AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY , 1996

REGISTRATION NO. 33-

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MITEK SYSTEMS, INC.
(Exact name of small business issuer in its charter)

DELAWARE	7373	87-0418827
(State or other jurisdiction of incorporation or organization of registrant)	(Primary Standard Industrial Classification Code)	(I.R.S. employer identification number)

10070 CARROLL CANYON ROAD
SAN DIEGO, CALIFORNIA 92131
(619) 635-5900
(Address and telephone number of principal executive offices)

JOHN F. KESSLER
MITEK SYSTEMS, INC.
10070 CARROLL CANYON ROAD
SAN DIEGO, CALIFORNIA 92131
(619) 635-5900
(Name, address and telephone number of agent for service)

WITH COPIES TO:

Robert G. Copeland, Esq. Dennis J. Doucette, Esq. Luce, Forward, Hamilton & Scripps LLP 600 West Broadway, Suite 2600 San Diego, California 92101 (619) 232-8311 (fax)	Paul E. Hurdlow, Esq. Dayna J. Pineda, Esq. Gray Cary Ware & Freidenrich 4365 Executive Drive, Suite 1600 San Diego, California 92121 (619) 677-1477 (fax)

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICAL AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM AGGREGATE PRICE PER SHARE (2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (2)	AMOUNT OF REGISTRATION FEE
Common Stock.....	4,686,250	$5.13	$24,040,046	$8,290

(1) Includes the overallotment option granted to the Representative of 611,250 Shares of Common Stock.

(2) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c).

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED JULY 8, 1996

PROSPECTUS

4,075,000 SHARES

[LOGO]

MITEK SYSTEMS, INC

COMMON STOCK

Of the 4,075,000 shares of Common Stock offered hereby (the "Offering"), 2,500,000 shares are being sold by Mitek Systems, Inc. ("Mitek" or the "Company") and 1,575,000 shares are being sold by certain selling stockholders of the Company (the "Selling Stockholders"). The Company will not realize any proceeds from the sale of Common Stock by the Selling Stockholders. See "Principal and Selling Stockholders."

The Common Stock is quoted on the Nasdaq SmallCap Market under the symbol "MITK." On July 5, 1996, the last reported sale price for the Company's Common Stock was $5.125 per share. The Company has applied to have the Common Stock listed on the Nasdaq National Market under the symbol "MITK" on the effectiveness of this Offering.

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. FOR DISCUSSION OF CERTAIN RISKS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE COMMON STOCK, SEE "RISK FACTORS" BEGINNING ON PAGE 6 OF THIS PROSPECTUS.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT AND COMMISSION (1)	PROCEEDS TO THE COMPANY (2)	PROCEEDS TO SELLING STOCKHOLDERS
Per Share.....	$	$	$	$
Total (3).....	$	$	$	$

(1) The Company and the Selling Stockholders have agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act of 1933, as amended ("Securities Act"). See "Underwriting."

(2) Before deducting offering expenses estimated at $550,625, including the Underwriter's non-accountable expense allowance, all of which are payable by the Company.

(3) A Selling Stockholder has granted the Underwriter a 30-day option to purchase up to an additional 611,250 shares of Common Stock solely to cover overallotments, if any (the "Overallotment Option"). If the Underwriter exercises the Overallotment Option in full, the total Price to Public, Underwriting Discounts and Commissions, Proceeds to the Company and Proceeds to Selling Stockholders will be $, $, $, and $, respectively. See "Underwriting."

The shares of Common Stock offered by this Prospectus are offered by the Underwriter, subject to prior sale, when, as and if delivered to and accepted by them, and subject to the right of the Underwriter to reject any order in whole or in part. It is expected that certificates for the shares of Common Stock will be available for delivery in Irvine, California, on or about , 1996.

[LOGO]

THE DATE OF THIS PROSPECTUS IS , 1996

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN CONNECTION WITH THIS OFFERING, CERTAIN UNDERWRITERS AND SELLING GROUP MEMBERS OR THEIR RESPECTIVE AFFILIATES MAY ENGAGE IN PASSIVE MARKET MAKING TRANSACTIONS IN THE COMPANY'S COMMON STOCK ON THE NASDAQ SMALL CAP AND NASDAQ NATIONAL MARKET IN ACCORDANCE WITH RULE 10B-6A UNDER THE SECURITIES EXCHANGE ACT OF 1934. SEE "UNDERWRITING."

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION, INCLUDING "RISK FACTORS" AND THE CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO, APPEARING ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, THE INFORMATION CONTAINED IN THIS PROSPECTUS ASSUMES NO EXERCISE OF THE OVERALLOTMENT OPTION. SEE "UNDERWRITING." WITH THE EXCEPTION OF HISTORICAL MATTERS, THE MATTERS DISCUSSED IN THIS PROSPECTUS ARE FORWARD LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. SEE "RISK FACTORS -- FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS."

THE COMPANY

Mitek develops and markets automatic data recognition ("ADR") products which enable end users to automate costly and labor intensive business functions such as check and remittance processing, forms processing and order entry. The Company's products incorporate proprietary object-oriented, neural network software technology for the recognition and conversion of hand printed or machine generated characters into digital languages, such as ASCII or Unicode. Neural networks are powerful tools for pattern recognition applications and consist of sets of coupled mathematical equations with adaptive parameters that self-adjust to "learn" various forms and patterns. The Company's software products are currently used to process sales orders, checks and financial documents, tax forms, credit card drafts, ZIP codes, time sheets, and insurance applications. These products are offered for virtually all major computer operating systems.

Despite significant advances in information technology, the predicted "paperless office" has not arrived. Rather, the volume of paper used in business today has substantially increased. According to industry reports, nearly three times as much paper is generated today as before the advent of the information revolution. In the United States, approximately 600,000 people are engaged in data entry of information contained in hand printed and machine generated documents such as processing of checks, medical forms, remittances, and payroll documents. Moreover, data entry functions are predominately ministerial in nature and include highly repetitive and labor intensive tasks. Enterprises with large volumes of data entry requirements have long sought to automate portions of data entry with the emphasis placed on accuracy and consistency. The Company leverages its core technology through offering a family of intelligent character recognition ("ICR") software products that the Company believes offer the highest accuracy commercially available for the recognition of hand printed characters. The Company's ADR products incorporate the Company's ICR software engine, QuickStrokes API, which has been developed with a flexible underlying architecture to accommodate additional features and functionality as dictated by market demands.

Mitek markets its products and services primarily through its direct sales organization, focusing on what it believes are certain key systems integrators of and designers of large and high performance document processing systems. The Company sells to original equipment manufacturers ("OEMs"), such as BancTec, Inc., NCR, ABC Bull, Unisys and IA Corporation, system integrators such as SHL (a subsidiary of MCI) and TCSI, and value-added resellers ("VARs") such as OBOS, CBSI and Moon Sun.

The Company has recently begun to address vertical end-user markets through the introduction of Premier Forms Processor ("PFP"). PFP incorporates Mitek's core ICR technology in an application designed to be marketed directly to end users in a broad variety of industries with requirements for high volume automated data entry. Other key elements to the Company's strategy include: expansion of OEM channels of distribution, penetration of vertical markets, building a recurring revenue base through maintenance contracts, expansion of sales and marketing capability and strengthening its technological leadership in ICR technology.

Prior to March 1995, the Company was engaged in the business of designing modified computer systems for electronic security under the TEMPEST name, principally for the defense industry. In March 1995, the Company sold the assets of its TEMPEST business and discontinued TEMPEST operations.

The Company develops and tests its products in San Diego, California and the facilities of its wholly-owned subsidiary, Mitek Systems Canada, Inc. in Calgary, Canada. The Company was incorporated in Delaware in 1986, its principal executive offices are located at 10070 Carroll Canyon Road, San Diego, California 92131, and its telephone number is (619) 635-5900. The Company's Internet address is http:\\www.miteksys.com.

THE OFFERING

Common Stock offered:	
By the Company	2,500,000 Shares
By the Selling Stockholders	1,575,000 Shares
Common Stock outstanding after the offering	10,259,805 Shares (1)
Use of proceeds	General corporate purposes, including working capital and capital expenditures related to research and development. See "Use of Proceeds."
Nasdaq symbol	MITK

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(1) Does not include (i) up to 162,500 shares issuable upon exercise of warrants to be granted to the Representative of the Underwriters upon completion of this Offering (the "Representative's Warrant"), (ii) up to 215,000 shares issuable upon the exercise of outstanding warrants and (iii) 387,059 shares issuable upon the exercise of options granted under the Company's 1986 Stock Option Plan and 1988 Nonqualified Stock Option Plan (the "Option Plans") at a weighted average per share exercise price of $1.25.

SUMMARY CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FISCAL YEARS ENDED SEPTEMBER 30,			SIX MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Net sales:					
ADR	$ 2,874	$ 4,654	$ 5,135	$ 1,830	$ 3,749
TEMPEST (1)	10,191	5,509	1,498	1,498	0
Total net sales	13,065	10,163	6,633	3,328	3,749
Gross margin	3,495	3,506	3,303	1,607	2,273
Operating income (loss)	(908)	(1,280)	(273)	(181)	404
Net income (loss)	(902)	(1,057)	(69)	20	344
Net income (loss) per share	$ (.13)	$ (.15)	$ (.01)	$ .00	$ .04
Weighted average shares outstanding (2)	6,866	6,877	7,286	7,020	7,898

	MARCH 31, 1996	
	ACTUAL	AS ADJUSTED(3)
CONSOLIDATED BALANCE SHEET DATA:		
Cash and cash equivalents	$ 301	$ 11,891
Working capital	1,093	12,683
Total assets	3,136	14,726
Long term liabilities	11	11
Total stockholders' equity	1,690	13,280

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(1) In March 1995, the Company sold the assets of its TEMPEST business and discontinued TEMPEST operations.

(2) For an explanation of the determination of the number of weighted average shares outstanding please see Note 1 of the Notes to the Consolidated Financial Statements.

(3) Gives effect to the sale of the Common Stock offered hereby and the application of the estimated net proceeds therefrom. See "Use of Proceeds."

RISK FACTORS

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. IN ADDITION TO THE OTHER INFORMATION IN THIS PROSPECTUS, THE FOLLOWING FACTORS SHOULD BE CONSIDERED CAREFULLY IN EVALUATING AN INVESTMENT IN THE COMMON STOCK OFFERED BY THIS PROSPECTUS.

PRODUCT CONCENTRATION

The Company currently derives substantially all of its product revenues from licenses and sales of products incorporating its ADR technology. As a result, factors adversely affecting the pricing of or demand for the Company's ADR products and services, such as competition from other products or technologies, any decline in the demand for automated entry of hand printed characters, negative publicity or obsolescence of the hardware or software environments in which the Company's products operate, could have a material adverse effect on the Company's business, operating results and financial condition. The Company's financial performance will continue to depend, in significant part, on the successful development, introduction and customer acceptance of new and enhanced versions of the Company's ADR products and services. There can be no assurance that the Company will continue to be successful in developing and marketing its ADR products and related services. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business -- Products."

DEPENDENCE ON EMERGING MARKETS FOR ADR PRODUCTS

The market for ADR products is relatively new, intensely competitive, highly fragmented, underdeveloped, and rapidly evolving. Marketing and sales techniques in the ADR marketplace, as well as the bases for effective competition, are not well established. There can be no assurance that the market for ADR products will develop or that, if it does develop, organizations will adopt the Company's products or services. The Company has spent, and intends to continue to spend, significant resources educating potential customers about the benefits of its products. However, there can be no assurance that such expenditures will enable the Company's products to achieve further market acceptance, and if the ADR market fails to develop or develops more slowly than the Company anticipates, the Company's business, operating results and financial condition would be materially adversely affected. See "Business -- Industry Background" and "-- Competition."

NEW PRODUCTS AND CHANGING TECHNOLOGIES

The markets for products incorporating ADR technology are characterized by rapidly advancing technology and rapidly changing user preferences. The Company's ability to compete effectively with its ADR product line will depend upon its ability to meet changing market conditions and develop enhancements to its products on a timely basis in order to maintain its competitive advantage. In addition, continued growth will ultimately depend upon the Company's ability to develop additional technologies and attract strategic alliances for related or separate product lines. There can be no assurance that the Company will be successful in developing and marketing product enhancements and additional technologies, that the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these products, or that its new products and product enhancements will adequately meet the requirements of the marketplace, will be of acceptable quality, or will achieve market acceptance. For example, the Company's recently-introduced PFP product is designed to address vertical markets, certain of which have not in the past made extensive use of ADR technologies. The Company intends to make significant investments in further development and marketing relating to its PFP product. Should the markets fail to develop, or should the Company's new products, including its PFP product, fail to gain market acceptance, the Company's business, operating results and financial condition would be materially adversely affected. If the Company is unable, for technological or other reasons, to develop and introduce products in a timely manner in response to changing market conditions or customer requirements, the Company's business, operating results and financial condition will be materially and adversely affected. Moreover, from time to time, the Company or its competitors may announce new products or technologies

that have the potential to replace the Company's existing product offerings. There can be no assurance that the announcement of new product offerings will not cause customers to defer purchases of existing Company products, which could adversely affect the Company's results of operations. See "Business -- Products," and "-- Technology."

COMPETITION

The market for the Company's ADR products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. The Company faces direct and indirect competition from a broad range of competitors who offer a variety of products and solutions to the Company's current and potential customers. The Company's principal competition comes from (i) customer-developed solutions; (ii) direct competition from companies offering ICR systems; and (iii) companies offering competing technologies capable of recognizing hand-printed characters. Many of the Company's competitors have longer operating histories, including greater experience in the data entry and character recognition markets, significantly greater financial, technical, marketing and other resources than the Company, greater name recognition and a larger installed base of customers.

It is also possible that the Company will face competition from new competitors. These include companies that are existing licensors, such as HNC Software, Inc. ("HNC") or OEM, systems integrator and VAR customers such as BancTec, Inc., or dominant software companies with a presence in publishing or office automation such as Microsoft Corporation and Adobe. In addition, the Company's license agreement with HNC provides that, upon expiration of certain exclusivity periods beginning in November 1997, HNC will have the right to use certain of the core technologies used in the Company's ADR products, originally developed by HNC and licensed to the Company in 1992, to compete directly with the Company. Moreover, as the market for automated data entry and ICR software develops, a number of these or other companies with significantly greater resources than the Company could attempt to enter or increase their presence in the Company's market either independently or by acquiring or forming strategic alliances with competitors of the Company. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of the Company's current and prospective customers and it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Company's business, operating results and financial condition. Furthermore, a significant percentage of the Company's revenues are attributable to the sale of co-processor boards sold together with the Company's software. Anticipated increases in the speed and power of new microprocessors, such as the Pentium P-6, could have the effect of reducing the demand for the Company's co-processor boards. It is possible that the Company's co-processor boards will face competition from semiconductor manufacturers embedding the technology on their chips. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not materially adversely affect its business, operating results and financial condition. See "Business -- Competition."

CUSTOMER CONCENTRATION; DEPENDENCE ON KEY CUSTOMERS

Because the Company currently markets its products principally to OEMs and systems integrators, the Company is dependent upon a few significant customers for the majority of its sales. In the six months ended March 31, 1996, three customers, ABC Bull, BancTec, Inc. and TCSI, accounted for an aggregate of 47% of the Company's total sales. The Company currently has no long term contracts with these or other significant customers. Thus, there can be no assurance that the Company's significant customers will continue to purchase products from the Company and any reductions in orders from any of the Company's significant customers could have a material adverse effect upon the Company's business, operating results and financial condition. While the Company intends to expand the direct marketing of its products, no assurances can be given with respect to the speed or success of such efforts. Consequently, the Company anticipates that it may continue to be dependent upon a

select number of significant customers for a substantial portion of its revenues in the near future. As a result, any cancellation or delay or reduction in orders from any of these customers could result in a material adverse effect on the Company's business, operating results and financial condition. See "Business - -- Customers and End Users."

RISK OF PRODUCT DEFECTS

Products as complex as those offered by the Company, particularly the Company's QuickStrokes and PFP products, may contain undetected defects or errors when first introduced or as new versions are released. As a result, the Company could in the future face loss or delay in recognition of revenues as a result of software errors or defects. In addition, the Company's products are typically intended for use in applications that may be critical to a customer's business. As a result, the Company expects that its customers and potential customers have a greater sensitivity to product defects than the market for software products generally. Furthermore, in connection with the sale of its TEMPEST business, the Company agreed to indemnify the purchaser for all product defect claims (other than product errors claims) arising out of product which were sold, or services which were rendered, prior to the sale of the TEMPEST business. Consequently, the Company still faces potential product defect claims from the TEMPEST business as well. Although the Company's business has not been adversely affected by any such errors to date, there can be no assurance that, despite testing by the Company and by current and potential customers, errors will not be found in new products or releases after commencement of commercial shipments, resulting in loss of revenues or delay in market acceptance, diversion of development resources, damage to the Company's reputation, or increased service and warranty costs, any of which would have a material adverse effect upon the Company's business, operating results and financial condition. See "Business -- Research and Development."

EXPANSION OF SALES AND DISTRIBUTION CHANNELS

The Company has historically sold its ADR products to OEMs in the form of recognition engines to be incorporated into such OEMs' products. The OEM has then traditionally performed much of the marketing and distribution of the Company's products. With the introduction of the Company's PFP product line, which is intended to be sold principally to end users, the Company has substantially increased and plans substantial future increases in expenditures in support of its strategy to expand its global marketing, sales and customer support infrastructure. Additionally, the Company intends to increase both its product offerings and target markets through marketing, sales and distribution and development of relationships with other companies. The Company intends to increase the number of these strategic relationships as well as form alliances with systems integrators, VARs and consultants. Whether the Company can successfully generate its own sales leads, introduce new products and enter new markets will depend on its ability to expand its direct sales and support services, expand its indirect distribution channel, and increase its relationships and alliances with other companies. As a result of its planned expansion, the Company has and will continue to incur significant costs to build such corporate infrastructure ahead of anticipated revenues, and any failure to achieve growth in revenues in excess of increased expenses would have a material adverse effect on the Company's business, operating results and financial condition. There can be no assurance that the Company will be able to successfully expand its direct sales and support services force, expand its indirect distribution channel, or establish or maintain successful third party relationships. Any failure to do so will have a material adverse effect on the Company's business, operating results and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business -- Sales and Marketing."

SUPPLIER AND COMPONENT DEPENDENCE

The Company depends heavily on subcontracted manufacturers of the co-processor boards sold with its QuickStrokes API products to provide components on a timely basis at reasonable prices. Although the Company believes such board products could be manufactured from a variety of third party manufacturers, the Company is currently receiving such products from only two suppliers, HNC and EMSI. There can be no assurance that the Company will be able to obtain, on a timely basis, all the components it requires. The Company has no long term contracts with any of the co-processor

board suppliers. If the Company cannot obtain essential components as required, the Company could be unable to meet demand for its products, thereby adversely affecting its operating results and allowing competitors to gain market share. Additionally, scarcity of such components could result in cost increases and adversely affect the Company's gross margin for its ADR products. See "Business - -- Products."

POTENTIAL FLUCTUATIONS IN QUARTERLY RESULTS

The Company's quarterly operating results have in the past and may in the future vary significantly depending on factors including the timing of customer projects and purchase orders, new product announcements and releases by the Company and other companies, gain or loss of significant customers, price discounting of the Company's products, the timing of expenditures, customer product delivery requirements, availability and cost of components or labor and economic conditions generally and in the information technology market specifically. Any unfavorable change in these or other factors could have a material adverse effect on the Company's operating results for a particular quarter. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Quarterly Results of Operations."

Many of the Company's customers order on an as-needed basis and often delay issuance of firm purchase orders until their project commencement dates are determined. Quarterly revenue and operating results will therefore depend on the volume and timing of orders received during the quarter, which are difficult to forecast accurately. Moreover, a significant portion of the Company's sales have historically resulted from shipments during the last few weeks of the quarter from orders generally received in the last month of the quarter. Any concentration of sales at the end of the quarter may limit the Company's ability to plan or adjust operating expenses. Therefore, if anticipated shipments in any quarter do not occur or are delayed, expenditure levels could be disproportionately high as a percentage of sales, and the Company's operating results for that quarter would be adversely affected.

The Company expects quarterly fluctuations to continue for the foreseeable future. Accordingly, the Company believes that period-to-period comparisons of its financial results should not be relied upon as an indication of future performance. No assurance can be given that the Company will be able to achieve or maintain profitability on a quarterly or annual basis in the future. Due to all of the foregoing factors, it is possible that in some future quarter the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Company's Common Stock would likely be materially adversely affected.

MANAGEMENT OF CHANGING BUSINESS; ABILITY TO MANAGE GROWTH

Prior to November 1992, the Company's business focused on development and sales of its TEMPEST products to government and defense industry customers. In November 1992, the Company obtained a license to certain ADR technologies and began a period of significant transition in its business focus. This growth, and the transition of business focus has placed, and will continue to place, a strain on the Company's management, operational, financial and accounting resources. To continue the ongoing development of its technologies, while at the same time managing the products it is already shipping, the Company must, among other things, respond to competitive developments, continue to attract, retain and motivate qualified personnel, use a portion of available capital to support the expense of enhancing and marketing its technologies, and manage its growth in the face of a rapidly changing business environment. Moreover, in order to support additional commercial applications of its current products while continuing to enhance its ADR technologies, the Company may need to expand its customer engineering capabilities and develop tools and documentation which will enable customers and OEMs to develop, integrate and test their products without requiring direct support from the Company's product development groups. There can be no assurance that these processes can be successfully managed given the Company's limited resources. See "Business -- Overview."

LENGTHY SALES CYCLE

Due in part to the mission-critical nature of certain of the Company's applications, potential customers perceive high risk in connection with adoption of the Company's neural network technology. As a result, customers have been cautious in making product acquisition decisions. In addition, the purchase of the Company's products involves a significant commitment to the Company's technologies, with the attendant delays frequently associated with customers' internal procedures to approve large capital expenditures and test and accept new technologies that affect key operations. For these and other reasons, the sales cycle associated with the purchase of the Company's products is typically lengthy and subject to a number of significant risks, including customers' budgetary constraints and internal acceptance reviews, over which the Company has little or no control. Because of the lengthy sales cycle, if revenues forecasted from a specific customer for a particular quarter are not realized in that quarter, the Company likely would not be able to generate revenues from alternate sources in time to compensate for the shortfall. As a result, and due to the typical size of customers' orders, a lost or delayed sale could have a material adverse effect on the Company's quarterly operating results.

PATENTS AND PROPRIETARY RIGHTS

The Company's success and its ability to compete is dependent in part upon its proprietary technology. To license its products, the Company relies primarily on "shrink wrap" licenses that are not signed by the end user and, therefore, may be unenforceable under the laws of certain jurisdictions. In addition, a substantial portion of the Company's sales are to OEMs and systems integrators pursuant to purchase orders and invoices not subject to any overriding purchase agreement or contract. As a result, the Company may have relatively limited visibility as to these customers future requirements, and the scope and terms of the parties' agreements with respect to matters typically covered in such purchase agreements, such as intellectual property rights and indemnification, may not be clearly defined. Additionally, the Company generally relies on trademark, trade secret, copyright and patent law to protect its intellectual property. The Company may also rely on creative skills of its personnel, new product developments, frequent product enhancements and reliable product maintenance as a means of protecting its proprietary technologies. There can be no assurance, however, that such means will be successful in protecting the Company's intellectual property. The Company presently has no patents or patent applications pending relating to the Quickstrokes API products. There can be no assurance that others will not develop technologies that are similar or superior to the Company's technology. The source code for the Company's proprietary software is protected both as a trade secret and as a copyrighted work. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's products or technology without authorization, or to develop similar technology independently. In addition, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries. Moreover, there can be no assurance that the protection provided to the Company's proprietary technology by the laws and courts of foreign nations against piracy and infringement will be substantially similar to the remedies available under United States law. Any of the foregoing considerations could result in a loss or diminution in value of the Company's intellectual property could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company could be liable for contributory infringement claims with respect to its OEM customers. There can be no assurances that any such infringement claims or claims by such OEMs for indemnification will not occur in the future. The Company could incur substantial costs in defending itself or its customers in litigation brought by third parties alleging infringement or in prosecuting infringement claims against third parties, or in seeking a determination of the scope and validity of the proprietary rights of others. Any such litigation could be costly and a diversion of management's attention, which by themselves could have material adverse effects on the Company's business, financial condition and results of operations. Adverse determinations in such litigation could result in the loss of the Company's proprietary rights, subject the Company to significant liabilities, require the Company to seek licenses from third parties or prevent the Company from using its technologies, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Technology."

