any interest of Co-Borrowers as lessees or sublessees under a real property lease or an Equipment lease if Co-Borrowers are prohibited by the terms of such lease from granting a security interest in such lease or under which such an assignment or Lien would cause a default to occur under such lease (but only to the extent that such prohibition is enforceable under all applicable laws including, without limitation, the Code); provided, however, that upon termination of such prohibition, such interest shall immediately become Collateral without any action by Co-Borrowers or Bank

(c) deposit accounts exclusively used for payroll, payroll taxes, and other employee wage, trust and benefit payments to or for the benefit of Co-Borrowers' employees and identified to Bank by Co-Borrowers as such; or (d) any Intellectual Property; provided, however, the Collateral shall include all Accounts and all proceeds of Intellectual Property. If a judicial authority (including a U.S. Bankruptcy Court) would hold that a security interest in the underlying Intellectual Property is necessary to have a security interest in such Accounts and such property that are proceeds of Intellectual Property, then the Collateral shall automatically, and effective as of the Effective Date, include the Intellectual Property to the extent necessary to permit perfection of Bank's security interest in such Accounts and such other property of Co-Borrowers that are proceeds of the Intellectual Property.

"Foreign Currency" means lawful money of a country other than the United States.

"Funding Date" is any date on which a Credit Extension is made to or for the account of Co-Borrowers which shall be a Business Day.

"FX Contract" is any foreign exchange contract by and between a Co-Borrower and Bank under which such Co-Borrower commits to purchase from or sell to Bank a specific amount of Foreign Currency on a specified date.

"GAAP" is generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

"General Intangibles" is all "general intangibles" as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, all Intellectual Property, claims, income and other tax refunds, security and other deposits, payment intangibles, contract rights, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

"Governmental Approval" is any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.

"Governmental Authority" is any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

"Guarantor" is any Person providing a Guaranty in favor of Bank.

"Guaranty" is any guarantee of all or any part of the Obligations, as the same may from time to time be amended, restated, modified or otherwise supplemented.

"Indebtedness" is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations, and (d) Contingent Obligations.

"Indemnified Person" is defined in Section 12.3.

"Insolvency Proceeding" is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

“**Intellectual Property**” means, with respect to any Person, all of such Person’s right, title, and interest in and to the following:

- (a) its Copyrights, Trademarks and Patents;
- (b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how and operating manuals;
- (c) any and all source code;
- (d) any and all design rights which may be available to such Person;
- (e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and
- (f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

“**Inventory**” is all “**inventory**” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of a Co-Borrower’s custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

“**Investment**” is any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance or capital contribution to any Person.

“**Judgment Currency**” is defined in Section 12.3.

“**Key Person**” is any of a Co-Borrower’s (a) Chief Executive Officer, who is James DeBello as of the Effective Date, (b) Chief Financial Officer, who is Jeffrey Davison as of the Effective Date, and (c) Chief Technology Officer, who is Stephen Ritter as of the Effective Date, and (d) Chief Operating Officer, who is Kalle Marsal as of the Effective Date.

“**Letter of Credit**” is a standby or commercial letter of credit issued by Bank upon request of a Co-Borrower based upon an application, guarantee, indemnity, or similar agreement.

“**Lien**” is a claim, mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

“**Loan Documents**” are, collectively, this Agreement and any schedules, exhibits, certificates, notices, and any other documents related to this Agreement, any Bank Services Agreement, any subordination agreement, any note, or notes or guaranties executed by a Co-Borrower or any Guarantor, and any other present or future agreement by a Co-Borrower and/or any Guarantor with or for the benefit of Bank, all as amended, restated, or otherwise modified.

“**Material Adverse Change**” is (a) a material impairment in the perfection or priority of Bank’s Lien in the Collateral or in the value of such Collateral; (b) a material adverse change in the business, operations, or condition (financial or otherwise) of a Co-Borrower; (c) a material impairment of the prospect of repayment of any portion of the Obligations; or (d) Bank determines, based upon information available to it and in its reasonable judgment, that there is a reasonable likelihood that a Co-Borrower shall fail to comply with one or more of the financial covenants in Section 6 during the next succeeding financial reporting period.

“**Mitek BV**” is Mitek Holding B.V., a company incorporated under the laws of The Netherlands and a wholly owned subsidiary of Parent.

“**Monthly Financial Statements**” is defined in Section 6.2(a).