DEPENDENCE ON THIRD PARTY LICENSORS

The Company licenses certain critical software from third parties. The core ICR software for the Company's Quickstrokes API engine is licensed from HNC pursuant to a License Agreement dated November 23, 1992, between the Company and HNC. In addition, the Company licenses certain application software for its PFP product line from VALIdata Sistemas de Captura, S.A. de C.V. ("VALIdata") pursuant to a Marketing License Agreement dated as of March 26, 1996 between the Company and VALIdata. Each of these license agreements requires the Company to undertake certain obligations, and the failure of the Company to meet such obligations could result in a termination of one or both of these licenses. Furthermore, the Company's license agreement with VALIdata will expire in March 1997 and, upon expiration, Mitek's license to PFP application software will terminate unless the parties mutually agree to renew the license agreement. In the event that either the HNC or VALIdata license agreement terminates, the Company may be required to develop or obtain licenses for replacement software. Development or procurement of replacement software could be costly and require a substantial expenditure of time and effort by the Company. Furthermore, no assurance can be given that the Company would be able to develop or license other software. Accordingly, the loss of either license could have a material adverse impact upon the Company's business, financial condition and results of operations. See "Business -- Technology."

DEPENDENCE ON KEY PERSONNEL

The Company's future success depends in large part on the continued service of its key technical and management personnel. The Company does not have employment contracts with, or "key person" life insurance policies on, any of its employees. Loss of services of key employees could have a material adverse effect on the Company's operations and financial condition. Given the Company's state of development, the Company is also dependent on its ability to identify, hire, train, retain and motivate high quality personnel, especially highly skilled engineers involved in the ongoing developments required to refine the Company's technologies and to introduce future applications. The high technology industry is characterized by a high level of employee mobility and aggressive recruiting of skilled personnel. There can be no assurance that the Company will be able to attract qualified personnel or that the Company's current employees will continue to work for the Company. The failure to attract, assimilate and train key personnel could have a material adverse effect on the Company's business, financial condition and results of operations. See "Management."

RISKS ASSOCIATED WITH INTERNATIONAL SALES

In fiscal 1995 and the first six months of fiscal 1996, international sales represented approximately 21% and 25% of the Company's total revenues, respectively. The Company intends to continue to expand its operations outside the United States and to enter additional international markets, which will require significant management attention and financial resources. The Company has committed and continues to commit significant time and development resources to customizing its products for selected international markets and to developing international sales and support channels. There can be no assurance that the Company's efforts to develop products, international markets or to develop international sales and support channels will be successful. The failure of such efforts could have a material adverse effect on the Company's business, financial condition and results of operations. International sales are subject to inherent risks, including longer sales cycles, unexpected changes in regulatory requirements, uncertainties with regard to laws protecting proprietary technology, import and export restrictions and tariffs, difficulties in staffing and managing foreign operations, the burdens of complying with a variety of foreign laws, greater difficulty or delay in accounts receivable collection, potentially adverse tax consequences and political and economic instability. The Company's export sales are currently denominated exclusively in United States dollars. An increase in the value of the United States dollar relative to foreign currencies could make the Company's products more expensive and, therefore, potentially less competitive in foreign markets. If for any reason exchange or price controls or other restrictions on foreign currencies are imposed, the Company's business, financial condition and results of operations could be materially adversely affected. As the Company increases its international sales, its total revenues may also be affected to a

greater extent by seasonal fluctuations resulting from lower sales that typically occur during the summer months in certain parts of the world. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business -- Sales and Marketing."

INFRINGEMENT OF PROPRIETARY RIGHTS

The Company recently received correspondence from Cognitronics, Inc., ("Cognitronics") asserting that Cognitronics has applied for a patent that covers the presentation of arrays of character images which are used in one of the Company's PFP product modules. Cognitronics asserted that if a patent is issued, it will seek licensing fees for the use of this technique. The Company has subsequently learned that a patent was issued to Cognitronics on June 11, 1996. To date, the Company has not received any further correspondence from Cognitronics. Based on its investigation of the date that Cognitronics filed its patent application, Mitek believes it independently developed this technique significantly before Cognitronics filed for a patent. Based on this and other factors, the Company believes that it has meritorious defenses to Cognitronics's claim of infringement and after further evaluation may file an objection to the patent. However, there can be no assurance that the Company would prevail in the event of any litigation regarding Cognitronics's claim, and, if Cognitronics were to bring such an action and prevail, the Company could be required to develop an alternative technique for presenting such character images. While the Company does not believe that developing such a new technique would have a material adverse effect on the Company's business given the Company's ongoing efforts to develop and market new technologies and products, there can be no assurance that in the future the Company will not receive other communications from third parties asserting that the Company's products infringe, or may infringe, third parties' intellectual property rights. There can be no assurance that licenses to disputed third-party technology or intellectual property rights would be available on reasonable commercial terms, if at all. Furthermore, the Company may initiate claims or litigation against third parties for infringement of the Company's proprietary rights or to establish the validity of the Company's proprietary rights. Litigation, either as plaintiff or defendant, could result in significant expense to the Company and divert the efforts of the Company's technical and management personnel from productive tasks, whether or not such litigation is resolved in favor of the Company. In the event of an adverse ruling in any such litigation, the Company might be required to pay substantial damages, discontinue the use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to infringing technology, and the court might invalidate the Company's patents, trademarks or other proprietary rights. In the event of a successful claim against the Company and the failure of the Company to develop or license a substitute technology, the Company's business, financial condition and results of operations would be materially and adversely affected.

CONTROL BY PRINCIPAL STOCKHOLDERS, OFFICERS AND DIRECTORS

Following this Offering, the Company's 5% stockholders, officers and directors will beneficially own approximately 30.8%, and John M. Thornton, Chairman of the Board, will beneficially own 27.4%, of the Company's outstanding Common Stock (25.3% and 20.2%, respectively, if the Overallotment Option is exercised in full). As a result, such persons will have significant ability to control the vote on matters submitted to stockholders for approval (including the election of all directors, and any merger, consolidation or sale of all or substantially all of the Company's assets) and to control the management and affairs of the Company. Accordingly, such concentration of ownership may have the effect of delaying, deferring or preventing a change in control of the Company. See "Management" and "Principal and Selling Stockholders."

FACTORS INHIBITING TAKEOVER

The Board of Directors is authorized to issue up to 1,000,000 shares of Preferred Stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company. The Company has no current plans to issue shares of Preferred Stock. In addition, Section

203 of the Delaware General Corporation Law restricts certain business combinations with any "interested stockholder" as defined by such statute. The statute may have the effect of delaying, deferring or preventing a change in control of the Company. See "Description of Capital Stock."

POSSIBLE VOLATILITY OF STOCK PRICE

The market price of the Company's Common Stock has been, and is likely to continue to be, highly volatile. Over the last fiscal quarter the Company's Common Stock was traded as low as $2.00 per share and as high as $6.125 per share. Future announcements concerning the Company or its competitors, quarterly variations in operating results, announcements of technological innovations, the introduction of new products or changes in product pricing policies by the Company or its competitors, claims of infringement of proprietary rights or other litigation, changes in earnings estimates by analysts or other factors could cause the market price of the Common Stock to fluctuate substantially. In addition, the stock market has from time-to-time experienced significant price and volume fluctuations that have particularly affected the market prices for the common stocks of technology companies and that have often been unrelated to the operating performance of particular companies. These broad market fluctuations may also adversely affect the market price of the Company's Common Stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has occurred against the issuing company. There can be no assurance that such litigation will not occur in the future with respect to the Company. Such litigation could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on the Company's business, financial condition and results of operations. Any adverse determination in such litigation could also subject the Company to significant liabilities. See "Price Range of Common Stock."

Additionally, the Company offers software products in a range of prices. Sales of products with high average sales prices can constitute a significant percentage of the Company's quarterly revenue. Operating results in any period should not be considered indicative of the results to be expected for any future period, and there can be no assurance that the Company's net sales will continue to increase, or that its recent rate of quarterly sales and earnings growth will be sustained.

NO DIVIDENDS

The Company has not paid any dividends on its Common Stock and does not intend to pay dividends for the foreseeable future. See "Dividend Policy."

BROAD DISCRETION AND POSSIBLE CHANGES IN APPLICATION OF NET PROCEEDS

No specific purpose has been identified for the use of the net proceeds of this Offering, and a significant portion of the estimated net proceeds has been allocated for working capital. Consequently, the Company will have broad discretion as to the specific application of these proceeds. See "Use of Proceeds."

IMMEDIATE AND SUBSTANTIAL DILUTION

The Offering involves an immediate and substantial dilution to new investors of $3.76 per share of Common Stock between the public offering price of $5.25 per share of Common Stock and the pro forma net tangible book value of $1.29 per share of Common Stock upon the completion of the Offering, assuming no exercise of the Overallotment Option or the Representative's Warrants. See "Dilution."

RECENT LOSSES

The Company incurred losses in fiscal 1993, 1994 and 1995. It has only recently begun to operate profitably. There can be no assurance that this trend in increasing profitability will continue or, that the Company will not incur substantial additional losses in the future. See "Selected Consolidated Financial Data."

RECENT DELISTING

In connection with restructuring its business from dependence upon TEMPEST products to its ADR technologies, the Company took significant write-downs and accruals with the termination of its

TEMPEST business. These write-downs and accruals, which exceeded $1 million, caused the Company's net capital to fall below the minimum threshold for listing on the Nasdaq SmallCap Market. As a result, the Company's Common Stock was temporarily delisted from the Nasdaq SmallCap Market from March 1995 through May 1995. The Company immediately commenced a private placement of the Common Stock which successfully raised additional capital and the Company's Common Stock subsequently was relisted on the Nasdaq SmallCap Market. See "Certain Transactions."

FUTURE CAPITAL NEEDS

The Company may need to raise additional funds through public or private financing. No assurance can be given that additional financing will be available or that, if available, it will be available on terms favorable to the Company or its stockholders. If additional funds are raised through the issuance of equity securities, the percentage ownership of then current stockholders of the Company will be reduced and such equity securities may have rights, preferences or privileges senior to those of the holders of the Company's Common Stock. The Company's capital requirements will depend on many factors, including, but not limited to, the rate of market acceptance and competitive position of the products incorporating the Company's technologies, the levels of promotion and advertising required to launch and market such products and attain a competitive position in the marketplace, the extent to which the Company invests in new technology to support its products development efforts, and the response of competitors to the products based on the Company's technologies.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

This Prospectus contains certain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act") and the Company intends that such forward-looking statements be subject to the safe harbors created thereby. These forward-looking statements include the plans and objectives of management for future operations, including plans and objectives relating to the products and future economic performance of the Company. The forward-looking statements and associated risks set forth in this Prospectus may include or relate to (i) increasing sales through the introduction and development of new products and product lines, (ii) success of marketing initiatives to be undertaken by the Company, (iii) increasing sales through expansion of the Company's OEM channels, (iv) success of the Company in forecasting demand for particular designs and products and its success in establishing production and delivery schedules and forecasts which accurately anticipate and respond to market demand, (v) success of the Company in achieving increases in net sales such that cost of goods sold and selling, general and administrative expenses may decrease as a percentage of net sales, and (vi) the size and growth rate of the ADR market.

The forward-looking statements included herein are based upon current expectations that involve a number of risks and uncertainties. These forward-looking statements are based upon assumptions that the Company will continue to design, manufacture, market and ship new products on a timely basis, that competitive conditions within the ADR industry will not change materially or adversely, that the ADR market will continue to experience steady growth, that demand for the Company's products will remain strong, that the Company will retain existing customers and key management personnel, that obsolescence risks due to shifts in market demand will be minimized, that the Company's forecast will accurately anticipate market demand and that there will be no material adverse change in the Company's operations or business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in forward-looking information will be realized. Any of the other factors disclosed above could cause the Company's net sales or operating results, or growth in net sales or net income, to differ materially from prior results. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 2,500,000 shares of Common Stock offered by the Company hereby are estimated to be approximately $11,590,000 assuming a public offering price of $5.25 per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses. The Company will not receive any proceeds from the sale of Common Stock by the Selling Stockholders, or from the exercise of the Overallotment Option.

The Company expects to use the net proceeds of this Offering for general corporate purposes, including research and development, sales and marketing expenditures, and related capital expenditures and working capital. A portion of the proceeds may also be used to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. However, the Company has no present understandings, commitments, agreements or intentions with respect to any material acquisitions of other businesses, products or technologies. Pending use of the net proceeds for the above purposes, the Company intends to invest such funds in short-term, interest-bearing, investment grade obligations.

PRICE RANGE OF COMMON STOCK

The Company's Common Stock is currently traded on the Nasdaq SmallCap Market under the symbol "MITK." The Company has applied to have its Common Stock listed on the Nasdaq National Market upon the effectiveness of this Offering. The following table sets forth, for the fiscal period indicated, the high and low closing sales prices for the Common Stock as reported by the Nasdaq SmallCap Market (or the OTC Bulletin Board for the period beginning March 1995 and ending May 1995). The quotations for the Common Stock traded on the Nasdaq SmallCap Market may reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	HIGH	LOW
FISCAL 1994		
First Quarter	$ 1 10/32	$ 1 1/16
Second Quarter	1 5/8	1 1/16
Third Quarter	1 7/16	15/16
Fourth Quarter	1 3/16	15/16
FISCAL 1995		
First Quarter	1 1/4	13/16
Second Quarter	1 3/8	7/8
Third Quarter	1 3/16	15/16
Fourth Quarter	1 7/16	1 1/16
FISCAL 1996		
First Quarter	1 15/32	1 7/32
Second Quarter	1 9/32	1 7/8
Third Quarter	6 1/8	2

On July 5, 1996, the last reported sale price for the Common Stock, as reported on the Nasdaq SmallCap Market, was $5.125 per share. The number of record holders of Common Stock as of June 20, 1996 was 622 and the approximate number of beneficial holders is estimated to be over 1,000 as of that same date.

DIVIDEND POLICY

The Company has never declared or paid cash dividends on its stock. The Company currently anticipates that it will retain all future earnings for use in the operation and expansion of its business and does not anticipate paying any cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company at March 31, 1996 and on a pro forma basis to give effect to the sale of the 2,500,000 shares of Common Stock offered by the Company hereby at an assumed public offering price of $5.25 per share and the application of the estimated net proceeds therefrom. The financial data in the following table should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto and Unaudited Pro Forma Consolidated Statements of Operations contained elsewhere in this Prospectus.

	MARCH 31, 1996	
	ACTUAL	PRO FORMA
Long-term liabilities (1)	$ 10,543	$ 10,543
Stockholders' equity:		
Preferred stock, $0.001 par value; 1,000,000 shares authorized: no shares issued and outstanding	--	--
Common stock, $0.001 par value; 20,000,000 shares authorized: 7,732,959 shares issued and outstanding actual; 10,232,959 shares issued and outstanding pro forma as adjusted (2)	7,733	10,233
Additional paid-in capital	3,426,595	15,014,095
Accumulated deficit	(1,744,122)	(1,744,122)
Total stockholders' equity	1,690,206	13,280,206
Total capitalization	$ 1,700,749	$ 13,290,749

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(1) See Note 8 of Notes to Consolidated Financial Statements.

(2) Excludes at March 31, 1996: (i) up to 162,500 shares issuable upon exercise of the Representative's Warrant, (ii) up to 215,000 shares issuable upon the exercise of outstanding warrants and (iii) 413,905 shares issuable upon the exercise of outstanding options granted under the Option Plans.

DILUTION

The net tangible book value of the Company as of March 31, 1996 was $1,572,037 or $.20 per share of Common Stock. Net tangible book value per common share represents the amount of total tangible assets of the Company less the amount of total liabilities divided by the number of shares of Common Stock outstanding. After giving effect to the sale by the Company of 2,500,000 shares of Common Stock at an assumed offering price of $5.25 per share and receipt of the estimated net proceeds therefrom, and recognizing that the Company will not receive any proceeds from the sale of Common Stock by the Selling Stockholders or the exercise of the Overallotment Option, the pro forma net tangible book value of the Company at March 31, 1996 would have been approximately $13,162,037 or $1.29 per share. This represents an immediate increase in net tangible book value of $1.09 per share of Common Stock held by the existing stockholders of the Company, and an immediate dilution of $3.96 per share to new investors purchasing shares at the public offering price. "Dilution" per share is determined by subtracting pro forma net tangible book value per share after the Offering from the amount paid for a share in the Offering.

The following table illustrates the dilution in net tangible book value per share to new investors as of March 31, 1996.

Assumed public offering price per share		$ 5.25
Net tangible book value per common share as of March 31, 1996	$ 0.20	
Increase in net tangible book value per share attributable to Shares offered hereby	$ 1.09	
Pro forma net tangible book value per common share after Offering		$ 1.29
Dilution to new investors		$ 3.96

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below with respect to the Company's consolidated statements of operations data for each of the three years in the period ended September 30, 1995 and with respect to the Company's consolidated balance sheets at September 30, 1994 and 1995 are derived from consolidated financial statements that have been audited by Deloitte & Touche LLP, independent auditors, which are included herein. The selected consolidated financial data at March 31, 1996 and for the six months ended March 31, 1995 and 1996 are derived from unaudited financial statements of the Company, which are included herein. In the opinion of management, the unaudited financial statements have been prepared on the same basis as the audited financial statements referred to above and include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the financial position of the Company and its results of operations for the indicated periods. Operating results for the six months ended March 31, 1996 are not necessarily indicative of results to be expected for any future period. The data should be read in conjunction with the consolidated financial statements included herein.

	FISCAL YEAR ENDED SEPTEMBER 30,			SIX MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Net sales:					
ADR	$ 2,874	$ 4,654	$ 5,135	$ 1,830	$ 3,749
TEMPEST (1)	10,191	5,509	1,498	1,498	0
Total net sales	13,065	10,163	6,633	3,328	3,749
Cost of goods sold	9,571	6,657	3,330	1,721	1,476
Gross margin	3,494	3,506	3,303	1,607	2,273
Operating expenses:					
Research and development	1,192	1,024	1,004	576	587
Selling and marketing	1,632	1,513	1,388	704	587
General and administrative	1,383	1,105	1,117	469	613
Total operating expenses	4,207	3,642	3,509	1,749	1,787
Income (loss) from operations	(713)	(136)	(206)	(142)	486
Other income (expense):					
Interest expense (net)	(195)	(98)	(67)	(39)	(82)
TEMPEST write downs and accruals		(1,046)			
Gain on sale of TEMPEST			205	205	
Total other income (expense)	(195)	(1,144)	138	166	(82)
Income (loss) before provision for income taxes	(908)	(1,280)	(69)	24	404
Provision (benefit) for income taxes	(6)	(223)	1	4	60
Net income (loss)	$ (902)	$ (1,058)	$ (68)	$ 20	$ 344
Net income(loss) per common share	$ (.13)	$ (.15)	$ (.01)	$ .00	$ .04
Weighted average shares outstanding	6,866	6,877	7,286	7,020	7,898

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(1) In March 1995, the Company sold the assets of its TEMPEST business and discontinued TEMPEST operations.

	SEPTEMBER 30,			MARCH 31,	
	1993	1994	1995	1995	1996
	(IN THOUSANDS)				
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 236	$ 100	$ 104	$ 178	$ 301
Working capital	577	153	602	532	1,093
Total assets	5,081	3,074	2,864	3,065	3,136
Long term liabilities	526	367	57	167	11
Total stockholders' equity	1,818	809	1,343	1,188	1,690

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

WITH THE EXCEPTION OF HISTORICAL MATTERS, THE MATTERS DISCUSSED IN THIS SECTION ARE FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS RELATING TO THE DEVELOPMENT AND PACE OF INTERNATIONAL SALES FOR THE COMPANY'S PRODUCTS, EXPECTED TRENDS IN THE RESULTS OF THE COMPANY'S OPERATIONS, AND PROJECTIONS CONCERNING AVAILABLE CASH FLOW AND LIQUIDITY FOR THE COMPANY FOLLOWING THE COMPLETION OF THIS OFFERING. SEE "RISK FACTORS -- FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS."

OVERVIEW

Mitek develops and markets Automatic Data Recognition ("ADR") products for specialized areas of the document image processing market. The Company's products and services enable business and government agencies to automate high speed, high volume data entry tasks. In November 1992, the Company entered a license agreement with HNC, pursuant to which the Company obtained a perpetual license (exclusive in the initial five years) to HNC's ADR technology, including rights to neural network software programs that had been under development since 1987. In connection with this transaction, the Company employed twelve former HNC personnel who had been the principal developers of the acquired technology. Revenues from the sale of ADR products grew from $2.9 million in fiscal 1993 to $4.7 million in fiscal 1994 and $5.1 million in fiscal 1995, though the Company was unprofitable in each of those years. For the six months ended March 31, 1996, ADR revenues, principally attributable to the sale of the Company's QuickStrokes API products, were $3.7 million and net income equaled $344,000. The Company anticipates that its revenues from the sale of ADR products will continue to increase for the remainder of fiscal 1996 and that it will be profitable over that period. However, the Company's business and operating results are subject to a variety of risks and uncertainties, and no assurance can be given that the Company will actually achieve these results.

The Company was originally founded in 1982 to focus on a defense area known as TEMPEST, a government program aimed at national security with respect to electronic transmissions. Revenues from TEMPEST related operations equaled $10.2 million in the fiscal year ended September 30, 1993, but declined to $1.5 million in fiscal 1995 as a result of a decline in demand for TEMPEST products leading to the sale of the TEMPEST product line in March 1995. In response to declining TEMPEST revenue, the Company changed its focus to certain imaging products which the Company believed would have greater market potential. Between 1992 and 1995, the Company significantly restructured its operations, reducing personnel from approximately 240 to 28 and relocating to smaller facilities. During that period, the Company incurred approximately $1.9 million of losses, $1.8 million of which were write-offs associated with the TEMPEST business. In March 1995, the Company sold all of the assets related to its TEMPEST business for $350,000, marking its final step in shifting focus entirely to imaging products.

Since fiscal 1992, the Company has developed new and enhanced ADR products including the QuickStrokes API and Premier Forms Processor products. Revenues from ADR products have increased steadily from 1992, and the Company intends to continue to increase its emphasis on this market. The Company anticipates that research and development and sales and marketing expenditures for fiscal years 1996 and 1997 will increase significantly. Three customers, ABC Bull, BancTec, Inc., and TCSI accounted for 47% of the Company's net revenues for the first six months of fiscal 1996. See "Business -- Customers and End Users."

Currently, the Company derives its revenues principally from sales of its ADR products and, to a lesser extent, from sales of software maintenance contracts relating to its products. The Company recognizes revenues in accordance with the American Institute of Certified Public Accountants Statement of Position No. 91-1, Software Revenue Recognition. Accordingly, software product revenues are recognized upon shipment if collection is probable and the Company's remaining obligations are insignificant. Product maintenance revenues are amortized over the length of the maintenance

contract, which is usually twelve months. Inflation has not had a significant impact on the Company's operating results to date, nor does the Company expect it to have a significant impact through fiscal 1997.

Historically, approximately 70% of the Company's revenue has been attributable to sales of its software in combination with a co-processor board as a "bundled" package. The Company anticipates that in the future the speed and processing power of popular microprocessors, such as the Pentium P-6, will increase, thus potentially reducing the need for co-processor boards as part of the Company's solution. Although this evolution in hardware technology could initially cause a reduction in the Company's total net sales, the Company believes this change could allow it to provide more cost effective solutions, which in turn could increase the rate of market acceptance for the Company's products. Additionally, the Company has historically received greater gross margins on the software component of its products, and therefor, anticipates that any shift in its revenue mix toward a larger percentage of software-only sales, as a result of the hardware evolution, would favorably impact gross margins.

The Company is pursuing a strategy of developing products capable of addressing document image processing requirements in selected international markets by developing localized versions of its products and establishing overseas distribution channels. International sales accounted for approximately 25% of the Company's net sales for the six month period ended March 31, 1996. International sales in the past twelve months were made in sixteen countries. See "Business -- Products." There can be no assurance that the Company's efforts to develop products, international markets or to develop international sales and support channels will be successful. The failure of such efforts could have a material adverse effect on the Company's business, financial condition and results of operations. International sales are subject to inherent risks, including longer sales cycles, unexpected changes in regulatory requirements, import and export restrictions and tariffs, difficulties in staffing and managing foreign operations, the burdens of complying with a variety of foreign laws, greater difficulty or delay in accounts receivable collection, potentially adverse tax consequences and political and economic instability.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated selected items of the Company's consolidated statements of operations as a percentage of its net sales:

	FISCAL YEARS ENDED SEPTEMBER 30,			SIX MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Net sales:					
ADR	21.6%	45.8%	77.4%	55.0%	100.0%
TEMPEST	78.4	54.2	22.6	45.0	0
Total net sales	100.0	100.0	100.0	100.0	100.0
Gross margin	26.7	34.5	49.8	48.3	60.6
Research and development	9.1	10.1	15.1	17.3	15.7
Selling and marketing	12.5	14.9	20.9	21.2	15.7
General and administrative	10.6	10.9	16.8	14.1	16.4
Interest-net	1.5	1.0	1.0	1.2	2.2
TEMPEST write downs and accruals		10.3			
Other income			3.1		
Income (loss) before income taxes	(6.9)	(12.6)	(1.0)	.7	10.8
Provision (benefit) for income taxes	--	2.2	--	.1	1.6
Net income (loss)	(6.9)%	(10.4)%	(1.0)%	.6%	9.2%

COMPARISON OF SIX MONTHS ENDED MARCH 31, 1996 AND 1995

NET SALES. Net sales for the six month period ended March 31, 1996 were $3,749,000, comprised solely of ADR sales, compared to $3,328,000, comprised of TEMPEST and ADR sales, for the same period in 1995, an increase of $421,000, or 12.7%. Net sales, which also were comprised solely of ADR sales, for the six month period ended March 31, 1996 were $3,749,000 compared to $1,830,000 for prior year period, an increase of $1,919,000, or 104.9%.

GROSS MARGIN. Gross margin for the six month period ended March 31, 1996 was $2,273,000 compared to $1,607,000 for the same period in 1995, an increase of $666,000, or 41.4%. The increase was primarily due to a change in the product mix. As a percentage of sales, gross margin increased from 48.3% of sales in the six month period ended September 30, 1994 to 60.6% of sales in the same period in 1995. This increase is attributable to the Company's net sales being derived exclusively from its ADR products, which carry a substantially higher gross margin than the Company's TEMPEST business.

RESEARCH AND DEVELOPMENT. Research and development expenses for the six months ended March 31, 1996 were $587,000 compared to $576,000 for the same period in 1995, an increase of $11,000, or 1.9%. As a percentage of net sales, research and development expenses decreased to 15.7% for the first six months of fiscal 1996 compared to 17.3% for the first six months of fiscal 1995. The decrease was primarily due to the increased net sales, as the actual dollar amount spent on research and development increased only slightly but such increase was offset by an increase in net sales.

SELLING AND MARKETING. Selling and marketing expenses for the six months ended March 31, 1996 were $587,000 compared to $704,000 for the same period in 1995, a decrease of $117,000, or 16.6%. As a percentage of net sales, selling and marketing expenses decreased to 15.7% for the first six months ended March 31, 1996 compared to 21.2% for the first six months ended March 31, 1995. The decrease was primarily due to reduced advertising, promotion, and outside consulting costs.

GENERAL AND ADMINISTRATIVE. General and administrative expenses for the six months ended March 31, 1996 were $613,000 compared to $469,000 for the same period in 1995, an increase of $144,000 or 30.7%. As a percentage of net sales, general and administrative expenses increased to 16.4% for the first six months of fiscal 1996 compared to 14.1% for the first six months of fiscal 1995. The increase was primarily due to increased public relations costs and bad debt reserves.

INTEREST EXPENSE. Interest expense for the six months ended March 31, 1996 was $82,000 compared to $39,000 for the same period in 1995, an increase of $43,000 or 110.3%. The increase was primarily due to an increase in borrowing costs and to a lesser extent, an increase in average debt outstanding.

PROVISION FOR INCOME TAXES. The provision for income taxes consists primarily of federal alternative minimum tax and state tax. The tax rate is substantially below the federal statutory rate due to the utilization of net operating loss carryovers for which no benefit has previously been taken.

COMPARISON OF FISCAL YEARS ENDED SEPTEMBER 30, 1995, 1994 AND 1993

NET SALES. Net sales for the fiscal year ended September 30, 1995 were $6,633,000 compared to $10,163,000 for the same period in 1994, a decrease of $3,530,000, or 34.7%. ADR revenue for the fiscal year ended September 30, 1995 was $5,135,000 compared to $4,654,000 for the same period in 1994, an increase of $481,000, or 10.3%. This increase was primarily attributable to an increase in the number of OEMs and systems integrators selling the Company's ADR products. TEMPEST revenue for the corresponding periods was $1,498,000 and $5,509,000, respectively. The decrease reflects the decline in demand for TEMPEST products and the complete sale of the TEMPEST business in March 1995. Net sales for the fiscal year ended September 30, 1994 were $10,163,000 compared to $13,065,000 for the same period in 1993, a decrease of $2,902,000, or 22.2%. ADR revenue for the fiscal year ended September 30, 1994 was $4,654,000 compared to $2,874,000 for the same period in 1993, an increase of $1,780,000 or 61.9%. This increase was primarily attributable to two large sales to system integrators in connection with significant system installations by Avon Products Corporation

and the Mexican Tax Authority. TEMPEST revenue for the corresponding periods was $5,509,000 and $10,191,000, respectively. The decrease was attributable to a decline in demand for TEMPEST products.

GROSS MARGIN. Gross margin for the fiscal year ended September 30, 1995 was $3,303,000, compared to $3,506,000 for the fiscal year ended September 30, 1994 and $3,494,000 for the fiscal year ended September 30, 1993, decreases of $203,000 and $191,000 in the same periods, respectively. However, as a percentage of net sales, gross margin increased to 49.8% of net sales for the fiscal year ended September 30, 1995 as compared to 34.5% for the fiscal year ended September 30, 1994 and 26.7% for the fiscal year ended September 30, 1993. The increase in gross margin as a percentage of net sales is primarily the result of a change in product mix; moving away from TEMPEST products, which carried a relatively low gross margin, and into the relatively higher gross margin ADR products. The impact on gross margin attributable to the TEMPEST products ended with the sale of the TEMPEST business in March 1995. Royalties and amortization charges resulting from the HNC acquisition in fiscal years 1995, 1994 and 1993 were $655,000, $753,000 and $693,000, respectively. All royalties payable to HNC in connection with the acquisition of the ADR products group have been paid in full. Monthly amortization of expenses related to the acquisition of the ADR products group of $16,667 will continue until December 1997.

RESEARCH AND DEVELOPMENT. Research and development expenses for the fiscal year ended September 30, 1995 were $1,004,000 compared to $1,024,000 for the fiscal year ended September 30,1994 and $1,192,000 for the fiscal year ended September 30,1993, decreases of $20,000 and $188,000 in the same periods, respectively. However, stated as a percentage of sales, research and development expenses accounted for 15.1% of sales for the fiscal year ended September 30, 1995, and 10.1% and 9.1% for the fiscal years ended September 30, 1994 and 1993, respectively. The increase in research and development expenses, as a percentage of net sales, is attributable to the decrease in net sales during the period examined. During this period, the Company devoted an increasing percentage of its research and development expenditures to development and enhancement of its ADR technologies. The Company anticipates a significant increase in absolute dollars spent on research and development expenses due to increased staffing levels and payments to third parties associated with new product development and existing product enhancements.

SELLING AND MARKETING. Selling and marketing expenses for the fiscal year ended September 30, 1995 were $1,388,000 compared to $1,513,000 for the same period in 1994, a decrease of $125,000 or 8.3%. Selling and marketing expenses for the fiscal year ended September 30, 1993 were $1,632,000. Selling and marketing expenses accounted for 20.9% of net sales for the fiscal year ended September 30, 1995 compared to 14.9% and 12.5% of sales for the fiscal years ended September 30, 1994 and 1993, respectively. The increase when stated as a percentage of net sales, was the result of the decrease in overall net sales, as well as a reduction in personnel costs offset by costs incurred in connection with the introduction of new ADR products. The Company anticipates selling and marketing expenses will increase in absolute dollars in the future due to efforts to increase sales by hiring industry specialists and additional sales and marketing staff.

GENERAL AND ADMINISTRATIVE. General and administrative expenses for the fiscal year ended September 30, 1995 were $1,117,000 compared to $1,105,000 in 1994, an increase of $12,000 or 1.1%. The increase was due to overall spending reductions of approximately $70,000 offset by approximately $80,000 of expenses incurred in conjunction with the Company's move to smaller facilities following the sale of the TEMPEST business unit. As a percentage of net sales, general and administrative expenses increased from 10.9% of sales in 1994 to 16.8% of net sales in 1995 as a result of the decrease in management personnel offset by one time charges associated with the termination of leases of the Company's prior facilities. General and administrative expenses for the fiscal year ended September 30, 1994 were $1,105,000 compared to $1,383,000 for the same period in 1993, a decrease of $278,000 or 20.1%. This decrease was primarily attributable to a $126,000 bad debt recovery, as well as reductions in personnel. The Company has completed major adjustments in connection with the transition from TEMPEST to ADR products, and expects moderate increases in the dollar amount

spent on general and administrative expenses commensurate with the growth of the Company's business and that general and administrative expenses will remain stable or decrease as a percent of net sales.

TEMPEST WRITE DOWNS AND ACCRUALS. During September 1994, the Company determined that the value of certain assets and the benefit of certain commitments related to the TEMPEST product line had been significantly impaired due to the continued decline in sales of these products. Accordingly, the Company recorded a charge of $1,046,000 during the quarter ended September 30, 1994, related to the write down of certain assets to net realizable value and the accrual of certain obligations for which no future benefit is expected. The charge was comprised of inventory obsolescence ($816,000), accrual of lease obligations on a closed facility ($124,000), and other related charges ($106,000).

INTEREST EXPENSE. Interest expense for the fiscal year ended September 30, 1995 was $67,000 compared to $98,000 for the same period in 1994, a decrease of $31,000, or 31.6%. Interest expense, as a percentage of net sales, amounted to 1%, 1% and 1.5% in fiscal years ended September 30, 1995, 1994 and 1993, respectively. The decreases in interest expense resulted from a substantial decrease in average outstanding interest bearing debt, and to a lesser extent, from lower interest rates. The Company anticipates minimal or no interest expense in the foreseeable future after receiving the proceeds of this Offering.

OTHER INCOME. Other income consists of the gain on the sale of the TEMPEST business, made up of the following components: sale price ($350,000) offset by the carrying cost of inventory sold ($132,000) and costs related to the transaction ($13,000).

INCOME TAXES. For the fiscal year ended September 30, 1995, the Company recorded an income tax provision of $800, which represents the minimum state taxes payable. For the fiscal years ended September 30, 1994 and 1993 the Company recorded an income tax benefit of $223,000 and $6,000, respectively. Such benefits represent the carryback of net operating losses to recover taxes paid in fiscal years 1991 and 1990. The Company anticipates utilizing the balance of the two benefits in the fourth quarter of fiscal 1996 and the first quarter of fiscal 1997 and anticipates realizing the benefits of research and development credit carry forwards beginning in fiscal 1997.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth certain quarterly financial information for fiscal 1995 and the first two quarters of fiscal 1996. This information is derived from unaudited financial statements that include, in the

opinion of management, all normal recurring accruals necessary for a fair presentation of the information set forth therein. The operating results for any quarter are not necessarily indicative of results to be expected for any future period.

	THREE MONTHS ENDED					
	DEC. 31 1994	MAR. 31 1995	JUNE 30 1995	SEPT. 30 1995	DEC. 31 1995	MAR. 31 1996
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)					
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:						
Net sales:						
ADR	$1,071	$ 759	$1,563	$1,742	$1,825	$1,924
TEMPEST (1)	821	677	0	0	0	0
Total net sales	1,892	1,436	1,563	1,742	1,825	1,924
Gross margin	861	746	863	833	1,085	1,187
Operating expenses:						
Research and development	289	287	230	198	268	320
Selling and marketing	306	398	347	337	303	283
General and administrative	230	238	373	276	355	258
Total operating expenses	825	923	950	811	926	861
Income (loss) from operations	36	(177)	(87)	22	159	326
Other income (expense):						
Interest expense (net)	(19)	(21)	(10)	(17)	(48)	(33)
Other income		205				
Total other income (expense)	(19)	184	(10)	(17)	(48)	(33)
Income (loss) before provision for income taxes	17	7	(97)	5	111	293
Provision (benefit) for income taxes	3	1		(3)	22	38
Net income (loss)	14	6	(97)	8	89	255
Net increase (loss) per common share	$ .00	$ .00	$ (.01)	$ .00	$ .01	$ .03
Weighted average shares outstanding	7,010	7,029	7,562	7,727	7,835	7,954
AS A PERCENTAGE OF NET SALES:						
Net sales:						
ADR	56.6%	52.9%	100.0%	100.0%	100.0%	100.0%
TEMPEST (1)	43.4	47.1	0.0	0.0	0.0	0.0
Total net sales	100.0	100.0	100.0	100.0	100.0	100.0
Gross margin	45.5	51.9	55.2	47.8	59.5	61.7
Research and development	15.2	20.0	14.7	11.4	14.7	16.6
Selling and marketing	16.2	27.7	22.2	19.3	16.7	14.7
General and administrative	12.2	16.6	23.9	15.8	19.5	13.4
Interest expense (net)	1.0	1.5	.6	1.0	2.6	1.7
Gain on sale of TEMPEST		14.3				
Income (loss) before provision for income taxes	.9	.5	(6.2)	.3	6.1	15.2
Provision for income taxes	.2	.1		.2	1.2	2.0
Net income (loss)	.7	.4	(6.2)	.5	4.9	13.2

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(1) In March 1995, the Company sold the assets of its TEMPEST business and discontinued TEMPEST operations.

The Company's quarterly revenues and operating results have varied significantly in the past and may do so in the future. General and administrative expenses for the quarter ended June 30, 1995 included a one-time charge of $80,000 in connection with the relocation of the Company's facilities. General and administrative expenses for the quarter ended December 31, 1995 reflected an increase in the reserves for a questionable account. In June 1995, the Company entered into a one-time arrangement with one of its significant customers, BancTec, Inc., pursuant to which BancTec acquired certain software licenses and co-processor boards at a reduced price, and agreed to pay the associated license fees in advance of delivery of the co-processor boards. The result of this transaction

was to increase gross margin in the quarter ended June 30, 1995 as the Company recognized revenues from the sale of the software licenses without any associated costs, and to decrease gross margins for the quarter ended September 30, 1995 as the Company recognized revenues from the sale of co-processor boards at an unusually low price, with the associated cost of goods remaining standard. A significant portion of the Company's business has been derived from substantial orders placed by large organizations, and the timing of such orders has caused material fluctuations in the Company's operating results. Although the Company hopes to derive a greater percentage of its revenues from monthly usage fees and maintenance fees under long-term contracts, there can be no assurance that the Company will realize such recurring revenues. The Company's expense levels are based in part on its expectations regarding future revenues and in the short term are fixed to a large extent. Therefore, the Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. As a result, if anticipated revenues in any quarter do not occur or are delayed, the Company's operating results for that quarter would be disproportionately affected. Operating results may also fluctuate due to factors such as the demand for the Company's products, product life cycles, the introduction and acceptance of new products and product enhancements by the Company or its competitors, changes in the mix of distribution channels through which the Company's products are offered, changes in the level of operating expenses, customer order deferrals in anticipation of new products, competitive conditions in the industry and economic conditions generally or in various industry segments.

In addition, due in part to the mission-critical nature of certain of the Company's applications, potential customers perceive high risk in connection with adoption of the Company's neural network technology. As a result, customers have been cautious in making product acquisition decisions. In addition, the purchase of the Company's products involves a significant operational commitment on the part of end users, with the attendant delays frequently associated with customers' internal procedures to approve large capital expenditures and test and accept new technologies that affect key operations. For these and other reasons, the sales cycle associated with the purchase of the Company's products is typically lengthy and subject to a number of significant risks, including customers' budgetary constraints and internal acceptance reviews, over which the Company has little or no control. Because of the lengthy sales cycle, if revenues forecasted from a specific customer for a particular quarter are not realized in that quarter, the Company likely would not be able to generate revenues from alternate sources in time to compensate for the shortfall. As a result, and due to the typical size of customers' orders, a lost or delayed sale could have a material adverse effect on the Company's quarterly operating results.

The Company expects quarterly fluctuations to continue for the foreseeable future. Accordingly, the Company believes that period-to-period comparisons of its financial results should not be relied upon as an indication of future performance. No assurance can be given that the Company will be able to achieve or maintain profitability on a quarterly or annual basis in the future. Due to all of the foregoing factors, it is possible that in some future quarter the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Company's Common Stock would likely be materially adversely affected. See "Risk Factors -- Potential Fluctuations in Quarterly Results."

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 1996, the Company's working capital had increased to $1,093,000 from $602,000 at September 30, 1995. This increase was primarily attributable to earnings applied to reduce bank debt and to decreases in accounts payable resulting in a net increase in working capital of $491,000. The Company's operating activities provided cash of $364,056 in the six months ended March 31, 1996 and used cash of $54,489 in the same period in 1995. For the six months ended March 31, 1996, net cash provided by operating activities was primarily due to net income plus depreciation and amortization, and an increase in accounts payable and accrued expenses, offset by increase in inventories, prepaid expenses, and accounts receivable. For the six months ended March 31, 1996, net cash used in investing activities was $29,166 for purchases of property and equipment. Net cash used in financing

activities for the six months ended March 31, 1996 was $137,595 which was a result of the repayment of existing debt offset by the collection of notes receivable and proceeds from the exercise of stock options.

The Company paid off its factoring line of credit in March 1996 and concurrently established a $400,000 line of credit with Rancho Santa Fe Bank ("Bank") for working capital purposes. Borrowings under this line bear interest at the rate of 2 1/2% over the Bank's Prime Rate and the line of credit currently expires on February 1, 1997. At June 30, 1996, the Company had not drawn upon this line and the full amount was available for borrowing. The Company also has a demand loan with the Bank in the principal amount of $200,000, which matures on January 11, 1997. At June 30, 1996, $107,374 was outstanding under the loan, with a monthly debt service of $20,000.

The Company expects to make capital expenditures for equipment throughout the remainder of fiscal 1996, and expected personnel additions will require additional capital expenditures. The Company believes that net proceeds from this Offering, together with existing cash, credit available under the credit line and cash generated from operations, will be sufficient to finance its operation for the next twelve months. All cash in excess of working capital requirements will be kept in short term, investment grade securities.

The Company was delisted from the Nasdaq SmallCap Market in March 1995 for falling below the minimum net capital requirement. The decline in the Company's net capital was the result of a write down of assets and obligations related to the Company's TEMPEST business. In March 1995, the Company conducted a private placement of its common stock, raising net proceeds of $475,704 and successfully reapplied for listing on the Nasdaq SmallCap Market in May 1995. See "Risk Factors -- Recent Delisting" and "Certain Transactions."

OVERVIEW

WITH THE EXCEPTION OF HISTORICAL MATTERS, THE MATTERS DISCUSSED IN THIS SECTION ARE FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS RELATING TO THE COMPANY'S STRATEGIES, THE DEVELOPMENT AND PACE OF INTERNATIONAL SALES FOR THE COMPANY'S PRODUCTS, AND EXPECTED TRENDS IN THE RESULTS OF THE COMPANY'S OPERATIONS. SEE "RISK FACTORS -- FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS."

Mitek develops and markets automatic data recognition ("ADR") products which enable the automation of costly and labor intensive business functions such as check and remittance processing, forms processing and order entry. The Company's ADR products incorporate proprietary object-oriented neural network software technology for the recognition and conversion of hand printed and machine generated characters into digital languages such as ASCII code or Unicode. Neural networks are powerful tools for pattern recognition applications and consist of sets of coupled mathematical equations with adaptive parameters that self adjust to "learn" various forms and patterns. The Company's ADR products combine the Company's neural network software technology with an extensive database of character patterns, enabling them to make fine distinctions across a wide variety of patterns with high speed, accuracy and consistency. The Company leverages its core technology across a family of ADR products that the Company believes offer the highest accuracy commercially available for the recognition of hand printed characters.

The Company's ADR products incorporate the Company's intelligent character recognition ("ICR") software engine, QuickStrokes API, with high speed co-processor boards which are configurable to meet customer requirements. The Company's products are sold to original equipment manufacturers ("OEMs"), such as BancTec, Inc., NCR, ABC Bull, Unisys and IA Corporation, systems integrators such as SHL, a subsidiary of MCI, TCSI and value-added resellers ("VARs") such as DEC, TRW, OBOS, CBSI, Moon Sun and Kliendeinst. Major end users include AVON Products Company, certain of the Federal Reserve Banks, SCS Communications, the Australian Tax Office, the Mexican Tax Authority and American Express. QuickStrokes API can process documents in fourteen languages.

The Company has recently begun to address vertical end user markets through the introduction of Premier Forms Processor ("PFP"). PFP incorporates Mitek's core ICR technology in an application designed to be marketed directly to end users in a broad variety of industries with requirements for high volume automated data entry. PFP runs on the Windows operating platform on stand alone or networked personal computers, features a graphical user interface ("GUI"), and is designed for easy installation and configuration by the end user. The Company also sells its PFP products to systems integrators and VARs.

INDUSTRY BACKGROUND

Despite significant advances in information technology, the predicted "paperless office" has not arrived. Rather, the volume of paper used in business today has substantially increased. According to industry reports, nearly three times as much paper is generated today as before the advent of the information revolution. In the United States, approximately 600,000 people are engaged in data entry of information contained in hand printed and machine generated documents such as check processing, medical forms, remittances, and payroll. Moreover, data entry functions are predominately ministerial in nature and include highly repetitive and labor intensive tasks. Individuals engaged in data entry functions may develop debilitating long term health problems such as repetitive stress syndrome thereby increasing company health care costs and decreasing productivity.

Enterprises with large volumes of data entry requirements have long sought to automate portions of the data entry task, including the use of documents image processing ("DIP") technology to capture and manipulate paper images digitally. In rudimentary form, DIP has existed in the form of optical

character recognition ("OCR") technology for nearly 30 years. Despite this longevity, OCR technologies remain unsuitable for certain DIP applications, in part because OCR technologies do not generally achieve sufficient levels of accuracy in recognizing hand printed or hand and machine generated characters.

Beginning in the late 1980's, the inherent limitations of OCR technologies led to the development of ICR, an advanced technology capable of recognizing hand-printed characters. Originally, ICR technologies were deployed primarily in check processing applications, which had not been successfully addressed by OCR products. They have continued to gain acceptance in the production imaging segment of the DIP market, which is comprised of hand printed and/or hand printed and machine generated forms processing. However, despite their early success in certain applications, the usefulness of many ICR products remains limited due to their reliance upon limited databases resulting in the products' inability to adequately "learn" to recognize characters and patterns that include inconsistencies and ambiguities. In addition, most ICR products commercially available to date have been relatively expensive, custom applications tailored to specific niche uses, and have not historically incorporated the flexibility to enable their deployment across a broad range of vertical applications.

THE MITEK SOLUTION

The Company develops, markets and supports what it believes to be the most accurate ADR products commercially available for mission critical applications. The Company's unique proprietary technology recognizes hand printed and machine generated characters with a level of accuracy that renders the Company's ADR products a viable alternative to manual data entry in many applications. The Mitek solution allows customers that process large volumes of standardized hand printed documents to do so more quickly, with greater accuracy and at reduced costs.

The following are the key attributes of the Mitek solution:

ACCURACY IN MISSION CRITICAL APPLICATIONS. The market for ICR technologies is characterized by applications with critical dependence on accuracy -- the historic impediment to automated data image processing of hand printed documents - -- such as processing checks, bank drafts, payments letters, and credit card payment forms. The Company's QuickStrokes API engine, based upon object-oriented software, provides high level accuracy in high volume hand printed and machine generated character recognition applications. A system utilizing the Company's ADR products has been installed at the Avon Products Company's order processing plant, which processes over 2 million hand printed order forms per day. The system, which incorporates the Company's ICR engine, has been able to achieve and maintain an accuracy rate of 99.7%. The Company believes, based on market testing and acceptance by major OEMs and end users, and based upon recognition data submitted to the National Institute of Standards and Technology by the Company and certain of its competitors, that its products offer increased accuracy and superior cost/performance relative to its competitors.

RAPID DEPLOYMENT AND DEMONSTRATED RETURN ON INVESTMENT FOR CUSTOMERS. The Company's software solutions are designed to be rapidly deployed and to quickly demonstrate cost-benefit advantages to the customer. The Company usually delivers its mission-critical products over a period of days, and customer return on investment periods are often less than one year. Return on investment is rapid because the software products address applications that have a significant profit impact. The Company's products are often installed at customer sites that process large numbers of similar forms on a daily basis. The Company's ADR object-oriented software products can typically process hand printed forms at a significantly higher rate and with greater accuracy than conventional data entry methods, resulting in significant cost reductions.

FLEXIBLE DESIGN OPERATING ON INDUSTRY STANDARD PLATFORMS. Mitek's solutions can be integrated into a customer's existing environment or architecture. The Company has developed interfaces with many of the most popular operating platforms such as MS-DOS, MS-Windows 3.1, MS-Windows NT, MS-Windows 95, OS/2, Sun UNIX, OS/F, Solaris and PC UNIX. Mitek's application products represent a complete software solution, including software, communications interfaces and GUIs. The Company

also supplies system integration, ongoing performance analysis and application consulting services to help ensure ongoing success. The Company believes that this flexible combination of product, service and platforms represents an advancement that enables successful intelligent system development in many mission-critical data entry applications.