“**Obligations**” are Co-Borrowers’ obligations to pay when due any debts, principal, interest, fees, Bank Expenses, the Unused Revolving Line Facility Fee and other amounts Co-Borrowers owe Bank now or later, whether under this Agreement or the other Loan Documents, or otherwise, including, without limitation, all obligations relating to Bank Services and interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Co-Borrowers assigned to Bank, and to perform Co-Borrowers’ duties under the Loan Documents.

“**Operating Documents**” are, for any Person, such Person’s formation documents, as certified by the Secretary of State (or equivalent agency) of such Person’s jurisdiction of organization on a date that is no earlier than thirty (30) days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments or modifications thereto.

“**Overadvance**” is defined in Section 2.3.

“**Parent**” is defined in the preamble hereof.

“**Patents**” means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

“**Payment Date**” is the last calendar day of each month.

“**Perfection Certificate**” is defined in Section 5.1.

“**Permitted Indebtedness**” is:

- (a) Co-Borrowers’ Indebtedness to Bank under this Agreement and the other Loan Documents;
- (b) Indebtedness existing on the Effective Date which is shown on the Perfection Certificate;
- (c) Subordinated Debt;
- (d) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;
- (e) unsecured Indebtedness in connection with the Seller Earn Outs;
- (f) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;
- (g) Indebtedness secured by Liens permitted under clauses (a) and (c) of the definition of “Permitted Liens” hereunder;
- (h) Indebtedness of a Co-Borrower to any Subsidiary and Contingent Obligations of any Subsidiary with respect to obligations of such Co-Borrower (provided that the primary obligations are not prohibited hereby), and Indebtedness of any Subsidiary to a Co-Borrower in an aggregate principal amount not to exceed Five Hundred Thousand Dollars (\$500,000) or any other Subsidiary and Contingent Obligations of any Subsidiary with respect to obligations of any other Subsidiary (provided that the primary obligations are not prohibited hereby);
- (i) Indebtedness arising from the financing of insurance premiums in the ordinary course of business;

(j) other unsecured Indebtedness not to exceed Five Hundred Thousand Dollars (\$500,000) at any time outstanding; and

(k) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (i) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon a Co-Borrower or its Subsidiary, as the case may be.

“Permitted Investments” are:

(a) Investments (including, without limitation, Subsidiaries) existing on the Effective Date which are shown on the Perfection Certificate;

(b) Investments consisting of Cash Equivalents;

(c) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of a Co-Borrower;

(d) Investments consisting of deposit accounts (but only to the extent that Co-Borrowers are permitted to maintain such accounts pursuant to Section 6.8 of this Agreement);

(e) Investments accepted in connection with Transfers permitted by Section 7.1;

(f) Investments consisting of the creation of a Subsidiary for the purpose of consummating a merger transaction permitted by Section 7.3 of this Agreement, which is otherwise a Permitted Investment;

(g) Investments (i) by a Co-Borrower in another Co-Borrower, (ii) by a Co-Borrower in Subsidiaries not to exceed Five Hundred Thousand Dollars (\$500,000) in the aggregate in any fiscal year and (iii) by Subsidiaries in other Subsidiaries not to exceed Five Hundred Thousand Dollars (\$500,000) in the aggregate in any fiscal year or in a Co-Borrower;

(h) Investments consisting of (i) travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business, and (ii) loans to employees, officers or directors relating to the purchase of equity securities of a Co-Borrower or its Subsidiaries pursuant to employee stock purchase plans or agreements approved by the Board;

(i) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business;

(j) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; provided that this paragraph (j) shall not apply to Investments of a Co-Borrower in any Subsidiary; and

(k) other Investments not to exceed Five Hundred Thousand Dollars (\$500,000) at any time outstanding.

“Permitted Liens” are:

(a) Liens existing on the Effective Date which are shown on the Perfection Certificate or arising under this Agreement or the other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either (i) not due and payable or (ii) being contested in good faith and for which a Co-Borrower maintains adequate reserves on such

Co-Borrower's Books, provided that no notice of any such Lien has been filed or recorded under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder;

(c) purchase money Liens (i) on Equipment acquired or held by a Co-Borrower incurred for financing the acquisition of the Equipment securing no more than One Hundred Thousand Dollars (\$100,000) in the aggregate amount outstanding, or (ii) existing on Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the Equipment;