SCALABLE DESIGN TO MEET A VARIETY OF NEEDS AND BUDGETS. The Company's ADR software includes a proprietary flexible, neural network ICR engine, based upon object-oriented software. The flexibility of this engine allows the Company to customize products or create product enhancements through the addition of modules that may be customized to a client's needs on a cost efficient basis in a relatively rapid time frame. The Company has traditionally licensed its QuickStrokes API recognition engine to OEMs, VARs and systems integrators who have incorporated the engine into a variety of specific customer applications. With the introduction of its Premier Forms Processor ("PFP"), the Company has entered the end user market with a scalable turnkey product that can be tailored by the Company, VARs or the end user to meet a variety of application requirements. The scalability of the design also permits Mitek to bring the high accuracy of its QuickStrokes API engine to lower volume applications on a cost effective basis. Moreover, the PFP is designed to be scalable to provide additional processing speed and capacity with enhancements to the end users' hardware and software. The Company prices its products to deliver what the Company believes to be the best functionality to price available in the marketplace.

BUSINESS STRATEGY

The Company's objective is to become the leading provider of technologically advanced ADR products to the production imaging segment of the DIP market. The Company's strategy for achieving this goal includes the following:

EXPAND SYSTEMS INTEGRATORS AND OEM CHANNELS. The Company believes that systems integrators and OEMs of document imaging production equipment represent the most direct route to the end user and, therefore the Company's most significant revenue opportunity. The Company plans to expand the number of systems integrators and OEMs that utilize its products, and further develop existing relationships with leading providers of electronic and document-based financial transaction processing systems, such as TCSI, BancTec, Inc. and Kleindeinst. The Company strives to deliver superior service to these customers by developing frequent product enhancements and working closely with its customers to ensure that the customers' needs are met by the Company's product offerings.

PENETRATE VERTICAL MARKETS THROUGH THE DEVELOPMENT OF SPECIALIZED USER INTERFACES. The Company intends to deploy its advanced ICR technology in a series of ADR products addressing the requirements of strategic vertical markets such as insurance, payroll processing and home healthcare. The Company believes these markets represent a substantial opportunity due to the high level of data entry/forms processing associated with these industries.

EXPAND SALES AND MARKETING CAPABILITY. The Company plans to significantly expand its sales and marketing staff (both domestically and internationally) in order to improve its sales to OEMs, systems integrators, VARs and end users. The Company plans to add sales and marketing personnel with industry and channel experience, pursue direct sales in several strategic markets and eventually open sales, marketing and support offices in areas of the United States where large OEMs and significant end users or large potential end users of its products are located.

BUILD RECURRING REVENUE BASE BY EMPHASIZING MAINTENANCE OPPORTUNITIES. The Company continues to market its ADR products as an ongoing service that includes product updates, application consulting, and on-line or on-site support and maintenance. The Company considers this to be an opportunity to enhance revenue through better marketing of its maintenance service.

STRENGTHEN TECHNOLOGICAL LEADERSHIP. The Company believes that its ICR technology based upon object-oriented neural networks enables it to provide the most technologically advanced recognition engines available in the marketplace for the recognition of hand printed characters. Since 1992,

the Company has significantly enhanced its technology and plans to strengthen its leadership position in this area by improving the recognition capability, functionality and scalability of its products through ongoing investment in research and development and the introduction of enhanced products to the marketplace.

PRODUCTS

The Company incorporates its advanced ICR software technology into a family of document imaging products addressing requirements for accurate, high volume, automated entry of data residing on hand printed or machine generated forms. The following chart depicts a typical document image processing system:

DOCUMENT IMAGING FLOW CHART

[CHART]

Graph depicts various work stations and document and information flow for a typical Mitek Systems, Inc. document image process system.

The following table lists the Company's current products accounting for substantially all of the Company's sales:

MITEK PRODUCTS

PRODUCT NAME	APPLICATION	PLATFORMS SUPPORTED	TARGET CUSTOMER	LIST PRICE
QuickStrokes API CAR	Remittance Processing and Check Clearing	DOS, Windows3.x, Windows95, WindowsNT, OS/2,	OEMs, VARs, Systems Integrators	$9,000.00
QuickStrokes API CAR w/Balboa, Cortez and Diego Co-processor Boards		OS/F, HP-UNIX, Solaris		$20,000.00 - $30,000.00
QuickStrokes API Forms	General Forms Processing	DOS, Windows3.x, Windows95, WindowsNT, OS/2, OS/F, HP-UNIX,	OEMs, VARs Systems Integrators	$4,000.00
QuickStrokes API Forms w/Balboa, Cortez and Diego Co-processor Boards		Solaris		$15,000.00 - $22,000.00
PFP	General Forms Processing	Windows3.x, Windows95	VARs Systems Integrators, End Users	$14,000.00
PFP w/Balboa Co-processor Boards				$25,000.00

QUICKSTROKES API. QuickStrokes API is a "recognition engine." QuickStrokes API CAR performs Courtesy Amount Recognition ("CAR"), which recognizes the numeric portion of personal and commercial checks. QuickStrokes API Forms is a recognition engine for forms that is licensed to large integrators of forms processing systems, and to OEMs for use in remittance processing systems. This recognition engine was designed to be the foundation of a forms processing system. The QuickStrokes API products have been developed with a flexible underlying architecture to accommodate additional features and functionality as dictated by market demands.The Company's QuickStrokes API products are currently in use processing sales orders, checks and financial documents, tax forms, credit card drafts, ZIP codes, time sheets, and insurance applications.

PREMIER FORMS PROCESSOR. The Company has developed a proprietary forms processing application, the Premier Forms Processor (PFP) which incorporates the Company's core ICR technology in an application designed for end users in a broad variety of industries with requirements for high volume automated data entry. PFP consists of the modules required to implement a forms processing application and can recognize hand printed and machine generated characters. PFP runs on the Windows operating platform on stand alone or networked personal computers, features a GUI, and is designed for easy installation and configuration by the end user.

OTHER PRODUCTS. The Company markets the NiFaxshare product line, which combines its ADR technologies with conventional incoming facsimile routing technologies to provide economical and practical "faxmail" solutions. The Company markets its NiFaxshare products to large end users, such as the Bank of Montreal, Capital Cities-ABC, and J. P. Morgan Private Banking, as well as a network of VARs. The QuickFrames API is an advanced page segmentation system that separates the scanned image of a document into isolated regions, each containing a single information type. The system

outputs the coordinates and type of each region and can produce "cut-out" images of isolated regions for easier processing. The QuickFrames API system is well-suited for document imaging and forms processing applications in insurance, banking, legal and governmental agencies.

The Company has an internal customer service department that handles installation and maintenance requirements. The majority of inquiries are handled by telephone, with occasional visits to the customer's facilities. The Company's strategy is that as the installed base of its products grows, the customer service function will become a source of recurring revenues.

CUSTOMERS AND END USERS

Mitek licenses and sells its ADR products to a broad range of companies seeking high volume, high reliability document processing systems. Typically, end users of the Company's products desire to streamline manual data entry processing due to volume or time constraints. Traditionally, the Company has derived its revenues from the sale of QuickStrokes API as an ICR engine to various OEMs, VARs and systems integrators. With the introduction of the PFP, the Company now offers a scalable turnkey system which is marketed to VARs, systems integrators and end users. Certain of the Company's largest customers based on payments received in the fiscal years 1995 and 1996, are listed below under the major application category for which the Company believes the customer is using the Mitek products:

FINANCIAL DOCUMENT PROCESSING	FORMS PROCESSING
BancTec, Inc. (including Recognition International)	SHL Systemhouse
ABC Bull	Wheb Systems
Unisys	TCSI
NCR	National Computer Systems
TRW Financial Solutions	CentroMatic Systemi, SPA
Kleindeinst	VALIdata Sistemas de Captura, S.A. de C.V.
IA Corporation	Headway CT
Infoscore	IT

Three customers, ABC Bull, BancTec, Inc., and TCSI, accounted for 47% of the Company's net sales for the first six months of fiscal 1996. ABC Bull is a multinational, multiproduct systems integrator that uses the Company's products to develop document based check clearing processing systems in South America. BancTec, Inc. is a leading provider of electronic and document-based financial transaction processing systems, work flow and imaging products, application software and professional services. BancTec, Inc. develops solutions for the banking, financial services, insurance, health care, government, utility, telecommunications, grocery and retail industries. TCSI is a manufacturer of financial processing systems, primarily for financial institutions.

The Company's products are used in a variety of applications on a worldwide basis. For example, systems using Mitek's technology are in use at Avon Products Company's United States forms processing centers, handling approximately 2 million sales order forms daily, which are hand printed by over 450,000 different sales agents. The Company's products are also used by financial institutions such as Mellon Bank, Nat West and Unibanco for check processing. Systems using Mitek technology are currently being used by governmental taxing authorities such as the Australian and Mexican tax authorities to process tax returns. In addition, utilities companies such as Southwestern Bell and NYNEX use the Company's technologies for invoice processing and payment reconciliation.

SALES AND MARKETING

The Company markets its products and services primarily through its internal, direct sales organization. The Company employs a technically-oriented sales force with management assistance to identify the needs of existing and prospective customers. Mitek's sales strategy concentrates on those companies that it believes are key users and designers of automated document processing systems for high-performance applications. Mitek currently maintains sales offices in Virginia, Illinois and California. In addition, the Company sells and supports its products through distributors in Australia and Germany. The sales process is supported with a broad range of marketing programs which include trade shows, direct marketing, public relations and advertising. Some of the shows used are E-Mail World, AIIM (Association for Information and Image Management), TAWPI (The Association for Work Process Improvement and Imaging Expo). The Company's advertising is focused on image processing industry specific publications, including Imaging World, IMC Journal and Imaging Business.

The Company provides maintenance and support on a contractual basis after the initial product warranty has expired. The Company provides telephone support and on-site support. Customers with maintenance coverage receive regular software releases from the Company. Foreign distributors generally provide customer training, service and support for the products they sell. Additionally, the product is supported internationally by periodic distributor and customer visits by Company management. These visits include attending imaging shows, as well as sales and training efforts. Technical support is provided by telephone as well as technical visits in addition to those previously mentioned.

The Company's PFP system can process documents in ten languages, including English, French, German, Italian, Dutch, Spanish, Russian, Portuguese, Swedish and Arabic. The QuickStrokes API engine can also process all of these languages, as well as Thai, Burmese, Laotian and Vietnamese for a total of 14 languages. The ability to work in these different languages has materially assisted the Company in its international sales effort. It is believed that the competition has much less functionality in this capability area.

International sales accounted for approximately 25% of the Company's net sales for the six-month period ended March 31, 1996. The Company believes that a significant percentage of the products in its domestic sales are incorporated into systems that are delivered to end users outside the United States such that the total percentage of its products which are ultimately utilized by foreign end users is between 40% and 50%. International sales in the past twelve months were made in sixteen countries including Australia, Argentina, Belgium, Brazil, England, France, Finland, Germany, Hong Kong, Italy, Malaysia, Mexico, Portugal, Poland, Spain and Sweden. The Company sells its products in United States currency only. See "Risk Factors -- Risks Associated with International Sales."

TECHNOLOGY

The Company utilizes a wide range of technologies in its proprietary products. These include segmentation techniques, enhanced resolution techniques, noise and line removal techniques, object-oriented programming, GUIs, and extensive proprietary databases. The Company believes that the use of artificial neural networks for recognition distinguishes its products from those of most of its competitors.

Mitek provides a hand printed and machine generated character recognition engine in several configurations. This engine performs all the processing required to take the image of a section of a document, find the characters within that area, remove noise or lines that might interfere with the correct identification of the characters, separate the characters from each other, eliminate character overlap, and then recognize the characters. The results are then placed in a defined digital file format and returned to a host computer. The results are the identity of the characters found, their locations and size, the confidence level of correct recognition, and a second choice and the confidence level that is associated with that second choice. This confidence factor, the probability of recognition correctness, allows the system to be "tuned" for the complexity or criticality of the specific application.

The enabling technology for the Company's products is artificial neural network computation. The strength of neural networks is that they have the ability to be "trained" to recognize various kinds of patterns. Neural networks are mathematical equations with adaptive coefficients. Examples of data are presented to the networks in a way that allows the adaptive coefficients to be adjusted to fit. This adjustment is called "training" because it mimics the manner in which human intelligence is trained to read and interpret information. Once the network is trained, it will recognize at high speeds the patterns in which it was trained. Once the training process is complete, the network will have developed the capability to recognize digits in a wide degree of variation, with very high speed and accuracy, approaching, or in certain applications, exceeding average human accuracy.

The speed and accuracy obtained allows for the replacement of manual data entry by automated processes. Mitek's advanced technology has allowed its ADR products to function in a real world environment that has often stymied earlier technologies in dealing with hand printed and machine generated documents. Mitek's technology includes a comprehensive set of tools for extracting data from many types of different forms including forms that are crooked, enlarged or reduced and eliminates pre-printed instructions, lines or boxes, processing only the data of interest, as defined by the user, such as numeric, alpha, or alpha-numeric data. The forms processed may originate from several sources, including the shop floor, a fax machine or warehouse. Once digitized, they may emanate from a scanner or from digital archives. The quality of these images may vary significantly. The Company's software can enhance these images using proprietary noise filtering algorithms which eliminates smudges and stains, enhance gray scale images, and repair broken and degraded characters. Mitek's software has the ability to recognize the vagaries of characters, whether hand printed or machine generated, separating characters that are touching or overlapping, eliminating ambiguities, finding data that has "wandered" out of its assigned area, and recognizing a vast array of characters, compensating for personal, regional and national differences in character style.

The Company acquired a license (exclusive for the initial five years) to core ICR technology and software underlying its ADR products from HNC in November 1992. At the time of acquisition of the license, twelve of the engineers responsible for developing HNC's core ICR software moved to Mitek in connection with the transaction. The HNC license provided for a grant of rights against payment of royalties amounting up to $2.6 million over three years. All royalties and amounts due under the license have now been paid in full. On November 23, 1997, certain of the Company's exclusive license rights from HNC shall become nonexclusive and HNC will be able to use or license the rights to others to use certain of the core technologies used in the Company's ADR products to compete directly with Mitek.

The Company's PFP software product incorporates the Company's Quickstrokes API engine, certain software modules developed by the Company and certain software and technology licensed on a nonexclusive basis from VALIdata Sistemas de Captura, S.A. de C.V., a Mexican corporation ("VALIdata"). Pursuant to a Marketing License Agreement dated as of March 26, 1996 (the "VALIdata License Agreement"), between the Company and VALIdata, the Company was granted a nonexclusive, worldwide right to use, reproduce and distribute copies of PFP software owned or controlled by VALIdata to customers of Mitek, in exchange for payment of certain royalties to VALIdata. The VALIdata License Agreement provides for a one year term, with provisions for annual renewal upon the written consent of both parties. There can be no assurance, however, that the VALIdata License Agreement will be renewed by VALIdata, and if renewed, on terms acceptable to the Company.

The PFP software covered by the VALIdata License Agreement is designed for the Windows 3.1 operating system. However, the Company believes that the Windows NT operating system will become the industry standard for this type of application over the near term. Accordingly, the Company is currently developing PFP application software for the Windows NT operating platform.

The markets for products incorporating ADR technology are characterized by rapidly advancing technology and rapidly changing user preferences. The Company's ability to compete effectively with

its ADR product line will depend upon its ability to meet changing market conditions and develop enhancements to its products on a timely basis in order to maintain its competitive advantage. In addition, continued growth will ultimately depend upon the Company's ability to develop additional technologies and attract strategic alliances for related or separate product lines. There can be no assurance that the Company will be successful in developing and marketing product enhancements and additional technologies, that the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of these products, or that its new products and product enhancements will adequately meet the requirements of the marketplace, will be of acceptable quality, or will achieve market acceptance.

RESEARCH AND DEVELOPMENT

The Company believes that its future success depends in part on its ability to maintain and improve its core technologies, enhance its existing products and develop new products that meet an expanding range of customer requirements. The Company intends to expand its existing product offerings and to introduce new forms processing software solutions. In the development of new products and enhancements to existing products, the Company uses its own tools extensively. To date, the Company has relied primarily on ICR technology acquired from HNC as well as internal development, although it may, based on timing and cost considerations, acquire technology or products from third parties or consultants. The Company performs all quality assurance and develops documentation internally. The Company intends to continue to support industry standard operating environments.

The Company's team of specialists in recognition algorithms, software engineering, user interface design, product documentation and quality improvement is responsible for maintaining and enhancing the performance, quality and usability of all of the Company's products.

In order to improve the accuracy of its ADR products, the Company focuses research and development efforts on continued enhancement of its data base of hundreds of thousands of images that is used to "train" the neural network software that forms the core of the Company's ICR engine. Additionally, the Company continues to enhance its specialized software which focuses on eliminating the confusion of matrices that may otherwise mislead the software. The confusing items are separated one by one until the ambiguities that cause software algorithms errors are removed.

The Company's research and development organization included 14 software engineers at March 31, 1996, including 6 with advanced degrees. During the first six months of fiscal 1996, the Company spent approximately $587,000 on research and development and spent approximately $1.1 million on research and development in each of fiscal years 1995, 1994 and 1993. The Company balances its engineering resources between development of ICR and applications development. Of the 14 software engineers, approximately 6 are involved in ICR research and development of the QuickStrokes API recognition engine. The remaining staff are involved in applications development, including the PFP and NiFaxshare.

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

Products as complex as those offered by the Company, particularly the Company's QuickStrokes and PFP products, may contain undetected defects or errors when first introduced or as new versions are released. As a result, the Company could in the future face loss or delay in recognition of revenues as a result of software errors or defects. In addition, the Company's products are typically intended for use in applications that may be critical to a customer's business. As a result, the Company expects that its customers and potential customers have a greater sensitivity to product defects than the market for software products generally. Although the Company's business has not been adversely affected by any such errors to date, there can be no assurance that, despite testing by the Company and by current and potential customers, errors will not be found in new products or releases after commencement of commercial shipments, resulting in loss of revenues or delay in market acceptance, diversion of

development resources, damage to the Company's reputation, or increased service and warranty costs, any of which would have a material adverse effect upon the Company's business, operating results and financial condition.

COMPETITION

The market for the Company's ADR products is intensely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. The Company faces direct and indirect competition from a broad range of competitors who offer a variety of products and solutions to the Company's current and potential customers. The Company's principal competition comes from (i) customer-developed solutions; (ii) direct competition from companies offering ICR systems; and (iii) companies offering competing technologies capable of recognizing hand-printed characters.

It is also possible that the Company will face competition from new competitors. These include companies that are existing licensors such as HNC and OEM, systems integrators and VAR customers, such as BancTec, Inc., or dominant software companies with a presence in publishing or office automation such as Microsoft Corporation and Adobe. In addition, the Company's license agreement with HNC provides that, upon expiration of certain exclusivity periods beginning in November 1997, HNC will have the right to use certain of the core technologies used in the Company's ADR products, originally developed by HNC and acquired by the Company in 1992, to compete directly with the Company. Moreover, as the market for automated data entry and ICR software develops, a number of these or other companies with significantly greater resources than the Company could attempt to enter or increase their presence in the Company's market either independently or by acquiring or forming strategic alliances with competitors of the Company or to otherwise increase their focus on the industry. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of the Company's current and prospective customers.

The Company's Quickstrokes API products compete, to various degrees, with products produced by a number of substantial competitors including AEG, a subsidiary of Daimler Benz, Computer Gesellschaft Konstanz, a subsidiary of Siemens, and Nestor. The Company believes its primary competitive advantages are its (i) recognition accuracy with regard to hand printed characters, (ii) flexibility, since it may operate on a broad range of computer operating platforms, (iii) scalability and (iv) object-oriented software designs which can be more readily modified, improved with added functionality, configured for new products, and ported to new operating systems and upgrades. Despite these advantages, QuickStrokes API's competitors have existed longer and have far greater financial resources and industry connections than the Company.

The Company's PFP products compete against complete proprietary systems offered by software developers, such as GTESS, Symbus and Cardiff Software. In addition, PFP faces competition from providers of recognition systems that incorporate ADR technology, including in some instances, the Company's Quickstrokes API product, such as Microsystems Technology, Inc., and National Computer Systems. Because PFP is based on the Company's proprietary QuickStrokes API engine, its competitive advantages reflect the advantages of the QuickStrokes engine. Competitors in this market offer both high and low cost systems. The Company's strategy is to position PFP to competes successfully in a scalable midrange price while offering a higher degree of accuracy and greater flexibility than competing systems currently on the market. Increased competition may result in price reductions, reduce gross margins and loss of market share, any of which could have a material adverse effect on the Company's business, operating results and financial condition. Furthermore, a significant percentage of the Company's revenues are attributable to sale of co-processor boards sold together with the Company's software. Anticipated increases in the microprocessor speed and power available, such as the Pentium P-6, could have the effect of reducing the demand for such co-processor boards. It is possible that the Company's co-processor boards will have competition from semiconductor manufacturers embedding the technology on their chips. There can be no assurance that the

Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not materially adversely affect its business, operating results and financial condition. See "Risk Factors -- Competition."

EMPLOYEES

As of March 31, 1996, the Company employed a total of 34 persons, consisting of 7 in marketing, sales and support, 14 in research and development, and 13 in finance, administration and other capabilities. All employees work on a full time basis. The Company has never had a work stoppage. None of its employees is represented by a labor organization, and the Company considers its relations with its employees to be good.

The Company's future performance depends in significant part upon attracting and retaining key technical, sales, senior management and financial personnel. Competition for such personnel is intense, and the inability to retain its key personnel or to attract, assimilate or retain other highly qualified personnel in the future on a timely basis could have a material adverse effect on the Company's results of operations. See "Risk Factors -- Dependence on Key Personnel."

PROPERTIES

The Company's principal executive offices, as well as its principal research and development facility, is located in approximately 12,000 square feet of leased office building space in San Diego, California. The lease on this facility expires April 30, 1998, with an option to extend the lease for an additional three years. The Company also leases a sales office facility in Sterling, Virginia. In addition, the Company leases office space used as a sales, service, and development facility in Calgary, Alberta, Canada. The Company believes that its existing facilities are adequate for its current needs and that additional space will be available as needed.

LEGAL PROCEEDINGS

There are no legal claims currently pending against the Company. The Company has, however, received a notice of a possible claim arising in connection with this Offering. In January 1995, the Company entered into a contract with Heartland Financial Services Corporation ("Heartland") for the provision of certain financial consulting services, including assisting the Company in establishing relationships with investment bankers and improving the liquidity of the Company's Common Stock. Heartland has indicated to the Company in conversations that it believes that it is entitled to a $375,000 fee in connection with this Offering under the terms of its contract. The Company disputes this claim. The contract between Heartland and the Company requires that all disputes be arbitrated. While there can be no assurance that Heartland will not seek to arbitrate its claim against the Company or would be unsuccessful in prosecuting such a claim if it were arbitrated, the Company believes that any potential liability arising out of such a claim would be immaterial.

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth the executive officers and directors of the Company and their ages as of July 1, 1996:

NAME	AGE	POSITION
John M. Thornton.....	64	Chairman of the Board
John F. Kessler.....	47	President, Chief Executive Officer and Director
Gerald I. Farmer, Ph.D.....	62	Executive Vice President and Director
James B. DeBello.....	37	Director
Daniel E. Steimle.....	48	Director
Sally B. Thornton.....	62	Director

MR. THORNTON, a director of the Company since March 1986, was appointed Chairman of the Board as of October 1, 1987. Additionally, he served as President of the Company from May 1991 through July 1991 and Chief Executive Officer from May 1991 through February 1992. From 1976 through 1986, Mr. Thornton was the principal shareholder and served as Chairman of the Board at Micom, Inc. Mr. Thornton was a President of Wavetek Corporation for 18 years. Mr. Thornton is also a director of Dynamic Instruments, Inc. and Chairman of the Board of Software Products International, Inc. and Thornton Winery Corporation. Mr. Thornton is the spouse of Sally B. Thornton, a director.

MR. KESSLER, a director of the Company since August 1993, was appointed President and Chief Executive Officer of the Company in April 1994. Prior to joining Mitek, he was Vice President -- Finance/Administration and Chief Financial Officer of Bird Medical Technologies, Inc., a manufacturer of medical equipment from November 1992 and also served as Secretary from January 1993. Prior to joining Bird Medical, Mr. Kessler was Vice President, Finance/Administration and Chief Financial Officer of Emerald Systems Corporation, a computer systems company. From July 1980 to July 1991, Mr. Kessler was with Wavetek Corporation serving in various positions, including Chief Financial Officer during the period of 1987 to 1991.

DR. FARMER, a director of the Company since May 1994, has been Executive Vice President of the Company since November 1992. Prior to joining the Company, Dr. Farmer worked as Executive Vice President of HNC Software, Inc. from January 1987 to November 1992. He has held senior management positions with IBM Corporation, Xerox, SAIC and Gould Imaging and Graphics.

MR. DEBELLO, a director of the Company since November 1994, has been President of Solectek Corporation in San Diego, California, since April 1990. He held various positions in the John M. Thornton & Associates group of companies from July 1986 to April 1990. Prior to that, he was employed by the Los Angeles Olympic Organizing Committee coordinating the marketing efforts to supports ticket sales, traffic management and community relations.

MR. STEIMLE, a director of the Company since February 1987, has been Vice President and Chief Financial Officer of Advanced Fibre Communications, a telecommunications equipment company, since December 1993. Prior to that time, Mr. Steimle was Senior Vice President and Chief Financial Officer of Santa Cruz Operation from September 1991 to December 1993. Mr. Steimle served as Director of Business Development for Mentor Graphics, a software development company, from August 1989 to September 1991. Prior to that time, Mr. Steimle was the Corporate Vice President, Chief Financial Officer and Treasurer of Cipher Data Products, Inc., a manufacturer of data storage equipment.

MS. THORNTON, a director of the Company since April 1988, has been a private investor for more than six years. She served as Chairman of Medical Materials, Inc. in Camarillo until February 1996, is

on the Board of Directors of Thornton Winery Corporation in Temecula, the UCSD Medical Center, Sjogren's Syndrome Foundation in Port Washington, New York, and is a Life Trustee of the San Diego Museum of Art. Ms. Thornton is the spouse of John M. Thornton, a director.

Directors are elected by the stockholders at each annual meeting of stockholders to serve until the next annual meeting of stockholders or until their successors are duly elected and qualified. Officers are chosen by, and serve at the discretion of, the Board of Directors.

EXECUTIVE COMPENSATION

The following table sets forth all compensation awarded to, earned by, or paid for services rendered to the Company in all capacities during the last three completed fiscal years by (i) the Company's chief executive officer and (ii) the Company's two other most highly compensated executive officers who were serving as executive officers at the end of that year (together, the "Named Officers").

SUMMARY COMPENSATION TABLE

					LONG-TERM COMPENSATION
		ANNUAL COMPENSATION			AWARDS
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION	SECURITIES UNDERLYING OPTIONS
John M. Thornton	1995	$ 150,000	$ --	--	--
Chairman of the Board	1994	150,000	--	--	--
	1993	150,000	--	--	--
John F. Kessler	1995	140,000	--	--	--
President and Chief Executive Officer	1994	59,231(1)	--	--	200,000
	1993	--	--	--	5,000
Gerald I. Farmer, Ph.D	1995	137,627	--	--	--
Executive Vice President	1994	137,627	3,428	--	50,000
	1993	112,844		--	45,000

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(1) Mr. Kessler was elected President and Chief Executive Officer of the Company in April 1994.

The following table sets forth the number of shares covered by both exercisable and unexercisable stock options as of September 30, 1995. Also reported are values of "in-the-money" options that represent the positive spread between the respective exercise prices of outstanding stock options and the fair market value of the Company's Common Stock as of September 30, 1995.

OPTION VALUES AT SEPTEMBER 30, 1995

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END (1)	
NAME	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
John M. Thornton	0	0	$ 0	$ 0
John F. Kessler	86,805	118,195	20,944	27,861
Gerald Farmer, Ph.D.	56,250	38,750	25,688	9,977

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(1) Based on closing bid price of $1.4375 as of September 29, 1995 as reported on the Nasdaq SmallCap Market.

DIRECTOR COMPENSATION

The Company does not pay compensation for service as a director to persons employed by the Company. Outside directors are paid $1,000 for each meeting they attend.

EMPLOYEE BENEFIT PLANS

1986 AND 1988 STOCK OPTION PLANS. Mitek has two stock option plans, the 1986 Stock Option Plan (the "1986 Plan") and the 1988 Non-qualified Stock Option Plan (the "1988 Plan). The 1986 Plan

authorized the issuance of an aggregate of 630,000 shares of Common Stock. At September 30, 1995, 537,491 shares of Common Stock were reserved for issuance under the 1986 Plan of which 255,500 were subject to outstanding options and 281,991 remain available for future grants. The 1986 Plan authorizes the Company to grant incentive stock options to key employees (including directors and officers who are employees), and nonqualified stock options to key employees, directors and consultants, subject to certain requirements. The 1988 Plan authorizes the Company to grant to its directors, officers and key employees non-qualified stock options to purchase up to 650,000 shares of Mitek Common Stock. At September 30, 1995, 472,973 shares were reserved for issuance under the 1988 Plan of which 300,000 were subject to outstanding options and 172,973 remained available for future grants. The Compensation Committee of the Board of Directors administraters the 1986 Plan and the 1988 Plan. The Committee selects the recipients to whom options are granted and determines the number of shares to be awarded. Options granted pursuant to the 1986 Plan and the 1988 Plan are exercisable at a price determined by the Committee at the time of the grant, but in no event will the option price be lower than the fair market value of the common stock on the date of the grant. However, discounted options to directors under the 1988 Plan may be exercisable at $1.00 per share. Options become exercisable at such times and in such installments (which may be cumulative) as the Committee provides in the terms of each individual option agreement. In general, the Committee is given broad discretion to issue options in exchange and to accept a wide variety of consideration (including shares of Common Stock of the Company, promissory notes, or unexercised options) in payment for the exercise price of stock options.

EMPLOYEE SAVINGS PLAN. Effective January 1, 1991, the Company established an Employee Savings Plan (the "Savings Plan") intended to qualify under Section 401(k) of the Internal Revenue Code (the "Code"), which is available to all employees who satisfy the age and service requirements under the Savings Plan. The Savings Plan allows an employee to defer up to 15% of the employee's compensation for the pay period as elected in his or her salary deferral agreement on a pre-tax basis pursuant to a cash or deferred arrangement under Section 401(k) of the Code (subject to maximums permitted under federal law). This contribution generally will not be subject to federal tax until it is distributed from the Savings Plan. In addition, these contributions are fully vested and non-forfeitable. Contributions to the Savings Plan are deposited in a trust fund established in connection with the Savings Plan. The Company may make discretionary contributions to the Savings Plan at the end of each fiscal year as deemed appropriate by the Board of Directors. Vested amounts allocated to each participating employee are distributed in the event of retirement, death, disability or other termination of employment.

INDEMNIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS AND LIMITATION OF LIABILITY

As permitted by Section 145 of the Delaware General Corporation Law, the Amended and Restated Bylaws (the "Bylaws") of the Company provide that the Company shall indemnify its directors and officers to the fullest extent permitted by Delaware law, including circumstances in which indemnification is otherwise discretionary under Delaware law, and further requires the Company to indemnify such persons against expenses, judgments, fines, settlements and other amounts reasonably incurred in connection with any proceeding to which any such person may be made a party by reason of the fact that such person was an agent of the Company (including expenses, judgments, fines and settlements of derivative actions, unless indemnification is otherwise prohibited by law), provided such person acted in good faith and in a manner he reasonably believed to be in the best interests of the Company, and, in the case of a criminal proceeding, had no reason to believe his conduct was unlawful.

As permitted by the Delaware General Corporation Law, the Company's Certification of Incorporation includes a provision that eliminates the personal liability of its directors to the fullest extent permitted by the Delaware General Corporation Law, which eliminates personal liability for monetary damages for breach of fiduciary duty as director except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit.

CERTAIN TRANSACTIONS

At the close of its fiscal year ending September 30, 1994, the Company wrote down $1,046,000 of assets related to its TEMPEST business, attributable to the decline in the TEMPEST market. That write-down caused the Company's net capital to fall below the minimum listing requirements for the Nasdaq SmallCap Market, and the Company was delisted on March 9, 1995. In March, 1995, the Company issued an aggregate of 666,999 shares of its Common Stock to 15 individuals, in a private placement for an aggregate of $475,704, net of costs, or $0.71 per share. Mr. Thornton, Chairman of the Board, acquired 26,000 shares of Common Stock at a gross price of $.94 per share, and Mr. Kessler, President and Chief Executive Officer, acquired 35,000 shares, in that offering at a gross price of $.75 per share, on the same terms and conditions offered to other investors. The proceeds from this offering were used to increase the Company's net capital and in May 1995, the Company successfully reapplied for listing on the Nasdaq SmallCap Market. See "Risk Factors -- Recent Delisting" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Effective October 20, 1995, the Company entered into investment banking agreements with several NASD-registered broker dealers, including Cruttenden Roth Incorporated. Pursuant to those agreements, the Company issued an aggregate of 210,000 warrants to purchase its Common Stock at a price of $1.50 per share exercisable for a period of two years. The warrants were granted in exchange for the provision of various investment banking services, and contained piggyback registration rights which permit the holders to include their shares in any future registration statement filed by the Company until March 31, 1998, subject to certain limitations. See "Description of Capital Stock -- Registration Rights."

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information known to the Company with respect to the beneficial ownership of the Company's outstanding Common Stock as of June 15, 1996, and as adjusted to reflect the sale of the Common Stock being offered hereby by (i) each person (or group of affiliated persons) who is known by the Company to own beneficially more than 5% of the Company's Common Stock, (ii) each of the Company's directors, (iii) each of the Named Officers, (iv) all executive officers and directors of the Company as a group, and (v) each of the Selling Stockholders. Unless otherwise specified, the address of the stockholder is the address of the Company as set forth herein.

	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING (1)		NUMBER OF SHARES BEING OFFERED	SHARES BENEFICIALLY OWNED AFTER OFFERING (1)(2)	
DIRECTORS, NAMED OFFICERS AND 5% STOCKHOLDERS	NUMBER	PERCENT	NUMBER	NUMBER	PERCENT
John M. and Sally B. Thornton Trust (3)	3,702,584	47.7%	894,001	2,808,583	27.4%
John B. DeBello (4)	6,110	*	0	6,110	*
John F. Kessler (5)	224,304	2.9	0	224,304	2.2
Gerald I. Farmer (6)	93,193	1.3	0	93,193	*
Daniel F. Steimle (7)	32,854	*	0	32,854	*
Directors and Executive Officers as a Group (6 persons)	4,059,045	52.3 %	894,001	3,165,044	30.8 %
OTHER SELLING STOCKHOLDERS					
TRACS International Inc. (8)	3,000	*	3,000	0	*
Richard S. Dawson (9)	23,557	*	17,724	0	*
Stephen M. Baird (10)	23,391	*	19,224	0	*
Glenn Hamilton (8)	7,200	*	7,200	0	*
Ken Davis (8)	8,700	*	8,700	0	*
ETL Holdings Canada Inc. (8)	9,576	*	9,576	0	*
Solion Corporation of Alberta Ltd. (8)	9,576	*	9,576	0	*
Merritt Widen (11)	193,364	2.5	193,364	0	*
Martin Cooper (12)	104,000	1.3	104,000	0	*
Robert S. Colman (13)	100,000	1.3	100,000	0	*
Stephen W. Becker (14)	54,000	*	54,000	0	*
Richard Battaglino (15)	40,000	*	40,000	0	*
Nathan A. Low (16)	25,000	*	25,000	0	*
Douglas A. Backus (17)	20,000	*	20,000	0	*
J.P. III, Inc. Pension Plan (18)	20,000	*	20,000	0	*
David Rochat (19)	15,151	*	15,151	0	*
Mary E.C. Benek (20)	15,151	*	15,151	0	*
Frederick Knoop (21)	13,400	*	13,400	0	*
Wayne Johnson (22)	5,933	*	5,933	0	*

* Less than 1%

(1) As of June 15, 1996. Does not include (i) up to 162,500 shares issuable upon exercise of the Representative's Warrant, (ii) up to 215,000 shares issuable upon exercise of outstanding warrants and (iii) 387,059 issuable upon the exercise of options granted under the Option Plans.

(2) Assumes the Overallotment Option is not exercised. The Overallotment Option has been granted by the John M. and Sally B. Thornton Trust (the "Thornton Trust") in an amount up to 611,250 shares. If the Overallotment Option is exercised, the Thornton Trust will own 2,197,325 shares, or 20.2% of the outstanding shares.

(3) John M. Thornton and Sally B. Thornton, husband and wife, are trustees of a family trust, and are each directors of the Company. Mr. Thornton has served as its Chairman of the Board for the past nine years and was President and CEO from 1991-92.

(4) Includes 6,110 shares of Common Stock subject to options exercisable within 60 days of June 15, 1996. Mr. DeBello is a director of the Company.

(5) Represents 16,100 shares of Common Stock held by John F. Kessler IRA and 33,900 shares of Common Stock held by John F. and Kerry J. Kessler, tenants in common, and includes 174,304 shares of Common Stock subject to options exercisable within 60 days of June 15, 1996. Mr. Kessler is the President, CEO and a director of the Company.

(6) Represents 10,000 shares of Common Stock and includes 83,193 shares of Common Stock subject to options exercisable within 60 days of June 15, 1996. Dr. Farmer is a director and Executive Vice President of the Company.

(7) Represents 14,521 shares of Common Stock and includes 18,333 shares of Common Stock subject to options exercisable within 60 days of June 15, 1996. Mr. Steimle is a director of the Company.

(8) Address: c/o TRACS International, Inc., 10655 Southport Road, SW, Suite 560, Calgary, Alberta, Canada T2W 4Y1.

(9) Includes 5,833 shares of Common Stock subject to options exercisable within 60 days of June 15, 1996. Mr. Dawson is an employee at the Company's subsidiary Mitek Systems Canada, Inc. and was a founder of TRACS International, Inc. Address: c/o TRACS International, Inc., 10655 Southport Road, S.W., Suite 560, Calgary, Alberta, Canada T2W 4Y1.

(10) Includes 4,167 shares of Common Stock subject to options exercisable within 60 days of June 15, 1996. Mr. Baird is an employee of the Mitek Systems Canada, Inc. and was a founder of TRACS International Inc. Address: c/o TRACS International, Inc., 10655 Southport Road, S.W., Suite 560, Calgary, Alberta, Canada T2W 4Y1.

(11) Mr. Widen is an affiliate of Heartland Financial Services Corporation ("Heartland"). Heartland has provided financial services to the Company over the prior two years. Address: 1 Hallidie Plaza, #701, San Francisco, California 94102.

(12) Address: 2704 Ocean Front, Del Mar, California 92014.

(13) Address: 54 Lower Crescent, Sausalito, California 94965.

(14) Address: 4902 S.W. Bimini Circle N., Palm City, Florida 34990.

(15) Address: 67 Sullivan Street, New York, New York, 10012.

(16) Address: 515 West End Avenue, #33D, New York, New York, 10024.

(17) Address: 37 Kessel Court, #211, Madison, Wisconsin 53703.

(18) Address: 2 E. Mifflin Street, Suite 901, Madison, Wisconsin 53703.

(19) Address: RFD #1, Chelsea, Vermont 05038.

(20) Address: 2619 Prindle Road, Belmont, California 92002.

(21) Address: 10114 Walker Lake Drive, Great Falls, Virginia 22066.

(22) Address: 22 Wakeman Place, Westport, Connecticut 06880.

DESCRIPTION OF CAPITAL STOCK

The Company's authorized capital stock consists of (i) 20,000,000 shares of Common Stock, $.001 par value, and (ii) 1,000,000 shares of Preferred Stock, $.001 par value. All outstanding shares of Common Stock are fully paid and nonassessable.

COMMON STOCK

As of June 20, 1996, there were 7,759,805 outstanding shares of Common Stock held by 622 holders of record. Each share of Common Stock has an equal and ratable right to receive dividends when, as and if declared by the Board of Directors out of assets legally available therefor and subject to the dividend obligations of the Company to the holders of any preferred stock then outstanding. In the event of a liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share equally and ratably in the assets available for distribution after the payment of all liabilities, and subject to any prior rights of any holders of preferred stock that at the time may be outstanding.

The holders of Common Stock have no preemptive rights or other rights to subscribe for securities of the Company. Each share of Common Stock is entitled to one vote in the election of directors and on all matters and submitted to a vote of stockholders. Holders of Common Stock currently have the right to cumulate their votes in the election of directors under a provision of the California General Corporate Law which applies to the Company by virtue of the nature of its operations in California. Under the California General Corporation Law, the Company may amend its Bylaws to provide for the elimination of a stockholder's right to cumulate votes in the election of directors. Such a provision will become effective when the shares of the Company are listed on the New York Stock Exchange or American Stock Exchange, or when the Company's shares are listed on the Nasdaq National Market and the Company has at least 800 holders of its equity securities (measured as of the record date for its most recent annual meeting of stockholders). The Company has applied to have its Common Stock listed on the Nasdaq National Market on the effectiveness of this offering, and expects that on such date it will have in excess of 800 holders of its equity securities. The Company currently plans to submit to its stockholders an amendment to its Bylaws that would eliminate cumulative voting for directors in connection with the Company's next annual meeting of stockholders.

PREFERRED STOCK

The Company has no outstanding shares of Preferred Stock. Preferred stock may, however, be issued from time to time in one or more series, and the Board of Directors, without further approval of the stockholders, is authorized to fix the dividend rates and terms, conversion preferences, privileges and restriction rights and terms, liquidation preferences, sinking fund and any other rights, preferences, privileges and restrictions applicable to each series of preferred stock. The purpose of authorizing the Board of Directors to determine such rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, adversely affect the voting power of the holders of Common Stock and, under certain circumstances, make it more difficult for a third party to gain control of the Company.

DELAWARE ANTI-TAKEOVER LAW

The Company is subject to the provisions of Section 203 of the Delaware General Corporation Law (the "Anti-Takeover Law") regulating corporate takeovers. The Anti-Takeover Law prevents certain Delaware corporations, including those whose securities are listed on the Nasdaq National Market, from engaging, under certain circumstances, in a "business combination" (which includes a merger or sale of more than 10% of the corporation's assets), with any "interested stockholder" (a stockholder who owns 15% or more of the corporation's outstanding voting stock) for three years following the date that such stockholder became an "interested stockholder." A Delaware corporation may "opt out" of the Anti-Takeover Law with an express provision in its original certificate of

incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. The Company has not "opted out" of the provisions of the Anti-Takeover Law.

CERTAIN CHARTER PROVISIONS

Section 102 of the Delaware General Corporation Law provides that Delaware corporations may include provisions in their certificate of incorporation relieving directors of monetary liability for breach of their fiduciary duty as directors, except for the liability of a director resulting from (i) any transaction from which the director derives an improper personal benefit, (ii) acts or omissions involving intentional misconduct or the absence of good faith, (iii) acts or omissions constituting an unexcused pattern of inattention to the director's duty, (iv) acts or omissions showing a reckless disregard for the director's duty, or (v) the making of an illegal distribution to stockholders or an illegal loan or guaranty.

The Company's Certificate of Incorporation provides that the personal liability of the directors of the Company is eliminated to the fullest extent permitted under Delaware law. The Company's Bylaws provide that the Company shall indemnify its directors and officers to the fullest extent permitted by Delaware law, including circumstances in which indemnification is otherwise discretionary under Delaware law, and further requires the Company to indemnify such persons against expenses, judgments, fines, settlements and other amounts reasonably incurred in connection with any proceeding to which any such person may be made a party by reason of the fact that such person was an agent of the Company (including expenses, judgments, fines and settlements of derivative actions, unless indemnification is otherwise prohibited by law), provided such person acted in good faith and in a manner he reasonably believed to be in the best interests of the Company, and, in the case of a criminal proceeding, had no reason to believe his conduct was unlawful. The Company believes that the foregoing provisions are necessary to attract and retain qualified persons as directors and officers.

REGISTRATION RIGHTS

The Company has granted registration rights under agreements with three principal groups of security holders.

In March 1995, the Company sold shares of its Common Stock to 15 individuals in a private placement in reliance on Section 4(2) of the Securities Act. See "Certain Transactions." The Company also entered into registration rights agreements with each of the individuals in that offering. Pursuant to the terms of the registration rights agreement, investors holding a majority of the shares acquired in the private placement have the right to demand that the Company effect one registration statement covering their shares. This Prospectus is part of a registration statement that includes certain of the shares issued in connection with that offering, and no investors from the private placement will have registration rights after the effectiveness of this Offering. In the event that this Offering is not completed, the holders of a majority of the shares issued in connection with the private placement would have the right to demand that the Company effect a registration statement on or before March 31, 1997. Alternatively, the Company could fulfill its obligations under the registration rights agreements by providing the private placement investors an opportunity to include their shares in any other registration statement filed by the Company during that period.

In June 1995, the Company purchased substantially all of the assets of TRACS International, Inc. ("TRACS"), a Calgary Canada corporation, in exchange for 75,000 shares of its Common Stock and royalties on certain product sales. In connection with that transaction, the Company entered into a registration rights agreement with TRACS, pursuant to which the Company covenanted to use its best efforts to effect a registration covering such shares on or before June 30, 1996. All of the shares originally issued to TRACS are presently included in this Offering, and upon its completion the Company's obligations to TRACS under the registration rights agreement will be fulfilled.

In October 1995, the Company entered into investment banking agreements with several NASD registered broker-dealers. See "Certain Transactions." Pursuant to the investment banking agreements, the Company issued warrants to purchase Common Stock to the broker-dealers which vested upon the performance of certain specified investment banking services. The warrants also provided for "piggy-back" registration rights which permit the holders to include the Common Stock under-lying their warrants in any future registration statement filed by the Company at any time prior to March 31, 1998, subject to certain limitations such as underwriter cutbacks. None of the shares issuable upon exercise of those warrants are included in the present offering. As of the date of this prospectus, 210,000 warrants had been issued to broker-dealers, of which 170,000 had vested and 10,000 had expired pursuant to their terms.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is Chemical Mellon Shareholder Services.

UNDERWRITING

Under the terms and subject to the conditions of the Underwriting Agreement, the Underwriters named below, for whom Cruttenden Roth Incorporated ("Cruttenden Roth"), is acting as representative (the "Representative") have severally agreed to purchase from the Company and the Selling Stockholders, and the Company and the Selling Stockholders have agreed to sell to each Underwriter, the aggregate number of shares of Common Stock set forth opposite their respective names on the table below. The Underwriting Agreement provides that the obligations of the Underwriter to pay for and accept delivery of the shares of Common Stock are subject to certain conditions precedent, and that the Underwriter is committed to purchase and pay for all shares if any shares are purchased.

UNDERWRITER	NUMBER OF SHARES
Cruttenden Roth Incorporated.....	
Total.....	

The Company and the Selling Stockholders have been advised by the Representative that the Underwriter propose to offer the shares of Common Stock to the public at the offering price per share set forth on the cover page of this Prospectus and to certain dealers (who may include the Underwriter) at such price less a concession not in excess of $ per share. The Underwriter may allow, and such dealers may reallow, a concession to certain other dealers (who may include the Underwriter) not in excess of $ per share. After the offering to the public, the offering price and other selling terms may be changed by the Representative.

The Company has agreed to issue the Representative a Warrant (the "Representative's Warrant") for a consideration of $162.50. The Representative's Warrant is exercisable at any time during the four-year period commencing one year from the date of this Prospectus to purchase shares of the Company's Common Stock in an amount up to 162,500 shares of Common Stock at an exercise price equal to One Hundred Twenty Percent (120%) of the price at which the Common Stock is being offered hereby. The Representative's Warrant is not transferable for one year from the date of this Prospectus except (i) to an Underwriter or a partner or officer of an Underwriter or (ii) by will or operation by law. During the term of the Representative's Warrant, the holders thereof are given the opportunity to profit from a rise in the market price of the Company's securities. The Company may find it more difficult to raise additional equity capital while the Representative's Warrant is outstanding. At any time at which the Representative's Warrant is likely to be exercised, the Company would probably be able to obtain additional equity capital on more favorable terms. If the Company files a registration statement relating to an equity offering under the provisions of the Securities Act of 1933, as amended (the "Securities Act") at any time during the five-year period following the date of this Prospectus, the holders of the Representative's Warrant or underlying shares of Common Stock will have the right, subject to certain conditions, to include in such registration statement, at the Company's expense, all or part of the underlying shares of Common Stock at the request of the holders. Additionally, the Company has agreed, for a period of five years commencing on the date of this Prospectus, on demand of the holders of a majority of the Representative's Warrant or the underlying shares of Common Stock issued thereunder, to register the shares of Common Stock underlying the Representative's Warrant one time at the Company's expense. The number of shares of Common Stock issuable under the Representative's Warrant and the exercise price are subject to adjustment under certain events to prevent dilution.

The Company has agreed that for a period of one year after the effective date of the Registration Statement, to which this Prospectus relates, if it conducts an offering of any debt or equity securities for the purpose of raising capital for the Company, then the Representative will have the right of first refusal to manage the offering.