(d) Liens of carriers, warehousemen, suppliers, or other Persons that are possessory in nature arising in the ordinary course of business so long as such Liens attach only to Inventory, securing liabilities in the aggregate amount not to exceed One Hundred Thousand Dollars (\$100,000) and which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(e) Liens to secure payment of workers' compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the ordinary course of business (other than Liens imposed by ERISA);

(f) Liens incurred in the extension, renewal or refinancing of the Indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase;

(g) leases or subleases of real property granted in the ordinary course of a Co-Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), and leases, subleases, non-exclusive licenses or sublicenses of personal property (other than Intellectual Property) granted in the ordinary course of a Co-Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), if the leases, subleases, licenses and sublicenses do not prohibit granting Bank a security interest therein;

(h) non-exclusive licenses of Intellectual Property granted to third parties in the ordinary course of business, and licenses of Intellectual Property that could not result in a legal transfer of title of the licensed property that may be exclusive in respects other than territory and that may be exclusive as to territory only as to discreet geographical areas outside of the United States;

(i) Liens arising from attachments or judgments, orders, or decrees in circumstances not constituting an Event of Default under Sections 8.4 and 8.7; and

(j) Liens in favor of other financial institutions arising in connection with a Co-Borrower's deposit and/or securities accounts held at such institutions, provided that (i) Bank has a first priority perfected security interest in the amounts held in such deposit and/or securities accounts (ii) such accounts are permitted to be maintained pursuant to Section 6.8 of this Agreement.

"Person" is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"Prime Rate" is the rate of interest per annum from time to time published in the money rates section of The Wall Street Journal or any successor publication thereto as the "prime rate" then in effect; provided that, in the event such rate of interest is less than zero, such rate shall be deemed to be zero for purposes of this Agreement; and provided further that if such rate of interest, as set forth from time to time in the money rates section of The Wall Street Journal, becomes unavailable for any reason as determined by Bank, the "Prime Rate" shall mean the rate of interest per annum announced by Bank as its prime rate in effect at its principal office in the State of California (such Bank announced Prime Rate not being intended to be the lowest rate of interest charged by Bank in connection with extensions of credit to debtors); provided that, in the event such rate of interest is less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“**Registered Organization**” is any “registered organization” as defined in the Code with such additions to such term as may hereafter be made.

“**Requirement of Law**” is as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“**Reserves**” means, as of any date of determination, such amounts as Bank may from time to time establish and revise in its good faith business judgment, reducing the amount of Advances and other financial accommodations which would otherwise be available to Co-Borrowers (a) to reflect events, conditions, contingencies or risks which, as determined by Bank in its good faith business judgment, do or may adversely affect (i) the Collateral or any other property which is security for the Obligations or its value (including without limitation any increase in delinquencies of Accounts), (ii) the assets, business or prospects of a Co-Borrower or any Guarantor, or (iii) the security interests and other rights of Bank in the Collateral (including the enforceability, perfection and priority thereof); or (b) to reflect Bank's reasonable belief that any collateral report or financial information furnished by or on behalf of a Co-Borrower or any Guarantor to Bank is or may have been incomplete, inaccurate or misleading in any material respect; or (c) in respect of any state of facts which Bank determines constitutes an Event of Default or may, with notice or passage of time or both, constitute an Event of Default.

“**Responsible Officer**” is any of the Chief Executive Officer, President, Chief Financial Officer and Controller of a Co-Borrower.

“**Restricted License**” is any material inbound license or other agreement with respect to which a Co-Borrower is the licensee (a) that prohibit or otherwise restricts such Co-Borrower from granting a security interest in such Co-Borrower's interest in such license or agreement or any other property, or (b) for which a default under or termination of could interfere with Bank's right to sell any Collateral.

“**Revolving Line**” is an aggregate principal amount equal to Ten Million Dollars (\$10,000,000).

“**Revolving Line Maturity Date**” is May 3, 2019.

“**SEC**” shall mean the Securities and Exchange Commission, any successor thereto, and any analogous Governmental Authority.

“**Securities Account**” is any “**securities account**” as defined in the Code with such additions to such term as may hereafter be made.

“**Seller Earn Outs**” means those certain Earn Outs, as defined in that certain Share Purchase Agreement among Mitek BV, the Sellers (as defined therein) and Parent dated as of October 16, 2017 and as set forth in Schedule 3.4 thereto in aggregate amount not to exceed Three Million Eight Hundred Thousand Dollars (\$3,800,00).

“**Subordinated Debt**” is indebtedness incurred by a Co-Borrower subordinated to all of such Co-Borrower's now or hereafter indebtedness to Bank (pursuant to a subordination, intercreditor, or other similar agreement in form and substance satisfactory to Bank entered into between Bank and the other creditor), on terms acceptable to Bank.

“**Subsidiary**” is, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of a Co-Borrower or Guarantor (if any).

“**Total Liabilities**” is on any day, obligations that should, under GAAP, be classified as liabilities on Co-Borrowers’ consolidated balance sheet, including all Indebtedness.

“**Trademarks**” means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of a Co-Borrower connected with and symbolized by such trademarks.

“**Transfer**” is defined in Section 7.1.

“**Unused Revolving Line Facility Fee**” is defined in Section 2.5(b).

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

CO-BORROWERS:

MITEK SYSTEMS, INC.

By /s/ James B. DeBello
Name: James B. DeBello
Title: President and Chief Executive Officer

IDCHECKER, INC.

By /s/ James B. DeBello
Name: James B. DeBello
Title: President and Chief Executive Officer

BANK:

SILICON VALLEY BANK

By /s/ Cody Nenadal
Name: Cody Nenadal
Title: VP

[Signature Page to Loan and Security Agreement]

EXHIBIT A - COLLATERAL DESCRIPTION

The Collateral consists of all of Co-Borrowers' right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles (except as provided below), commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, certificates of deposit, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

all of each Co-Borrower's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include (a) with respect to stock in foreign Subsidiaries, more than sixty-five percent (65.0%) of the presently existing and hereafter arising issued and outstanding shares of capital stock owned by Co-Borrowers of any foreign Subsidiary which shares entitle the holder thereof to vote for directors or any other matter; (b) any interest of Co-Borrowers as lessees or sublessees under a real property lease or an Equipment lease if Co-Borrowers are prohibited by the terms of such lease from granting a security interest in such lease or under which such an assignment or Lien would cause a default to occur under such lease (but only to the extent that such prohibition is enforceable under all applicable laws including, without limitation, the Code); provided, however, that upon termination of such prohibition, such interest shall immediately become Collateral without any action by Co-Borrowers or Bank (c) deposit accounts exclusively used for payroll, payroll taxes, and other employee wage, trust and benefit payments to or for the benefit of Co-Borrowers' employees and identified to Bank by Co-Borrowers as such; or (d) any Intellectual Property; provided, however, the Collateral shall include all Accounts and all proceeds of Intellectual Property. If a judicial authority (including a U.S. Bankruptcy Court) would hold that a security interest in the underlying Intellectual Property is necessary to have a security interest in such Accounts and such property that are proceeds of Intellectual Property, then the Collateral shall automatically, and effective as of the Effective Date, include the Intellectual Property to the extent necessary to permit perfection of Bank's security interest in such Accounts and such other property of Co-Borrowers that are proceeds of the Intellectual Property.

Pursuant to the terms of a certain negative pledge arrangement with Bank, Co-Borrower has agreed not to encumber any of its Intellectual Property without Bank's prior written consent.

Exhibit A

EXHIBIT B

COMPLIANCE CERTIFICATE

TO: **SILICON VALLEY BANK** Date: _____
FROM: **MITEK SYSTEMS, INC.** and **IDCHECKER, INC.**

The undersigned authorized officers of **MITEK SYSTEMS, INC.**, a California corporation, and **IDCHECKER, INC.**, a California corporation, certify that under the terms and conditions of the Loan and Security Agreement between Co-Borrowers and Bank (the "Agreement"): (1) Co-Borrowers are in complete compliance for the period ending _____ with all required covenants except as noted below, (2) there are no Events of Default, (3) all representations and warranties in the Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, (4) Co-Borrowers, and each of their Subsidiaries, has timely filed all required tax returns and reports, and Co-Borrowers have timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Co-Borrowers except as otherwise permitted pursuant to the terms of Section 5.9 of the Agreement, and (5) no Liens have been levied or claims made against Co-Borrowers or any of their Subsidiaries, if any, relating to unpaid employee payroll or benefits of which Co-Borrowers have not previously provided written notification to Bank. Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with GAAP consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Co-Borrowers are not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

Please indicate compliance status by circling Yes/No under "Complies" column.