A Selling Stockholder has granted an option to the Representative exercisable during the 30-day period after the date of this Prospectus, to purchase up to a maximum of 611,250 shares of Common

Stock at the public offering price per share, less the underwriting discounts and commissions, set forth on the cover page of this Prospectus. The Representative may exercise the Overallotment Option only to cover overallotments made in connection with the sale of the Common Stock offered hereby. To the extent the Representative exercises the Overallotment Option, each Underwriter will be committed, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number of shares of Common Stock to be purchased by such Underwriter, as shown in the above table, bears to the total shown.

In connection with this Offering, the underwriter and selling group members (if any) or their respective affiliates may engage in passive market making transactions in the Common Stock on the Nasdaq SmallCap Market, immediately prior to the commencement of sales in this offering, in accordance with Rule 10b-6A under the Exchange Act. Passive market making consists of displaying bids in the Nasdaq SmallCap Market limited by the bid prices of independent market makers on each day. Such bids are generally limited to a specified percentage of the passive market maker's average daily trading volume in the Common Stock during a specified prior period and must be discontinued when such limit is reached. Passive market making may stabilize the market price of the Common Stock at a level above that which might otherwise prevail and, if commenced, may be discontinued at any time.

In the Underwriting Agreement, the Company and the Selling Stockholders have agreed to indemnify the Underwriter against certain liabilities that may be incurred in connection with this offering, including liabilities under the Securities Act or to contribute payments that the Underwriter may be required to make in respect thereof.

Other than the shares of Common Stock to be sold by the Selling Stockholders pursuant to this Prospectus, the Company and its directors and officers and the Selling Stockholders have agreed that, without the prior written consent of Cruttenden Roth Incorporated each will not, directly or indirectly, sell, contract to sell, make any short sale, pledge, or otherwise dispose of, any shares of Common Stock, options to acquire shares of Common Stock or securities exchangeable for or convertible into shares of Common Stock of the Company, for a period of 180 days after the effective date of the Registration Statement to which this Prospectus relates, subject to certain limited exceptions. In addition, during the period between 180 days and 270 days after the effective date of the Registration Statement, the Company and its directors and officers and the Selling Stockholders will not sell more than the number of shares of Common Stock such person or entity can sell pursuant to Rule 144 of the Securities Act.

The Representative has informed the Company and the Selling Stockholders that the Underwriter will not confirm sales to discretionary accounts.

LEGAL MATTERS

The validity of the shares of Common Stock offered hereby will be passed upon for the Company and the Selling Stockholders by Luce, Forward, Hamilton & Scripps LLP, San Diego, California. Gray Cary Ware & Freidenrich, a Professional Corporation, La Jolla, California, is acting as counsel for the Underwriter in connection with certain legal matters, relating to the Common Stock offered hereby. Luce, Forward, Hamilton & Scripps LLP has warrants to purchase 15,000 shares of the Company's Common Stock at an exercise price of $1.50 per share.

EXPERTS

The consolidated financial statements as of September 30, 1994 and 1995, and for each of the three years in the period ended September 30, 1995, included in this Prospectus and Registration Statement, have been audited by Deloitte & Touche LLP, Independent Auditors, as stated in their report, appearing herein and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

AVAILABLE INFORMATION

Mitek has filed a Registration Statement with respect to the Shares offered by this Prospectus on Form SB-2 (together with all amendments and exhibits thereto, the "Registration Statement") under the Securities Act with the Securities and Exchange Commission (the "Commission"). This Prospectus does not contain all of the information set forth in the Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission. For further information, reference is hereby made to the Registration Statement, which may be inspected without charge at the Public Reference Section of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 at the regional offices of the Commission located at 7 World Trade Center, New York, New York 10048, and at Northwest Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, copies of all or any portion of the Registration Statement may be obtained from the Public Reference Section of the Commission upon payment of the prescribed fees.

The Company is also subject to the informational reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Commission. Such reports, proxy statements and other information can be inspected and copied without charge at the Public Reference Section of the Commission, and at the Commission's regional offices; and copies of such material can be obtained from the Public Reference Section of the Commission upon payment of prescribed fees.

ADDITIONAL INFORMATION

The Company will provide without charge to each person to whom a copy of this Prospectus has been delivered, upon the written or oral request of such person, a copy of any and all of the documents referred to above which have been or may be incorporated in this Prospectus by reference (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference therein). Requests for such copies should be directed to the Company's principal executive offices located at 10070 Carroll Canyon Road, San Diego, California 92131, Attention: President, telephone number (619) 635-5900.

MITEK SYSTEMS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Mitek Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Mitek Systems, Inc. (the "Company") as of September 30, 1995 and 1994, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at September 30, 1995 and 1994, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1995, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

San Diego, California
November 10, 1995

MITEK SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS

	SEPTEMBER 30,		
	1994	1995	MARCH 31, 1996 (UNAUDITED)
Current Assets:			
Cash	$ 99,976	$ 103,895	$ 301,190
Accounts receivable -- net	1,512,373	1,619,886	1,895,858
Note receivable		158,335	
Income taxes receivable	238,950		
Inventories	127,117	131,929	280,163
Prepaid expenses	72,534	52,777	50,785
Total current assets	2,050,950	2,066,822	2,527,996
Property and Equipment -- net	208,683	131,085	90,852
Other Assets	813,982	666,393	517,141
Total	$ 3,073,615	$ 2,864,300	$ 3,135,989
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Current portion of long-term liabilities	$ 335,662	$ 267,927	$ 8,362
Note payable -- bank	226,875		201,676
Amount payable under factoring agreement		195,545	
Accounts payable	570,407	722,955	523,279
Accrued payroll and related taxes	202,914	163,789	230,312
Other accrued liabilities	562,092	114,803	471,611
Total current liabilities	1,897,950	1,465,019	1,435,240
Long-term Liabilities	366,831	56,567	10,543
Commitments and Contingencies (Note 9)			
Stockholders' Equity:			
Common stock -- $.001 par value; 20,000,000 shares authorized, 7,727,959 and 6,913,013 issued and outstanding in 1995 and 1994, respectively	6,913	7,728	7,733
Additional paid-in capital	2,820,619	3,423,072	3,426,595
Accumulated deficit	(2,018,698)	(2,088,086)	(1,744,122)
Total stockholders' equity	808,834	1,342,714	1,690,206
Total	$ 3,073,615	$ 2,864,300	$ 3,135,989

See notes to consolidated financial statements.

MITEK SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED SEPTEMBER 30,			SIX MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
Net sales	$ 13,065,030	$ 10,162,511	$ 6,633,176	$ 3,328,273	$ 3,749,282
Cost of goods sold	9,570,523	6,656,394	3,330,109	1,720,935	1,476,429
Gross margin	3,494,507	3,506,117	3,303,067	1,607,338	2,272,853
Costs and expenses:					
General and administrative	1,382,640	1,104,972	1,117,014	468,546	613,188
Research and development	1,192,069	1,024,321	1,004,131	575,863	587,245
Selling and marketing	1,632,094	1,513,309	1,388,422	704,539	586,583
Tempest writedowns and accruals		1,046,394			
Interest -- net	195,823	97,538	66,941	39,280	81,707
Total costs and expenses	4,402,626	4,786,534	3,576,508	1,788,228	1,868,723
Operating income (loss)	(908,119)	(1,280,417)	(273,441)	(180,890)	404,130
Other income			204,853	204,853	
Income (loss) before income taxes	(908,119)	(1,280,417)	(68,588)	23,963	404,130
Provision (benefit) for income taxes	(6,265)	(222,766)	800	4,206	60,166
Net income (loss)	$ (901,854)	$ (1,057,651)	$ (69,388)	$ 19,757	$ 343,964
Income (loss) per share	$ (0.13)	$ (0.15)	$ (0.01)	$ .00	$ .04

See notes to consolidated financial statements.

MITEK SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED MARCH 31, 1996 (UNAUDITED) AND
THE YEARS ENDED SEPTEMBER 30, 1995, 1994 AND 1993

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
Balance, October 1, 1992	$ 6,865	$ 2,772,240	$ (59,193)	$ 2,719,912
Net loss			(901,854)	(901,854)
Balance, September 30, 1993	6,865	2,772,240	(961,047)	1,818,058
Issuance of common stock	15	18,735		18,750
Exercise of stock options	33	29,644		29,677
Net loss			(1,057,651)	(1,057,651)
Balance, September 30, 1994	6,913	2,820,619	(2,018,698)	808,834
Issuance of common stock through private placement for cash	667	475,037		475,704
Issuance of common stock in connection with Tracs International, Inc. acquisition (Note 2)	75	78,563		78,638
Exercise of stock options	73	48,853		48,926
Net loss			(69,388)	(69,388)
Balance, September 30, 1995	7,728	3,423,072	(2,088,086)	1,342,714
Exercise of stock options	5	3,523		3,528
Net income			343,964	343,964
Balance, March 31, 1996	$ 7,733	$ 3,426,595	$ (1,744,122)	$ 1,342,714

See notes to consolidated financial statements.

MITEK SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED SEPTEMBER 30,			SIX MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
Operating Activities:					
Cash received from customers	$ 13,846,571	$10,196,004	$ 6,530,318	$ 3,494,295	$ 3,473,310
Cash paid to suppliers and employees	(11,492,487)	(8,949,360)	(7,009,961)	(3,744,447)	(3,017,412)
Interest paid	(183,469)	(136,120)	(85,903)	(42,487)	(87,242)
Income tax refund received (paid)	185,134	58,852	238,150	238,150	(4,600)
Net cash provided by (used in) operating activities	2,355,749	1,169,376	(327,396)	(54,489)	364,056
Investing Activities:					
Net purchases of property and equipment	(237,962)	(94,434)	(49,311)	(10,118)	(29,166)
Acquisition of business	(1,800,000)				
Proceeds from sale of Tempest			206,665	50,000	
Proceeds from sale of property and equipment		36,923	6,045	6,045	
Net cash provided by (used in) investing activities	(2,037,962)	(57,511)	163,399	45,927	(29,166)
Financing Activities:					
Proceeds from borrowings	1,000,000		710,339	390,000	1,506,816
Repayment of debt	(1,168,622)	(1,254,437)	(1,067,053)	(483,764)	(1,806,274)
Proceeds from note receivable					158,335
Proceeds from exercise of stock options		6,195	48,926	26,060	3,528
Net proceeds from sales of stock			475,704	153,896	
Net cash provided by (used in) financing activities	(168,622)	(1,248,242)	167,916	86,192	(137,595)
Net Increase (decrease) in Cash	149,165	(136,377)	3,919	77,630	197,295
Cash at Beginning of Year	87,188	236,353	99,976	99,976	103,895
Cash at End of Year	$ 236,353	$ 99,976	$ 103,895	$ 177,606	$ 301,190
Reconciliation of Net Income to Net Cash Provided by (Used in) Operating Activities:					
Net income (loss)	$ (901,854)	$(1,057,651)	$ (69,388)	$ 19,757	$ 343,964
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,102,980	807,912	423,690	212,387	218,651
Gain on sale of Tempest			(204,853)	(204,853)	
Gain on sale of property and equipment		(33,409)	(6,045)	(6,045)	
Common stock issued as compensation		42,232			
Changes in assets and liabilities:					
Deferred rent	102,255	38,737	(76,064)	(76,608)	
Accounts receivable	960,410	117,045	(96,813)	172,067	(275,972)
Income taxes receivable		(238,950)	238,950	238,950	
Inventory, prepaid expenses and other assets	1,507,291	1,275,875	(126,762)	(180,193)	(146,242)
Accounts payable and accrued expenses	(415,333)	217,585	(410,111)	(229,951)	223,655
Net cash provided by (used in) operating activities	$ 2,355,749	$ 1,169,376	$ (327,396)	$ (54,489)	$ 364,056

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS -- Mitek Systems, Inc. (the "Company") is a designer, manufacturer and marketer of advanced character recognition products for intelligent forms processing applications ("Character Recognition"). Through March 1995, the Company was also a systems integrator and value-added reseller of computer equipment systems to businesses and high-security governmental agencies ("Tempest") (see Note 3).

BASIS OF CONSOLIDATION -- The consolidated financial statements include accounts of Mitek Systems, Inc. and its wholly-owned subsidiary, Mitek Systems Canada, Incorporated on June 21, 1995. All intercompany transactions and balances are eliminated in consolidation.

UNAUDITED FINANCIAL INFORMATION -- The consolidated financial information as of March 31, 1996 and for the six months ended March 31, 1995 and 1996 included in the consolidated financial statements and notes thereto is unaudited. In the opinion of management, such information contains all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of such information. Information for the six months ended March 31, 1996 is not necessarily indicative of the results to be expected for the entire year.

ACCOUNTS RECEIVABLE -- Accounts receivable are net of an allowance for doubtful accounts of $32,953 in 1995 and $19,841 in 1994. The provision for bad debts was $60,000, $115,895 and $0 for the years ended September 30, 1995, 1994 and 1993, respectively.

INVENTORIES -- Inventories are recorded at the lower of cost (on a first-in, first-out basis) or market. Major classes of inventories at September 30, 1995 and 1994 were as follows:

	1994	1995
Raw materials	$ 69,567	$ 36,929
Work-in-process		42,970
Finished goods	57,550	52,030
Total	$ 127,117	$ 131,929

PROPERTY AND EQUIPMENT -- Following is a summary of property and equipment as of September 30, 1995 and 1994:

	1994	1995
Property and equipment -- at cost:		
Equipment	$ 2,460,016	$ 1,055,877
Furniture and fixtures	96,169	61,772
Leasehold improvements	78,094	52,985
	2,634,279	1,170,634
Less: accumulated depreciation and amortization	2,425,596	1,039,549
Total	$ 208,683	$ 131,085

DEPRECIATION AND AMORTIZATION -- Depreciation and amortization of property and equipment are provided using the straight-line method over estimated useful lives ranging from three to five years. Depreciation and amortization of property and equipment totalled $153,691, $352,543, and $410,349 for the years ended September 30, 1995, 1994, and 1993, respectively. Amortization of prepaid license/ support fees (see Note 2) totalled $270,000, $455,369 and $692,629 for the years ended September 30, 1995, 1994, and 1993, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

WARRANTY -- The Company accrues a warranty cost for all products sold. At September 30, 1995 and 1994, other accrued liabilities included an accrued warranty liability of $19,176 and $44,098, respectively. Warranty expense was $-0-, $44,429, and $61,000 for the years ended September 30, 1995, 1994, and 1993, respectively.

REVENUE RECOGNITION -- Revenue from product sales is generally recognized upon shipment.

RESEARCH AND DEVELOPMENT -- Research and development costs are expensed in the period incurred.

INCOME TAXES -- The provision (benefit) for income taxes for the year ended September 30, 1993 was computed pursuant to Statement of Financial Accounting Standards No. 96 (FAS 96) "Accounting for Income Taxes". Effective October 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 (FAS 109) "Accounting for Income Taxes," which was used in computing the provision for income taxes for the years ended September 30, 1994 and 1995 (see Note 7).

LOSS PER SHARE -- Loss per share is based on the weighted average number of common and common equivalent shares outstanding during the year. Outstanding stock options are included as common equivalents using the treasury stock method when the effect is dilutive. The weighted average number of shares used in determining loss per share was 7,285,788 in 1995; 6,877,425 in 1994; and 6,865,644 in 1993.

STATEMENTS OF CASH FLOWS -- Significant non-cash investing and financing activities were comprised of the following:

	YEAR ENDED SEPTEMBER 30,		
	1993	1994	1995
Capital lease obligations and installment debt incurred to acquire property and equipment	$ 107,427		
Conversion o deferred rent to short-term obligation due to lease termination (Note 8)		$ 198,762	
Note receivable for the sale of the Tempest product line and related assets (Note 3)			$ 350,000
Shares exchanged for the assets and assumed liabilities of Tracs International, Inc. (Note 2)			78,638

2. ACQUISITION

On June 21, 1995, the Company purchased substantially all of the assets and assumed the liabilities of Tracs International, Inc., a Calgary, Canada based developer of local area network facsimile servers. The purchase price included 75,000 unregistered shares of the Company's common stock and a 5% royalty on facsimile related sales for a maximum period of three years or a maximum amount of $300,000. Additional issuances of the Company's common shares may occur, contingent upon the exceeding of certain revenue targeted during a six month period following release from beta testing of a new product. The purchase resulted in $136,250 of goodwill, to be amortized over 60 months.

3. SALE OF TEMPEST BUSINESS

On March 17, 1995, the Company sold its Tempest business for $350,000. The Company recognized a gain on this sale of $204,853 which is recorded as other income in the consolidated statement of operations.

4. STOCKHOLDERS' EQUITY

OPTIONS -- The Company has two stock option plans for executives and key individuals who make significant contributions to the Company. The 1986 plan provides for the purchase of up to 630,000 shares of common stock through incentive and non-qualified options. The 1988 plan provides for the purchase of up to 650,000 shares of common stock through non-qualified options. For both plans, options must be granted at fair market value and for a term of not more than six years. Employees owning in excess of 10% of the outstanding stock are excluded from the plans.

Information concerning all stock options granted by the Company for the years ended September 30, 1995, 1994 and 1993 is as follows:

	SHARES	PRICE RANGE
Balance, October 1, 1992	755,834	$ .656-2.250
Granted	121,000	.670-1.063
Cancelled	(4,500)	.670-1.560
Balance, September 30, 1993	872,334	.656-2.250
Granted	357,500	1.160-1.340
Exercised	(32,369)	.656-1.810
Cancelled	(404,465)	.656-2.250
Balance, September 30, 1994	793,000	.656-2.250
Granted	81,000	1.09-1.250
Exercised	(72,947)	.656-1.159
Cancelled	(245,553)	.656-2.250
Balance, September 30, 1995	555,500	.656-2.250

At September 30, 1995, options for 281,991 and 172,973 shares remained available for granting under the 1986 and 1988 stock option plans, respectively. At September 30, 1995, options for 291,597 shares were exercisable.

SALE OF COMMON STOCK -- The Company undertook a private placement stock offering during the second and third quarters of 1995 in which 666,999 shares of common stock were issued, with net proceeds of $475,704.

5. NOTES PAYABLE -- BANK

At September 30, 1994, the Company had $226,875 outstanding on a note payable to a bank at an interest rate of 8.75%. The original note payable was paid-off in full during 1995.

In October 1992, the bank agreed to advance an additional $1,000,000. The $1,000,000 advance was payable in monthly installments of $20,833 plus interest at prime plus 2% through November 1, 1993, at which time all unpaid principal and interest were due. On November 19, 1993, the Company refinanced the then remaining balance of $750,000. Under the refinancing, the term of the advance was extended to November 1, 1996. The outstanding balance of the advance was $291,667 and $541,667 as of September 30, 1995 and 1994, respectively.

Under the above term loan, the Company was required to maintain a minimum net worth of $500,000 in addition to certain other financial ratios, and all of the Company's existing or hereafter acquired assets are pledged to collateralize these notes. The Company's principal investor may be required to advance funds to the Company to maintain the net worth and other financial ratios stipulated under the agreements. As of September 30, 1995, the Company was in compliance with all the financial ratio requirements.

6. FACTORING AGREEMENT

In September 1995, the Company entered into a receivable factoring agreement with a finance company. Under the agreement, the finance company agreed to finance receivables from the Company up to a maximum of $650,000. The finance fee is calculated by taking 10% of the gross face value of the transferred receivables for every 10 day period from the date the receivables are transferred until such receivables are collected, subject to a minimum finance fee of $6,500 per month. Such agreement expires in March 1996 and is renewable at the option of the Company for six-month terms. At September 30, 1995 the Company factored receivable balance was approximately $196,000.

7. INCOME TAXES

For the years ended September 30, 1995, 1994 and 1993, the Company's provision (benefit) for income taxes was as follows:

	1993	1994	1995
Federal -- current	$ (7,065)	$ (227,000)	
State -- current	800	4,234	$ 800
Total	$ (6,265)	$ (222,766)	$ 800

The federal benefit for fiscal years 1994 and 1993 represents the carryback of net operating losses to recover taxes paid in prior periods.

Effective October 1, 1993, the Company adopted Statement of Financial Accounting Standards (FAS) No. 109, "Accounting for Income Taxes". This Statement supersedes FAS No. 96, which had been in use by the Company. There was no material cumulative effect of adopting FAS No. 109 and no material effect on the effective tax rate for fiscal 1994.

There was no provision for deferred income taxes in 1995, 1994 or 1993. Under FAS No. 109, deferred income tax liabilities and assets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax liabilities and assets as of September 30, 1995 and 1994 are as follows:

	1994	1995
Deferred tax assets:		
Reserves not currently deductible	$ 610,000	$ 21,000
Book depreciation and amortization in excess of tax	161,000	108,000
Research credit carryforwards	360,000	529,000
Net operating loss carryforwards	46,000	838,000
Capitalized research and development costs	27,000	24,000
Other	86,000	148,000
Total deferred tax assets	1,290,000	(1,668,000)
Valuation allowance for net deferred tax assets	(1,290,000)	(1,668,000)
Total	$ 0	$ 0

The Company has provided a valuation allowance against deferred tax assets recorded as of September 30, 1995 and 1994 due to uncertainties regarding the realization of such assets.

The research credit and net operating loss carryforwards expire during the years 2004 to 2010.

7. INCOME TAXES (CONTINUED)

The differences between the provision (benefit) for income taxes and income taxes computed using the U.S. federal income tax rate were as follows for the years ended September 30:

	1993	1994	1995
Amount computed using statutory rate (34%)	$ (308,760)	$ (435,342)	$ (23,320)
Increase in valuation reserve for deferred tax assets		203,829	192,320
Temporary differences:			
Accrued expenses not deductible until paid	285,970		(169,000)
Deductible expenses accrued in financial statements of prior years	(24,893)		
Depreciation	41,383		
Non deductible items	3,539	4,513	
Other	(4,304)		
State income taxes	800	4,234	800
Provision (benefit) for income taxes	$ (6,265)	$ (222,766)	$ 800

8. LONG-TERM LIABILITIES

As of September 30, 1995 and 1994, long-term liabilities were as follows:

	1994	1995
Capital lease obligations (see Note 9)	83,766	$ 31,831
Deferred rent payable (see Note 9)	77,060	996
Notes payable bank (see Note 5)	768,542	291,667
	929,368	324,494
Less current portions	(562,537)	(267,927)
Total	$ 366,831	$ 56,567

9. COMMITMENTS AND CONTINGENCIES

LEASES -- The Company's offices and manufacturing facilities are leased under non-cancellable operating leases. The primary facilities lease expires in April 30, 1998, at which time the lease is renewable at current market rates. For financial statement purposes, the lease payments are expensed over the lease term.

In addition, the following property and equipment is leased under non-cancellable capital leases as of September 30, 1995 and 1994:

	1994	1995
Equipment	$ 464,589	$ 133,751
Furniture and fixtures	30,738	
Leasehold improvements	5,928	
	501,255	133,751
Less accumulated amortization	(444,631)	(100,274)
Total	$ 56,624	$ 33,477

9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Future annual minimum rental payments under non-cancellable leases are as follows:

	OPERATING LEASES	CAPITAL LEASES
Year Ending September 30:		
1996	$ 119,135	$ 21,865
1997	130,213	11,220
1998	84,228	4,993
1999	2,153	
Total	335,729	38,078
Less amount representing interest		6,247
Present value of minimum lease payments	$ 335,729	$ 31,831

Rent expense for operating leases for the years ended September 30, 1995, 1994 and 1993 totalled $62,509, $480,996 and $466,287, respectively.

10. PRODUCT REVENUES AND SALES CONCENTRATIONS

PRODUCT REVENUES -- During fiscal years 1995 and 1994 the Company's revenues were derived primarily from two product lines: Character Recognition and Tempest. Prior to fiscal 1993, the Company's revenues were generated solely from Tempest products. Revenues by product line, as a percentage of net sales, are summarized as follows:

	YEAR ENDED SEPTEMBER	
	1994	1995
Tempest	54%	22%
Character recognition	45	74
Other	1	4

SALES CONCENTRATIONS -- For the years ended September 30, 1995, 1994 and 1993, the Company had the following sales concentrations:

	1993	1994	1995
U.S. government and its agencies			
* Percent of total sales	12%	11%	16%
Non-governmental customers to which sales were in excess of 10% of total sales			
* Number of customers	2	1	2
* Aggregate percentage of sales	45%	21%	25%
Foreign Sales -- primarily Europe	23%	13%	21%

* * * * * *

MITEK SYSTEMS, INC.
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

The following unaudited pro forma consolidated statement of operations for the year ended September 30, 1995 gives effect to the sale of the TEMPEST line of business which occurred on March 17, 1995. This transaction is reflected as of October 1, 1994. The pro forma information is based on the September 30, 1995 statement of operations of Mitek Systems, Inc. ("Mitek"), giving effect to the completed sale of Mitek's TEMPEST line of business and the accounting assumptions and adjustments described in the accompanying notes to the pro forma consolidated statement of operations.

The unaudited pro forma consolidated statement of operations has been prepared by the management of Mitek based upon the unaudited statement of operations of the TEMPEST line of business for the period from October 1, 1994 to March 17, 1995 (the date of sale) and the statement of operations of Mitek for the year ended September 30, 1995.

Management of Mitek does not believe that the unaudited pro forma consolidated statement of operations is indicative of the results that actually would have occurred if the sale had taken effect on the date indicated or which may be obtained in the future. The unaudited pro forma consolidated statement of operations should be read in conjunction with the financial statements and notes of Mitek Systems, Inc.

MITEK SYSTEMS, INC.
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 1995

	MITEK SYSTEMS, INC.	PRO FORMA ADJUSTMENTS	PRO FORMA CONSOLIDATED
Net sales	$6,633,176	$(1,498,000)(A)	$ 5,135,176
Cost of goods sold	3,330,109	(1,142,432)(A)	2,187,677
Gross margin	3,303,067	(355,568)	2,947,499
Costs and expenses:			
General and administrative	1,117,014		1,117,014
Research and development	1,004,131	(58,329)(A)	945,802
Selling and marketing	1,388,422		1,388,422
Interest -- net	66,941		66,941
Total costs and expenses	3,576,508	(58,329)	3,518,179
Operating loss	(273,441)	(297,239)	(570,680)
Other income	204,853	(204,853)(B)	0
Loss before income taxes	(68,588)	(502,092)	(570,680)
Provision for income taxes	800		800
Net loss	$ (69,388)	$ (502,092)	$ (571,480)
Loss per share	$ (0.01)		$ (0.08)
Weighted average common shares outstanding	7,285,788		7,285,788

MITEK SYSTEMS, INC.
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

Mitek Systems, Inc. ("Mitek") sold the TEMPEST line of business on March 17, 1995 for $350,000, recognizing a gain of $204,853. The following adjustments are necessary to reflect the pro forma effects of the executed transaction.

(A) Reflects the revenue and related cost of sales recognized and the research and development costs incurred from the TEMPEST line of business during the period October 1, 1994 through March 17, 1995.

(B) Reflects the gain recognized on the sale of the TEMPEST line of business in the year ended September 30, 1995.

NO DEALER, SALESMAN OR ANY OTHER PERSON HAS BEEN AUTHORIZED BY THE COMPANY TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFERING MADE HEREBY, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MAY NOT BE RELIED UPON. THE PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THOSE SPECIFICALLY OFFERED HEREBY OR AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, TO ANY PERSON IN ANY JURISDICTION IN WHICH SUCH OFFER OR SALE WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE ANY OF THE DATE AS OF WHICH INFORMATION IS FURNISHED OR SINCE THE DATE OF THIS PROSPECTUS.

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UNTIL , 1996 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE REGISTERED SECURITIES, WHETHER OR NOT PARTICIPATING IN THE DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN addition TO THE OBLIGATIONS OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITER AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

4,075,000 SHARES OF
COMMON STOCK

[LOGO]

PROSPECTUS

OPQRSTU

, 1996

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company's Certificate of Incorporation eliminates the personal liability of the directors of the Company for monetary damages for breach of fiduciary duties as a director of the Company except: (i) for any breach of the directors' duty of loyalty to the Company or its stockholders; (ii) for acts for omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) for unlawful dividends or distributions; or (iv) for any transaction from which the director derived an improper personal benefit.

The Company's Bylaws permit the Company to indemnify its directors, officers, employees and agents to the maximum extent permitted by section 145 of the Delaware General Corporation Law. Section 145 provides that a director, officer, employer, or agent of the Company who is or is made a party or is threatened to made a party to any threatened, action, suit or proceeding, with a civil, criminal, administrative or investigative, shall be indemnified and held harmless by the Company at the fullest extent authorized by the Delaware Corporation Law against all expense, liability and loss actually and reasonably incurred or suffered by such person if he or she acted in good faith and in a manner he or she reasonably believed to be in the best interest of the Company, and, with respect to any criminal proceeding, had no reasonable cause to believe that the conduct was unlawful. If it is determined that the conduct of such person meets these standards, such person may be indemnified for expenses incurred and amounts paid in such proceeding if actually and reasonably incurred in connection therewith.

If such a proceeding is brought by or on behalf of the corporation (i.e., a derivative suit), such person may be indemnified against expenses actually and reasonably incurred if such person acted in good faith and in a manner reasonably believed to be in the best interest of the corporation and its stockholders. There can be no indemnification with respect to any matter as to which such person is adjudged to be liable to the Company unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite such adjudication but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as the Court of Chancery or such other court shall deem proper.

Where any such person is successful in any such proceeding, such person is entitled to be indemnified against expenses actually and reasonably incurred by him or her. In all other cases (unless order by a court), indemnification is made by the corporation upon determination by it that indemnification of such person is proper in the circumstances because such person has met the applicable standard of conduct.

A corporation may advance expenses incurred in defending any such proceeding upon receipt of an undertaking to repay any amount so advanced if it is ultimately determined that the person is not eligible for indemnification.

The indemnification rights provided in Section 145 are not exclusive of additional rights to indemnification for breach of duty to the corporation and its stockholders to the extent additional rights are authorized in the corporation's certificate of incorporation and are not exclusive of any other rights to indemnification under any bylaw, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his or her office and as to action in another capacity while holding such office.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the expenses other than any underwriting discounts or commissions, payable in connection with the distribution of the shares being registered. The Company will pay all expenses incurred in connection with the registration. All amounts shown are estimates except for SEC and NASD Registration fees.

SEC Registration Fee	$ 8,290
NASD Filing Fee	2,904
Nasdaq National Market Listing Fee	53,000
Blue Sky Fees and Expenses	7,000
Printing and Engraving Expenses	50,000
Accounting Fees and Expenses	30,000
Consulting Fees	125,000
Legal Fees and Expenses	125,000
Registerer and Transfer Agent's Fees and Expenses	5,000
Miscellaneous Expenses	13,181
Total	$ 419,375

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

In the last three years, the Company sold the following securities without registration under the Securities Act:

In March, 1995, the Company issued an aggregate of 666,999 shares of its Common Stock to 15 individuals in a private placement at a price of $.75 per share (except for 26,000 shares sold to Mr. Thornton at $.9375 per share) for an aggregate of $505,125. In conducting the offering, the Company relied on Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. All stockholders were sophisticated investors capable of analyzing the merits and risks of their investment. In connection with such offering, the Company paid expenses aggregating to $29,760, including payment of a finder's fee of $14,260 which was paid to Heartland Financial Services Corporation ("Heartland"). Heartland is in the business of providing financial consulting services.

In June, 1995, the Company acquired substantially all the assets of TRACS International, Inc., a Canadian corporation in exchange for 75,000 shares of the Company's unregistered Common Stock and a percentage of royalties on certain product sales. The transaction was affected pursuant to Section 4(2) of the Securities Act. No sales commissions were paid in connection with the transaction.

Effective October 20, 1995, the Company entered into investment banking agreements with several NASD-registered broker-dealers, pursuant to which the Company agreed to issue an aggregate of up to 210,000 warrants to purchase its Common Stock at a price of $1.50 per share, exercisable for a period of two years. The warrants vested in accordance with investment banking services such as marketing making functions, research reports, and consulting services to be performed by the broker-dealers.

ITEM 27. EXHIBITS

1.1	Form of Underwriting Agreement
1.2	Form of Selected Dealer Agreement (4)
1.3	Form of Representative's Warrant (4)
3.1	Certificate of Incorporation and Amendments thereto (1)
3.2	Amended and Restated Bylaws (1)
4.1	Certificate of Designation of Preferences of Class A Preferred Stock (1)
4.2	Form of Warrant Issued to Investment Bankers in October 1995 Offering
5.1	Opinion of Luce, Forward, Hamilton & Scripps LLP regarding legality of Common Stock
10.1	1986 Stock Option Plan
10.2	1988 Nonqualified Stock Option Plan
10.3	401(k) Plan
10.4	Agreement for Purchase and Sale of Assets dated as of November 23, 1993 between the Company and HNC Software, Inc. (2)
10.5	License Agreement dated as of November 23, 1992 between the Company and HNC, Inc. (2)
10.6	Agreement of Purchase and Sale of Assets dated as of March 17, 1995 between the Company and Ravenn Data Systems, Inc. (3)
10.7	Marketing, License Agreement effective as of March 26, 1996 between the Company and VALIdata Sistemas de Captura, de C.V.
23.1	Consent of Luce, Forward, Hamilton & Scripps LLP (included in Exhibit 5)
23.2	Consent of Deloitte & Touche LLP
24.	Power of Attorney

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(1) Incorporated by reference from the exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1987.

(2) Incorporated by reference from the exhibits to the Company's Current Report on Form 8-K, filed December 7, 1992.

(3) Incorporated by reference from the exhibits to the Company's Current Report on Form 8-K, filed March 17, 1995.

(4) To be filed by amendment.

ITEM 28. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Securities Act") may be permitted to directors, officers and controlling persons of the Registrant pursuant to the indemnification provisions described under Item 24, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this registration in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be a part of this registration statement as of the time the Commission declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereto duly authorized, in the City of San Diego, State of California, on July 8, 1996.

MITEK SYSTEMS, INC.

By: /s/ JOHN F. KESSLER
John F. Kessler, PRESIDENT

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement was signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ JAMES B. DEBELLO James B. DeBello	Director	July 8, 1996
/s/ GERALD I. FARMER Gerald I. Farmer	Executive Vice President and Director	July 8, 1996
/s/ DANIEL E. STEIMLE Daniel E. Steimle	Director	July 8, 1996
/s/ JOHN M. THORNTON John M. Thornton	Chairman of the Board and Director	July 8, 1996
/s/ SALLY B. THORNTON Sally B. Thornton	Director	July 8, 1996
/s/ JOHN F. KESSLER John F. Kessler	President, Chief Executive Officer and Director	July 8, 1996

POWER OF ATTORNEY

We, the undersigned directors and officers of Mitek Systems, Inc. (the "Company"), do hereby constitute and appoint John F. Kessler and John M. Thornton, or any of them, our true and lawful attorneys and agents to sign a Registration Statement on Form SB-2 to be filed with the Securities and Exchange Commission, and to do any and all acts and things and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorneys and agents, or any one of them, may deem necessary or advisable to enable the Company to comply with the Securities Act of 1933, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with such Registration Statement, including specifically, but without limitation, power and authority to sign for us or any of us in our name and in the capacities indicated below, any and all amendments (including post-effective amendments) hereto; and we do hereby ratify and confirm all that the said attorneys and agents, or any of them, shall do or cause to be done by virtue of this power of attorney.

Executed below by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
/s/ JAMES B. DEBELLO James B. DeBello	Director	July 8, 1996
/s/ GERALD I. FARMER Gerald I. Farmer	Executive Vice President and Director	July 8, 1996
/s/ DANIEL E. STEIMLE Daniel E. Steimle	Director	July 8, 1996
/s/ JOHN M. THORNTON John M. Thornton	Chairman of the Board and Director	July 8, 1996
/s/ SALLY B. THORNTON Sally B. Thornton	Director	July 8, 1996
/s/ JOHN F. KESSLER John F. Kessler	President, Chief Executive Officer and Director	July 8, 1996

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	SEQUENTIAL PAGE NUMBER
1.1	Form of Underwriting Agreement	
1.2	Form of Selected Dealer Agreement (4)	
1.3	Form of Representative's Warrant (4)	
3.1	Certificate of Incorporation and Amendments thereto (1)	
3.2	Amended and Restated Bylaws (1)	
4.1	Certificate of Designation of Preferences of Class A Preferred Stock (1)	
4.2	Form of Warrant Issued to Investment Bankers in October 1995 Offering	
5.1	Opinion of Luce, Forward, Hamilton & Scripps LLP regarding legality of Common Stock	
10.1	1986 Stock Option Plan	
10.2	1988 Nonqualified Stock Option Plan	
10.3	401(k) Plan	
10.4	Agreement for Purchase and Sale of Assets dated as of November 23, 1993 between the Company and HNC Software, Inc. (2)	
10.5	License Agreement dated as of November 23, 1992 between the Company and HNC, Inc. (2)	
10.6	Agreement of Purchase and Sale of Assets dated as of March 17, 1995 between the Company and Ravenn Data Systems, Inc. (3)	
10.7	Marketing, License Agreement effective as of March 26, 1996 between the Company and VALIdata Sistemas de Captura, de C.V.	
23.1	Consent of Luce, Forward, Hamilton & Scripps LLP (included in Exhibit 5)	
23.2	Consent of Deloitte & Touche LLP	
24.	Power of Attorney	

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(1) Incorporated by reference from the exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1987.

(2) Incorporated by reference from the exhibits to the Company's Current Report on Form 8-K, filed December 7, 1992.

(3) Incorporated by reference from the exhibits to the Company's Current Report on Form 8-K, filed March 17, 1995.

(4) To be filed by amendment.

DRAFT OF 6/26/96

4,075,000 SHARES(1)

MITEK SYSTEMS, INC.

COMMON STOCK

UNDERWRITING AGREEMENT

, 1996

CRUTTENDEN ROTH INCORPORATED
As Representative of the several Underwriters
c/o Cruttenden Roth Incorporated
18301 Van Karman, Suite 100
Irvine, California 92715

Ladies and Gentlemen:

Mitek Systems, Inc., a Delaware corporation (the "Company"), John M. Thornton ("Principal Stockholder"), and certain additional stockholders of the Company named in Schedule B hereto (collectively the Principal Stockholder and the additional Stockholders named in Schedule B shall hereafter be called the "Selling Stockholders") address you as the Representative of each of the persons, firms and corporations listed in Schedule A hereto (herein collectively called the "Underwriters") and hereby confirm their respective agreements with the several Underwriters as follows:

1. DESCRIPTION OF SHARES. The Company proposes to issue and sell 2,500,000 shares (the "Company Shares") of its authorized and unissued Common Stock $.001 par value per share, to the several Underwriters. The Selling Stockholders, acting severally and not jointly, propose to sell an aggregate of up to 1,575,000 shares (the "Selling Stockholder Shares") of the Company's authorized and outstanding Common Stock, $.001 par value per share, to the several Underwriters. The Company Shares and the Selling Stockholders Shares are hereinafter collectively called the "Firm Shares." The Principal Stockholder also proposes to grant to the Underwriters an option to purchase up to 611,250 additional shares of the Company's Common Stock, $.001 par value per share (the "Option Shares"), as provided in Section 7 hereof. As used in this Agreement, the term "Shares" shall include the

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(1) Plus an option to purchase up to 611,250 additional shares from the John M. Thornton and Sally B. Thornton Trust to cover over-allotments.

Firm Shares and the Option Shares. All shares of Common Stock, $0.001 par value per share, of the Company to be outstanding after giving effect to the sales contemplated hereby, including the Shares, are hereinafter referred to as "Common Stock."

2. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE COMPANY AND THE PRINCIPAL STOCKHOLDER.

I. Each of the Company and the Principal Stockholder jointly and severally hereby represents and warrants to and agrees with each Underwriter that:

(a) A registration statement on Form SB-2 (File No. 333-_____) with respect to the Shares, including a prospectus subject to completion, has been prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended (the "Act"), and the applicable rules and regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") under the Act and has been filed with the Commission; such amendments to such registration statement, such amended prospectuses subject to completion and such abbreviated registration statements pursuant to Rule 462(b) of the Rules and Regulations as may have been required prior to the date hereof have been similarly prepared and filed with the Commission; and the Company will file such additional amendments to such registration statement, such amended prospectuses subject to completion and such abbreviated registration statements as may hereafter be required. Copies of such registration statement and amendments, of each related prospectus subject to completion (the "Preliminary Prospectuses") and of any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations have been delivered to you.

If the registration statement relating to the Shares has been declared effective under the Act by the Commission, the Company will prepare and promptly file with the Commission the information omitted from the registration statement pursuant to Rule 430A(a) or, if Cruttenden Roth Incorporated, on behalf of the several Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the information required to be included in any term sheet filed pursuant to Rule 434(b) or (c), as applicable, of the Rules and Regulations pursuant to subparagraph (1), (4) or (7) of Rule 424(b) of the Rules and Regulations or as part of a post-effective amendment to the registration statement (including a final form of prospectus). If the registration statement relating to the Shares has not been declared effective under the Act by the Commission, the Company will prepare and promptly file an amendment to the registration statement, including a final form of prospectus, or, if Cruttenden Roth Incorporated, on behalf of the several Underwriters, shall

agree to the utilization of Rule 434 of the Rules and Regulations, the information required to be included in any term sheet filed pursuant to Rule 434(b) or (c), as applicable, of the Rules and Regulations. The term "Registration Statement" as used in this Agreement shall mean such registration statement, including financial statements, schedules and exhibits (including exhibits incorporated by reference), in the form in which it became or becomes, as the case may be, effective (including, if the Company omitted information from the registration statement pursuant to Rule 430A(a) or files a term sheet pursuant to Rule 434 of the Rules and Regulations, the information deemed to be a part of the registration statement at the time it became effective pursuant to Rule 430A(b) or Rule 434(d) of the Rules and Regulations) and, in the event of any amendment thereto or the filing of any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations relating thereto after the effective date of such registration statement, shall also mean (from and after the effectiveness of such amendment or the filing of such abbreviated registration statement) such registration statement as so amended, together with any such abbreviated registration statement. The term "Prospectus" as used in this Agreement shall mean the prospectus "relating to the Shares as included in such Registration Statement at the time it becomes effective (including, if the Company omitted information from the Registration Statement pursuant to Rule 430A(a) of the Rules and Regulations, the information deemed to be a part of the Registration Statement at the time it became effective pursuant to Rule 430A(b) of the Rules and Regulations); PROVIDED, HOWEVER, that if in reliance on Rule 434 of the Rules and Regulations and with the consent of Cruttenden Roth Incorporated, on behalf of the several Underwriters, the Company shall have provided to the Underwriters a term sheet pursuant to Rule 434(b) or (c), as applicable, prior to the time that a confirmation is sent or given for purposes of Section 2(10)(a) of the Act, the term "Prospectus" shall mean the "prospectus subject to completion" (as defined in Rule 434(g) of the Rules and Regulations) last provided to the Underwriters by the Company and circulated by the Underwriters to all prospective purchasers of the Shares (including the information deemed to be a part of the Registration Statement at the time it became effective pursuant to Rule 434(d) of the Rules and Regulations). Notwithstanding the foregoing, if any revised prospectus shall be provided to the Underwriters by the Company for use in connection with the offering of the Shares that differs from the prospectus referred to in the immediately preceding sentence (whether or not such revised prospectus is required to be tiled with the Commission pursuant to Rule 424(b) of the Rules and Regulations), the term "Prospectus" shall refer to such revised prospectus from and after the time it is first provided to the Underwriters for such use. If in reliance on Rule 434 of the Rules and Regulations and with the consent of Cruttenden Roth Incorporated, on behalf of the several Underwriters, the Company shall have provided to the Underwriters a term sheet pursuant to Rule 434(b) or (c), as applicable, prior to the time that a confirmation is sent or given for purposes or Section 2(10)(a) of the Act, the Prospectus and the term sheet, together, will not be materially different from the prospectus in the Registration Statement.

b. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus or instituted proceedings for that

purpose, and each such Preliminary Prospectus has conformed in all material respects to the requirements of the Act and the Rules and Regulations and, as of its date, has not included any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and at the time the Registration Statement became or becomes, as the case may be, effective and at all times subsequent thereto up to and on the Closing Date (hereinafter defined) and on any later date on which Option Shares are to be purchased, (i) the Registration Statement and the Prospectus, and any amendments or supplements thereto, contained and will contain all material information required to be included therein by the Act and the Rules and Regulations and will in all material respects conform to the requirements of the Act and the Rules and Regulations, (ii) the Registration Statement, and any amendments or supplements thereto, did not and will not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (iii) the Prospectus, and any amendments or supplements thereto, did not and will not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that none of the representations and warranties contained in this subparagraph (b) shall apply to information contained in or omitted from the Registration Statement or Prospectus, or any amendment or supplement thereto, in reliance upon, and in conformity with, written information relating to any Underwriter furnished to the Company by such Underwriter specifically for use in the preparation thereof.

(c) The Company and each of its subsidiaries have been duly incorporated and are validly existing as a corporation in good standing under the laws of their respective jurisdictions of incorporation with full power and authority (corporate and other) to own, lease and operate their properties and conduct their business as described in the Prospectus; the Company and each Subsidiary are duly qualified to do business as a foreign corporation and are in good standing in each jurisdiction in which the ownership or leasing of their properties or the conduct of their business requires such qualification, except where the failure to be so qualified or be in good standing would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company; no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority or qualification; the Company and each Subsidiary is in possession of and operating in compliance with all authorizations, licenses, certificates, consents, orders and permits from state, federal and other regulatory authorities that are material to the conduct of its business, all of which are valid and in full force and effect; the Company and each Subsidiary is not in violation of its charter or bylaws or in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any material bond, debenture, note or other evidence of indebtedness, or in any material lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which the Company or such Subsidiary, respectively, is a party or by which its properties may be bound; and the Company and each Subsidiary are not in material violation of any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or

foreign, having jurisdiction over the Company or over its properties of which it has knowledge. The Company does not own or control, directly or indirectly, any corporation, association or other entity, except that the Company is the sole shareholder of _____ (the "Subsidiary").

(d) The Company has full legal right, power and authority to enter into this Agreement and perform the transactions contemplated hereby. This Agreement has been duly authorized, executed and delivered by the Company and is a valid and binding agreement on the part of the Company, enforceable in accordance with its terms, except as rights to indemnification hereunder may be limited by applicable law and except as the enforcement hereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; the performance of this Agreement and the consummation of the transactions herein contemplated will not result in a material breach or violation of any of the terms and provisions of, or constitute a material default under, (i) any material bond, debenture, note or other evidence of indebtedness, or under any material lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which the Company is a party or by which its properties may be bound, (ii) the charter or bylaws of the Company or (iii) any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or its properties. No consent, approval, authorization or order of or qualification with any count government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or its properties is required for the execution and delivery of this Agreement and the consummation by the Company of the transactions herein contemplated, except such as may be required under the Act, or under state or other securities or Blue Sky laws, all of which requirements have been satisfied in all material respects.

(e) There is not any pending or, to the Company's knowledge, threatened action, suit, claim or proceeding against the Company or the Subsidiary, or any of their respective officers or any of their respective properties, assets or rights before any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or the Subsidiary or their respective officers or properties or otherwise which (i) might result in any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company or might materially and adversely affect the Company's properties, assets or rights, (ii) might prevent consummation of the transactions contemplated hereby or (iii) is required to be disclosed in the Registration Statement or Prospectus and is not so disclosed; and there are no agreements, contracts, leases or documents of the Company of a character required to be described or referred to in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement by the Act or the Rules and Regulations which have not been accurately described in all material respects in the Registration Statement or Prospectus or filed as exhibits to the Registration Statement.

(f) All outstanding shares of capital stock of the Company (including the Selling Stockholder Shares) have been duly authorized and validly issued and are fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, and the authorized and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" and conforms in all material respects to the statements relating thereto contained in the Registration Statement and the Prospectus (and such statements correctly state the substance of the instruments defining the capitalization of the Company); the Firm Shares have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, when issued and delivered by the Company against payment therefor in accordance with the terms of this Agreement, will be duly and validly issued and fully paid and nonassessable, and will be sold free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest; and no preemptive right, co-sale right, registration right, right of first refusal or other similar right of stockholders exists with respect to any of the Firm Shares or the issuance and sale thereof other than those that have been satisfied or expressly waived prior to the date hereof. No further approval or authorization of any stockholder, the Board of Directors of the Company or others is required for the issuance and sale or transfer of the Shares except as may be required under the Act or under state or other securities or Blue Sky laws. Except as disclosed in the Prospectus and the financial statements of the Company, and the related notes thereto included in the Prospectus, the Company has no outstanding options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of its capital stock or any such options, rights, convertible securities or obligations. The description of the Company's stock option, stock bonus and other stock plans or arrangements, and the options or other rights granted and exercised thereunder, set forth in the Prospectus accurately and fairly presents the information required to be shown with respect to such plans, arrangements, options and rights.

(g) Deloitte & Touche LLP, have examined the consolidated financial statements of the Company, together with the related schedules and notes, as of September 30, 1995 and 1994 and for each of the years in the three (3) years ended September 30, 1995 filed with the Commission as a part of the Registration Statement, which are included in the Prospectus, are independent accountants within the meaning of the Act and the Rules and Regulations; the audited financial statements of the Company, together with the related schedules and notes, and the unaudited financial information, forming part of the Registration Statement and Prospectus, fairly present the financial position and the results of operations of the Company at the respective dates and for the respective periods to which they apply; and all audited financial statements of the Company, together with the related schedules and notes, and the unaudited financial information, filed with the Commission as part of the Registration Statement, have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved except as may be otherwise stated therein. The selected and summary financial and statistical data included in the Registration Statement present fairly the information

shown therein and have been compiled on a basis consistent with the audited consolidated financial statements presented therein. No other financial statements or schedules are required to the be included in the Registration Statement.