<u>Reporting Covenants</u>	<u>Required</u>	<u>Complies</u>
Monthly financial statements with Compliance Certificate	Monthly within 30 days	Yes No
Annual financial statements (CPA Audited)	FYE within 90 days	Yes No
10-Q, 10-K and 8-K	Within 5 days after filing with SEC	Yes No
Board approved projections	FYE within 60 days and as amended/updated	Yes No

<u>Financial Covenants</u>	<u>Required</u>	<u>Actual</u>	<u>Complies</u>
Maintain at all times (tested monthly):			
Minimum Cash	\$15,000,000	\$ _____	Yes No
Minimum Adjusted Quick Ratio	1.75:1.00	_____:1.0	Yes No

The following financial covenant analyses and information set forth in Schedule 1 attached hereto are true and accurate as of the date of this Certificate.

The following are the exceptions with respect to the certification above: (If no exceptions exist, state "No exceptions to note.")

MITEK SYSTEMS, INC.

By: _____

Name: _____

Title: _____

IDCHECKER, INC.

By: _____

Name: _____

Title: _____

BANK USE ONLY

Received by: _____
AUTHORIZED SIGNER

Date: _____

Verified: _____
AUTHORIZED SIGNER

Date: _____

Compliance Status: Yes No

Schedule 1 to Compliance Certificate

Financial Covenants of Co-Borrowers

In the event of a conflict between this Schedule and the Loan Agreement, the terms of the Loan Agreement shall govern.

Dated: _____

I. Minimum Cash (Section 6.9(a))

Required: \$15,000,000

Actual:

A.	Aggregate value of unrestricted cash and Cash Equivalents at Bank	\$__
B.	Availability Amount	\$__
C.	Total (sum of lines A and B)	__

Is line C equal to or greater than \$15,000,000?

No, not in compliance Yes, in compliance

II.

III. Adjusted Quick Ratio (Section 6.9(b))

Required: 1.75:1.00

Actual:

A.	Aggregate value of the unrestricted and unencumbered cash and Cash Equivalents at Bank	\$__
B.	Aggregate value of the net billed accounts receivable of Co-Borrowers	\$__
C.	Quick Assets (the sum of lines A and B)	\$__
D.	Aggregate value of Current Liabilities	\$__
E.	Aggregate value of current portion of Deferred Revenue	\$__
F.	Total (line D minus line E)	\$__
G.	Adjusted Quick Ratio (line C divided by Line F)	__

Is line F equal to or greater than 1.75:1:00?

No, not in compliance Yes, in compliance



CORPORATE BORROWING CERTIFICATE

CO-BORROWER A: MITEK SYSTEMS, INC., a California corporation DATE: May 3, 2018
BANK: SILICON VALLEY BANK

I hereby certify as follows, as of the date set forth above:

- 1. I am the Secretary, Assistant Secretary or other officer of Co-Borrower A . My title is as set forth below.
2. Co-Borrower A's exact legal name is set forth above. Co-Borrower A is a corporation existing under the laws of the State of Delaware.
3. Attached hereto are true, correct and complete copies of Co-Borrower A's Certificate of Incorporation (including amendments), as filed with the Secretary of State of the state in which Co-Borrower A is incorporated as set forth above. Such Certificate of Incorporation have not been amended, annulled, rescinded, revoked or supplemented, and remain in full force and effect as of the date hereof.
4. The following resolutions were duly and validly adopted by Co-Borrower A's Board of Directors at a duly held meeting of such directors (or pursuant to a unanimous written consent or other authorized corporate action). Such resolutions are in full force and effect as of the date hereof and have not been in any way modified, repealed, rescinded, amended or revoked, and Silicon Valley Bank ("Bank") may rely on them until Bank receives written notice of revocation from Co-Borrower A.

RESOLVED, that any one of the following officers or employees of Co-Borrower A, whose names, titles and signatures are below, may act on behalf of Co-Borrower A:

Table with 4 columns: Name, Title, Signature, Authorized to Add or Remove Signatories. Rows include James B. DeBello, Jeffrey C. Davison, and Trevor Renfield.

RESOLVED FURTHER, that any one of the persons designated above with a checked box beside his or her name may, from time to time, add or remove any individuals to and from the above list of persons authorized to act on behalf of Co-Borrower A.

RESOLVED FURTHER, that such individuals may, on behalf of Co-Borrower A:

- Borrow Money. Borrow money from Bank.
Execute Loan Documents. Execute any loan documents Bank requires.
Grant Security. Grant Bank a security interest in any of Co-Borrower A's assets.
Negotiate Items. Negotiate or discount all drafts, trade acceptances, promissory notes, or other indebtedness in which Co-Borrower A has an interest and receive cash or otherwise use the proceeds.

Apply for Letters of Credit. Apply for letters of credit from Bank.

Enter Derivative Transactions. Execute spot or forward foreign exchange contracts, interest rate swap agreements, or other derivative transactions.

Issue Warrants. Issue warrants for Co-Borrower A's capital stock.

Further Acts. Designate other individuals to request advances, pay fees and costs and execute other documents or agreements (including documents or agreement that waive Co-Borrower A's right to a jury trial) they believe to be necessary to effect these resolutions.

RESOLVED FURTHER, that all acts authorized by the above resolutions and any prior acts relating thereto are ratified.

5. The persons listed above are Co-Borrower A's officers or employees with their titles and signatures shown next to their names.

MITEK SYSTEMS, INC.

By: /s/ James B. DeBello

Name: James B. DeBello

Title: President and Chief Executive Officer

**** If the Secretary, Assistant Secretary or other certifying officer executing above is designated by the resolutions set forth in paragraph 4 as one of the authorized signing officers, this Certificate must also be signed by a second authorized officer or director of Co-Borrower A.*

I, the Kalle J. Marsal, the Chief Operating Officer of Co-Borrower A, hereby certify as to paragraphs 1 through 5 above, as of the date set forth above.

By: /s/ Kalle J. Marsal

Name: Kalle J. Marsal

Title: Chief Operating Officer



CORPORATE BORROWING CERTIFICATE

CO-BORROWER B: IDCHECKER, INC., a California corporation
BANK: SILICON VALLEY BANK

DATE: May 3, 2018

I hereby certify as follows, as of the date set forth above:

1. I am the Secretary, Assistant Secretary or other officer of Co-Borrower B. My title is as set forth below.
2. Co-Borrower B’s exact legal name is set forth above. Co-Borrower B is a corporation existing under the laws of the State of California.
3. Attached hereto are true, correct and complete copies of Co-Borrower B’s Articles of Incorporation (including amendments), as filed with the Secretary of State of the state in which Co-Borrower B is incorporated as set forth above. Such Articles of Incorporation have not been amended, annulled, rescinded, revoked or supplemented, and remain in full force and effect as of the date hereof.
4. The following resolutions were duly and validly adopted by Co-Borrower B’s Board of Directors at a duly held meeting of such directors (or pursuant to a unanimous written consent or other authorized corporate action). Such resolutions are in full force and effect as of the date hereof and have not been in any way modified, repealed, rescinded, amended or revoked, and Silicon Valley Bank (“Bank”) may rely on them until Bank receives written notice of revocation from Co-Borrower B.

RESOLVED, that **any one** of the following officers or employees of Co-Borrower B, whose names, titles and signatures are below, may act on behalf of Co-Borrower B:

<u>Name</u>	<u>Title</u>	<u>Signature</u>	Authorized to Add or Remove <u>Signatories</u>
<u>James B. DeBello</u>	<u>President and Chief Executive Officer</u>	<u>/s/ James B. DeBello</u>	<input checked="" type="checkbox"/>
<u>Jeffrey C. Davison</u>	<u>Chief Financial Officer</u>	<u>/s/ Jeffrey C. Davison</u>	<input checked="" type="checkbox"/>
<u>Trevor Renfield</u>	<u>VP, Corporate Controller</u>	<u>/s/ Trevor Renfield</u>	<input checked="" type="checkbox"/>
<u> </u>	<u> </u>	<u> </u>	<input type="checkbox"/>

RESOLVED FURTHER, that **any one** of the persons designated above with a checked box beside his or her name may, from time to time, add or remove any individuals to and from the above list of persons authorized to act on behalf of Co-Borrower B.

RESOLVED FURTHER, that such individuals may, on behalf of Co-Borrower B:

- Borrow Money.** Borrow money from Bank.
- Execute Loan Documents.** Execute any loan documents Bank requires.
- Grant Security.** Grant Bank a security interest in any of Co-Borrower B’s assets.

Negotiate Items. Negotiate or discount all drafts, trade acceptances, promissory notes, or other indebtedness in which Co-Borrower B has an interest and receive cash or otherwise use the proceeds.

Apply for Letters of Credit. Apply for letters of credit from Bank.

Enter Derivative Transactions. Execute spot or forward foreign exchange contracts, interest rate swap agreements, or other derivative transactions.

Issue Warrants. Issue warrants for Co-Borrower B's capital stock.

Further Acts. Designate other individuals to request advances, pay fees and costs and execute other documents or agreements (including documents or agreement that waive Co-Borrower B's right to a jury trial) they believe to be necessary to effect these resolutions.

RESOLVED FURTHER, that all acts authorized by the above resolutions and any prior acts relating thereto are ratified.

5. The persons listed above are Co-Borrower B's officers or employees with their titles and signatures shown next to their names.

IDCHECKER, INC.

By: /s/ James B. DeBello

Name: James B. DeBello

Title: President and Chief Executive Officer

**** If the Secretary, Assistant Secretary or other certifying officer executing above is designated by the resolutions set forth in paragraph 4 as one of the authorized signing officers, this Certificate must also be signed by a second authorized officer or director of Co-Borrower B.*

I, Kalle J. Marsal, the Chief Operating Officer of Co-Borrower B, hereby certify as to paragraphs 1 through 5 above, as of the date set forth above.

By: /s/ Kalle J. Marsal

Name: Kalle J. Marsal

Title: Chief Operating Officer



Marketing Consent Form

SVB Financial Group is proud of our business relationships and occasionally likes to promote these relationships. We would like to use your company's information and logo for promotional and marketing purposes in SVB Financial Group member businesses (collectively "SVB") materials. While we would appreciate your consent to all of the uses listed below, please review and select all of the uses that you consent to below.

Approved Uses(s)

Indicate your selection(s) by checking the boxes below

- Marketing: You consent to SVB's use of Company's name, logo and images provided to us in written and oral presentations, advertising, marketing and PR materials, professional lists and websites.
Deal Terms: You consent to SVB's inclusion of the size and type of any loan or credit facility alongside your company's name in any oral presentations, advertising, marketing and PR materials, customer lists, and websites.
Reference: You consent to SVB's use of Company and representatives' names as a reference for SVB.
Testimonial: You consent to SVB's use of Company and representatives' names and quotations in written and oral presentations, marketing and PR materials, and websites. Our practice is to send you a draft of any quotation concerning Company prior to publishing.
News release: You consent to SVB's use of Company's name, trademarks, service marks, quotations and images provided to us in the SVB's news releases concerning Company. Our practice is to send you a draft of any news release concerning Company prior to publishing.

Logos

In order to maintain the integrity of your logos, please provide them in:

- Full color and black and white versions, with or without taglines
At least 300 dpi in PNG, EPS, TIF, or JPG formats (please do not send PDF or website logos).

Names

Please make sure to print the Company name, and any individual names and titles as you would like them displayed in materials or lists.

Table with 2 columns: Name type (Company name, Additional names) and Name value (MITEK SYSTEMS, INC. and IDCHECKER, INC.)

You grant to SVB a limited license to use the information for the limited purposes above, which you can revoke upon written notice to SVB. The signer below acknowledges that he or she has authority to bind the Company to this consent. SVB will not be responsible for versions that were printed prior to receiving notice revoking any such consent. Company is solely responsible for defense and maintenance of its intellectual property.

Please contact your Relationship Advisor or SVB representative if you have any questions.

Accepted or Agreed on Behalf Of Company or Yourself

Form with fields for Name, Signature, Address, Phone number, Title, Today's date, and Email.

Return this completed form and any attachments to your Relationship Advisor or SVB via email at logo@svb.com.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James B. DeBello, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mitek Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2018

/s/ James B. DeBello

James B. DeBello, Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jeffrey C. Davison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mitek Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2018

/s/ Jeffrey C. Davison

Jeffrey C. Davison, Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATIONS
PURSUANT TO SECTION 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned, in his capacity as the principal executive officer and principal financial officer of Mitek Systems, Inc. (the "Company"), as the case may be, hereby certifies, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. § 1350), that, to the best of his knowledge:

1. This Quarterly Report on Form 10-Q for the period ended March 31, 2018 (this "Quarterly Report") fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. The information contained in this Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period covered by this Quarterly Report.

Date: May 4, 2018

/s/ James B. DeBello

James B. DeBello
Chief Executive Officer
(Principal Executive Officer)

Date: May 4, 2018

/s/ Jeffrey C. Davison

Jeffrey C. Davison
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission ("SEC") or its staff upon request.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of this Quarterly Report), irrespective of any general incorporation language contained in such filing.