(h) Subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been (i) any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company, (ii) any transaction that is material to the Company, except transactions entered into in the ordinary course of business, (iii) any obligation, direct or contingent, that is material to the Company, incurred by the Company, except obligations incurred in the ordinary course of business, (iv) any change in the capital stock or outstanding indebtedness of the Company that is material to the Company, (v) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company, or (vi) any loss or damage (whether or not insured) to the property of the Company which has been sustained or will have been sustained which has a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company.

(i) Except as set forth in the Registration Statement and Prospectus, (i) the Company has good and marketable title to all properties and assets described in the Registration Statement and Prospectus as owned by it, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest, other than such as would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company, (ii) the agreements to which the Company is a party described in the Registration Statement and Prospectus are valid agreements, enforceable by the Company in accordance with their terms, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles and, to the Company's knowledge, the other contracting party or parties thereto are not in material breach or material default under any of such agreements, and (iii) the Company has valid and enforceable leases for all properties described in the Registration Statement and Prospectus as leased by it, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles. Except as set forth in the Registration Statement and Prospectus, the Company owns or leases all such properties as are necessary to its operations as now conducted or as proposed to be conducted.

(j) The Company (and, during their existence, its subsidiaries) has timely filed all necessary federal, state and foreign income and franchise tax returns and has paid all taxes shown thereon as due, and there is no tax deficiency that has been or, to the Company's knowledge, might be asserted against the Company (or any of its subsidiaries) that might have a material adverse effect on the condition (financial or

otherwise), earnings, operations, business or business prospects of the Company; and all tax liabilities are adequately provided for on the books of the Company.

(k) The Company maintains insurance with insurers of recognized financial responsibility of the types and in the amounts generally deemed adequate for its business and consistent with insurance coverage maintained by similar companies in similar businesses, including, but not limited to, insurance covering real and personal property owned or leased by the Company against theft, damage, destruction, acts of vandalism and all other risks customarily insured against, all of which insurance is in full force and effect; the Company has not been refused any insurance coverage sought or applied for; and the Company does not have any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not materially and adversely affect the condition (financial or otherwise), earnings, operations, business or business prospects of the Company.

(l) No labor disturbance by the employees of the Company exists or is imminent; and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its principal suppliers, value added resellers, subcontractors, authorized dealers or international distributors that might be expected to result in a material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company. No collective bargaining agreement exists with any of the Company's employees and, to the Company's knowledge, no such agreement is imminent.

(m) The Company owns or possesses adequate rights to use all patents, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names and copyrights which are necessary to conduct its businesses as described in the Registration Statement and Prospectus; except as set forth in the Registration Statement and the Prospectus, the expiration of any patents, patent rights, trade secrets, trademarks, service marks, trade names or copyrights would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company; the Company has not received any notice of, and has no knowledge of, any infringement of or conflict with asserted rights of the Company by others with respect to any patent, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names or copyrights; and the Company has not received any notice of, nor has it any knowledge of, any infringement of or conflict with asserted rights of others with respect to any patent, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names or copyrights which, individually or in the aggregate, if the subject of an unfavorable decision, ruling or finding, might have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company.

(n) The Common Stock is registered pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is listed on the Nasdaq Smallcap Market. The Company has applied to have its Common Stock listed on the Nasdaq National Market under the symbol "MITK" on the effectiveness of the Registration Statement. Except as specifically disclosed in the Registration Statement, the Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or delisting the Common Stock from The Nasdaq National Market, nor has the Company received any notification that the Commission or the National Association of Securities Dealers, Inc. ("NASD") is contemplating terminating such registration or listing.

(o) The Company has been advised concerning the Investment Company Act of 1940, as amended (the "1940 Act"), and the rules and regulations thereunder, and has in the past conducted, and intends in the future to conduct, its affairs in such a manner as to ensure that it is not and will not become an "investment company" or a company "controlled" by an "investment company" within the meaning of the 1940 Act and such rules and regulations.

(p) The Company has not distributed and will not distribute prior to the later of (i) the Closing Date, or any date on which Option Shares are to be purchased, as the case may be, and (ii) completion of the distribution of the Shares, any offering material in connection with the offering and sale of the Shares other than any Preliminary Prospectuses, the Prospectus, the Registration Statement and other materials, if any, permitted by the Act.

(q) The Company (nor during the term of their existence, any of its subsidiaries) has not at any time during the last five (5) years (i) made any unlawful contribution to any candidate for foreign office or failed to disclose fully any contribution in violation of law, or (ii) made any payment to any federal or state governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States or any jurisdiction thereof.

(r) The Company has not taken and will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(s) Except as otherwise set forth in the Registration Statement and the Prospectus, each officer and director of the Company, each Selling Stockholder and each entity that is a stockholder and is affiliated with a director of the Company has agreed in writing that such person will not, except as described below, for a period of 180 days from the date of the final Prospectus (the "Lock-up Period"), offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to

(collectively, a "Disposition") any shares of Common Stock, any options or warrants to purchase any shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock (collectively, "Securities") now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, (ii) as a distribution to partners or stockholders of such person, provided that the distributees thereof agree in writing to be bound by the terms of this restriction, or (iii) with the prior written consent of Cruttenden Roth Incorporated. The foregoing restriction has been expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than such Stockholder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from Securities. Furthermore, such person has also agreed and consented to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the Securities held by such person except in compliance with this restriction. The Company has provided to counsel for the Underwriters a complete and accurate list of all securityholders of the Company as of _____, 1996 and the number and type of securities held by each securityholder. The Company has provided to counsel for the Underwriters true, accurate and complete copies of all of the agreements pursuant to which its officers, directors and stockholders have agreed to such or similar restrictions (the "Lock-up Agreements") presently in effect or effected hereby. The Company hereby represents and warrants that it will not release any of its officers, directors or other stockholders from any Lock-up Agreements currently existing or hereafter effected without the prior written consent of Cruttenden Roth Incorporated.

(t) Except as set forth in the Registration Statement and Prospectus, (i) the Company is in compliance, in all material respects, with all rules, laws and regulations relating to the use, treatment, storage and disposal of toxic substances and protection of health or the environment ("Environmental Laws") which are applicable to its business, (ii) the Company has not received notice from any governmental authority or third party of an asserted claim under Environmental Laws that is required to be disclosed in the Registration Statement and the Prospectus and is not so disclosed, (iii) the Company will not be required to make future material capital expenditures to comply with Environmental Laws and (iv) no property which is owned, leased or occupied by the Company has been designated as a Superfund site pursuant to the Comprehensive Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. Section 9601, ET SEQ.), or otherwise designated as a contaminated site under applicable state or local law.

(u) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(v) There are no outstanding loans, advances (except normal advances for business expenses in the ordinary course of business) or guarantees of indebtedness by the Company to or for the benefit of any of the officers or directors of the Company or any of the members of the families of any of them, except as disclosed in the Registration Statement and the Prospectus.

(w) No relationship, direct or indirect, exists between or among the Company or the Subsidiary, on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company or Subsidiary, on the other hand, which is required to be described in the Registration Statement or the Prospectus which is not so described.

Except as disclosed in the Registration Statement or the Prospectus, the Company has not incurred any liability or potential liability for any fee, commission, or other compensation on account of the employment of any broker or finder in connection with the transactions contemplated by this Agreement.

II. Each Selling Stockholder, severally and not jointly, represents and warrants to and agrees with each Underwriter and the Company that:

(a) Such Selling Stockholder now has and on the Closing Date, and on any later date the Option Shares are purchased, will have valid marketable title to the Shares to be sold by such Selling Stockholder, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest other than pursuant to this Agreement; and upon delivery of such Shares hereunder and payment of the purchase price as herein contemplated, each of the Underwriters will obtain valid marketable title to the Shares purchased by it from such Selling Stockholder, free and clear of any pledge, lien, security interest pertaining to such Selling Stockholder or such Selling Stockholder's property, encumbrance, claim or equitable interest, including any liability for estate or inheritance taxes, or any liability to or claims of any creditor, devisee, legatee or beneficiary of such Selling Stockholder.

(b) Such Selling Stockholder has duly authorized (if applicable), executed and delivered, in the form heretofore furnished to the Representative, an irrevocable Power of Attorney (the "Power of Attorney") appointing _____ as attorney(s)-in-fact (collectively, the "Attorneys" and individually, an "Attorney") and a Letter of Transmittal and Custody Agreement (the "Custody Agreement") with [American Stock Transfer & Trust Company] as custodian (the "Custodian"); each of the Power of Attorney and the Custody Agreement constitutes a valid and binding agreement on the part of such Selling Stockholder enforceable in accordance with its terms, except as the enforcement thereof may be limited

by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; and each of such Selling Stockholder's Attorneys, acting alone, is authorized to execute and deliver this Agreement and the certificate referred to in Section 6(i) hereof on behalf of such Selling Stockholder, to determine the purchase price to be paid by the several Underwriters to such Selling Stockholder as provided in Section 3 hereof; to authorize the delivery of the Selling Stockholder Shares under this Agreement and to duly endorse (in blank or otherwise) the certificate or certificates representing such Shares or a stock power or powers with respect thereto, to accept payment therefor, and otherwise to act on behalf of such Selling Stockholder in connection with this Agreement.

(c) All consents, approvals, authorizations and orders required for the execution and delivery by such Selling Stockholder of the Power of Attorney and the Custody Agreement, the execution and delivery by or on behalf of such Selling Stockholder of this Agreement and the sale and delivery of the Selling Stockholder Shares under this Agreement (other than, at the time of the execution hereof (if the Registration Statement has not yet been declared effective by the Commission), the issuance of the order of the Commission declaring the Registration Statement effective and such consents, approvals, authorizations or orders as may be necessary under state or other securities or Blue Sky laws) have been obtained and are in full force and effect; such Selling Stockholder, if other than a natural person, has been duly organized and is validly existing in good standing under the laws of the jurisdiction of its organization as the type of entity that it purports to be; and such Selling Stockholder has full legal right, power and authority to enter into and perform its obligations under this Agreement and such Power of Attorney and Custody Agreement, and to sell, assign, transfer and deliver the Shares to be sold by such Selling Stockholder under this Agreement.

(d) Except as set forth in the last sentence of Section 2(I)(s) above, such Selling Stockholder will not, during the Lock-up Period, effect the Disposition of any Securities now owned or hereafter acquired directly by such Selling Stockholder or with respect to which such Selling Stockholder has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, (ii) as a distribution to partners or stockholders of such Selling Stockholder, provided that the distributees thereof agree in writing to be bound by the terms of this restriction, or (iii) with the prior written consent of Cruttenden Roth Incorporated. The foregoing restriction is expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than the Selling Stockholder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the

Securities. Such Selling Stockholder also agrees and consents to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the securities held by such Selling Stockholder except in compliance with this restriction.

(e) Certificates in negotiable form for all Shares to be sold by such selling Stockholder under this Agreement, together with a stock power or powers duly endorsed in blank by such selling Stockholder, have been placed in custody with the Custodian for the purpose of effecting delivery hereunder.

(f) This Agreement has been duly authorized by each Selling Stockholder that is not a natural person and has been duly executed and delivered by or on behalf of each Selling Stockholder and is a valid and binding agreement of each Selling Stockholder, enforceable in accordance with its terms, except as rights to indemnification hereunder may be limited by applicable law and except as the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; and the performance of this Agreement and the consummation of the transactions herein contemplated will not result in a material breach or violation of any of the terms and provisions of, or constitute a material default under, any material bond, debenture, note or other evidence of indebtedness, or under any material lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which such Selling Stockholder is a party or by which such Selling Stockholder, or any Selling Stockholder Shares hereunder, may be bound or, to such Selling Stockholders' knowledge, result in any violation of any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over such Selling Stockholder or over the properties of such Selling Stockholder, or, if such Selling Stockholder is other than a natural person, result in any violation of any provisions of the charter, bylaws or other organizational documents of such Selling Stockholder.

(g) Such Selling Stockholder has not taken and will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(h) Such Selling Stockholder has not distributed and will not distribute any prospectus or other offering material in connection with the offering and sale of the Shares.

(i) All information furnished by or on behalf of such Selling Stockholder relating to such Selling Stockholder and the Selling Stockholder Shares that is contained in the representations and warranties of such Selling Stockholder in such Selling Stockholder's Power of Attorney or set forth in the Registration Statement or the Prospectus is, and at the time the Registration Statement became or becomes, as the case

may be, effective and at all times subsequent thereto up to and on the Closing Date, and on any later date on which Option Shares are to be purchased, was or will be, true, correct and complete, and does not, and at the time the Registration Statement became or becomes, as the case may be, effective and at all times subsequent thereto up to and on the Closing Date, and on any later date on which Option Shares are to be purchased, will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information not misleading.

(j) Such Selling Stockholder will review the Prospectus and will comply with all agreements and satisfy all conditions on its part to be complied with or satisfied pursuant to this Agreement on or prior to the Closing Date, or any later date on which Option Shares are to be purchased, as the case may be, and will advise one of its Attorneys and Cruttenden Roth Incorporated prior to the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, if any statement to be made on behalf of such Selling Stockholder in the certificate contemplated by Section 6(i) would be inaccurate if made as of the Closing Date or such later date on which Option Shares are to be purchased, as the case may be.

(k) Such Selling Stockholder does not have, or has waived prior to the date hereof, any preemptive right, co-sale right or right of first refusal or other similar right to purchase any of the Shares that are to be sold by the Company or any of the other Selling Stockholders to the Underwriters pursuant to this Agreement; such Selling Stockholder does not have, or has waived prior to the date hereof; any registration right or other similar right to participate in the offering made by the Prospectus, other than such rights of participation as have been satisfied by the participation of such Selling Stockholder in the transactions to which this Agreement relates in accordance with the terms of this Agreement; and such Selling Stockholder does not own any warrants, options or similar rights to acquire, and does not have any right or arrangement to acquire, any capital stock, rights, warrants, options or other securities from the Company, other than those described in the Registration Statement and the Prospectus.

(l) To the best knowledge of such Selling Stockholder, and after due inquiry: (i) each part of the Registration Statement, when such part became effective, did not contain and each such part, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which, they were made, not misleading, except that the representations and warranties set forth in this paragraph (l) do not apply to statements or omissions in the Registration Statement or the Prospectus based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein, and (iii) such Selling Stockholder, after due inquiry, is not aware that, and has no reason to believe

that, any of the representations and warranties of the Company set forth in Section 2.I. above is untrue or inaccurate in any material respect.

3. PURCHASE, SALE AND DELIVERY OF SHARES. On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company agrees to sell to the Underwriters, and each Underwriter agrees, severally and not jointly, to purchase from the Company, at a purchase price of $_____ per share, the respective number of Firm Shares which is set forth opposite the name of such Underwriter in Schedule A hereto (subject to adjustment as provided in Section 10).

The certificates in negotiable form for the Selling Stockholder Shares have been placed in custody (for delivery under this Agreement) under the Custody Agreement. Each Selling Stockholder agrees that the certificates for the Selling Stockholder Shares of such Selling Stockholder so held in custody are subject to the interests of the Underwriters hereunder, that the arrangements made by such Selling Stockholder for such custody, including the Power of Attorney is to that extent irrevocable and that the obligations of such Selling Stockholder hereunder shall not be terminated by any act of such Selling Stockholder or by operation of law, whether by the death or incapacity of such Selling Stockholder or the occurrence of any other event, except as specifically provided herein or in the Custody Agreement. If any Selling Stockholder should die or be incapacitated, or if any other such event should occur before the delivery of the certificates for the Selling Stockholder Shares hereunder, the Selling Stockholder Shares to be sold by such Selling Stockholder shall, except as specifically provided herein or in the Custody Agreement, be delivered by the Custodian in accordance with the terms and conditions of this Agreement as if such death, incapacity or other event had not occurred, regardless of whether the Custodian shall have received notice of such death or other event.

Delivery of definitive certificates for the Firm Shares to be purchased by the Underwriters pursuant to this Section 3 shall be made against payment of the purchase price therefor by the several Underwriters by certified or official bank check or checks drawn in next-day funds, payable to the order of the Company (and the Company agrees not to deposit any such check in the bank on which it is drawn, and not to take any other action with the purpose or effect of receiving immediately available funds, until the business day following the date of delivery to the Company and, in the event of any breach of the foregoing, the Company shall reimburse the Underwriters for the interest lost and any other expenses borne by the Underwriters by reason of such breach), at the offices of Gray Cary Ware & Freidenrich, 4365 Executive Drive, Suite 1600, San Diego, California (or at such other place as may be agreed upon among the Representative, the Company and the Attorneys, at 7:00 A.M., San Diego time (a) on the third (3rd) full business day following the first day that Shares are traded, (b) if this Agreement is executed and delivered after 1:30 P.M., San Diego time, the fourth (4th) full business day following the day that this Agreement is executed and delivered or (c) at such other time and date not later than seven (7) full business days following the first day that Shares are traded as the

Representative, the Company and the Attorneys may determine (or at such time and date to which payment and delivery shall have been postponed pursuant to Section 10 hereof), such time and date of payment and delivery being herein called the "Closing Date"; PROVIDED, HOWEVER, that if the Company has not made available to the Representative copies of the Prospectus within the time provided in Section 4(d) hereof, the Representative may, in its sole discretion, postpone the Closing Date until no later than two (2) full business days following delivery of copies of the Prospectus to the Representative. The certificates for the Firm Shares to be so delivered will be made available to you at such office or such other location including, without limitation, in New York City, as you may reasonably request for checking at least one (1) full business day prior to the Closing Date and will be in such names and denominations as you may request, such request to be made at least two (2) full business days prior to the Closing Date. If the Representative so elects, delivery of the Firm Shares may be made by credit through full fast transfer to the accounts at The Depository Trust Company designated by the representative.

It is understood that you, individually, and not as the Representative of the several Underwriters, may (but shall not be obligated to) make payment of the purchase price on behalf of any Underwriter or Underwriters whose check or checks shall not have been received by you prior to the Closing Date for the Firm Shares to be purchased by such Underwriter or Underwriters. Any such payment by you shall not relieve any such Underwriter or Underwriters of any of its or their obligations hereunder.

After the Registration Statement becomes effective, the several Underwriters intend to make a public offering (as such term is described in Section 11 hereof) of the Firm Shares at a public offering price of $_____ per share. After the public offering, the several Underwriters may, in their discretion, vary the public offering price.

The information set forth on the front cover page (insofar as such information relates to the underwriters) concerning stabilization, over-allotment and passive market making by the Underwriters, and under the caption "Underwriting" in any Preliminary Prospectus and in the Prospectus constitutes the only information furnished by the Underwriters to the Company for inclusion in any Preliminary Prospectus, the Prospectus or the Registration Statement, and you, on behalf of the respective Underwriters, represent and warrant to the Company and the Selling Stockholders that the statements made therein do not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

4. FURTHER AGREEMENTS OF THE COMPANY. The Company agrees with the several Underwriters that:

(a) The Company will use its best efforts to cause the Registration Statement and any amendment thereof, if not effective at the time and date that this

Agreement is executed and delivered by the parties hereto, to become effective as promptly as possible; the Company will use its best efforts to cause any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations as may be required subsequent to the date the Registration Statement is declared effective to become effective as promptly as possible; the Company will notify you, promptly after it shall receive notice thereof, of the time when the Registration Statement, any subsequent amendment to the Registration Statement or any abbreviated registration statement has become effective or any supplement to the Prospectus has been filed; if the Company omitted information from the Registration Statement at the time it was originally declared effective in reliance upon Rule 430A(a) of the Rules and Regulations, the Company will provide evidence satisfactory to you that the Prospectus contains such information and has been filed, within the time period prescribed, with the Commission pursuant to subparagraph (1) or (4) of Rule 424(b) of the Rules and Regulations or as part of a post-effective amendment to such Registration Statement as originally declared effective which is declared effective by the Commission; if the Company files a term sheet pursuant to Rule 434 of the Rules and Regulations, the Company will provide evidence satisfactory to you that the Prospectus and term sheet meeting the requirements of Rule 434(b) or (c), as applicable, of the Rules and Regulations have been filed, within the time period prescribed, with the Commission pursuant to subparagraph (7) of Rule 424(b) of the Rules and Regulations; if for any reason the filing of the final form of Prospectus is required under Rule 424(b)(3) of the Rules and Regulations, it will provide evidence satisfactory to you that the Prospectus contains such information and has been filed with the Commission within the time period prescribed; it will notify you promptly of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; promptly upon your request, it will prepare and file with the Commission any amendments or supplements to the Registration Statement or Prospectus which, in the opinion of counsel for the several Underwriters ("Underwriters' Counsel"), may be necessary or advisable in connection with the distribution of the Shares by the Underwriters; it will promptly prepare and file with the Commission, and promptly notify you of the filing of, any amendments or supplements to the Registration Statement or Prospectus which may be necessary to correct any statements or omissions, if, at any time when a prospectus relating to the Shares is required to be delivered under the Act, any event shall have occurred as a result of which the Prospectus or any other prospectus relating to the Shares as then in effect would include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; in case any Underwriter is required to deliver a prospectus nine (9) months or more after the effective date of the Registration Statement in connection with the sale of the Shares, it will prepare promptly upon request, but at the expense of such Underwriters, such amendment or amendments to the Registration Statement and such prospectus or prospectuses as may be necessary to permit compliance with the requirements of Section 10(a)(3) of the Act; and it will file no amendment or supplement to the Registration Statement or Prospectus which shall not previously have been submitted to you a reasonable time prior to the proposed filing therefor to which you shall reasonably

object in writing, subject, however, to compliance with the Act and the Rules and Regulations and the provisions of this Agreement.

(b) The Company will advise you, promptly after it shall receive notice or obtain knowledge, of the issuance of any stop order by the Commission suspending the effectiveness of the Registration Statement or of the initiation or threat of proceeding for that purpose; and it will promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal at the earliest possible moment if such stop order should be issued.

(c) The Company will use its best efforts (including by providing full cooperation with your counsel, whose services in this matter are required and which you and the Company will seek to expedite) to qualify the Shares for offering and sale under the securities laws of such jurisdictions as you may designate and to continue such qualifications in effect for so long as may be required for purposes of the distribution of the Shares, except that the Company shall not be required in connection therewith or as a condition thereof to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction in which it is not otherwise required to be so qualified or to so execute a general consent to service of process. In each jurisdiction in which the Shares shall have been qualified as above provided, the Company will make and file such statements and reports in each year as are or may be required by the laws of such jurisdiction for such purpose.

(d) The Company will furnish to you, as soon as available, and, in the case of the Prospectus and any term sheet or abbreviated term sheet under Rule 434, in no event later than the first full business day following the first day that Shares are traded, copies of the Registration Statement (two of which will be signed and which will include all exhibits), each Preliminary Prospectus, the Prospectus and any amendments or supplements to such documents, including any prospectus prepared to permit compliance with Section 10(a)(3) of the Act, all in such quantities as you may from time to time reasonably request. Notwithstanding the foregoing, if Cruttenden Roth Incorporated, on behalf of the several Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the Company shall provide to you copies of a Preliminary Prospectus updated in all respects through the date specified by you in such quantities as you may from time to time reasonably request.

(e) The Company will make generally available to its securityholders as soon as practicable, but in any event not later than the forty-fifth (45th) day following the end of the fiscal quarter first occurring after the first anniversary of the effective date of the Registration Statement, an earnings statement (which will be in reasonable detail but need not be audited) complying with the provisions of Section 11(a) of the Act and covering a twelve (12) month period beginning after the effective date of the Registration Statement.

(f) During a period of five (5) years after the date hereof, the Company will furnish to its stockholders as soon as practicable after the end of each respective period, annual reports (including financial statements audited by independent certified public accountants) and, upon request by a stockholder, unaudited quarterly reports of operations for each of the first three quarters of the fiscal year, and will furnish to you and the other several Underwriters hereunder, upon request (i) concurrently with furnishing such reports to its stockholders, statements of operations of the Company for each of the first three (3) quarters in the form furnished to the Company's stockholders, (ii) concurrently with furnishing to its stockholders, a balance sheet of the Company as of the end of such fiscal year, together with statements of operations, of stockholders' equity, and of cash flows of the Company for such fiscal year, accompanied by a copy of the certificate or report thereon of independent certified public accountants, (iii) as soon as they are available, copies of all reports (financial or other) mailed to stockholders, (iv) as soon as they are available, copies of all reports and financial statements furnished to or filed with the Commission, any securities exchange or the NASD, (v) every material press release and every material news item or article in respect of the Company or its affairs which was generally released to stockholders or prepared by the Company, and (vi) any additional information of a public nature concerning the Company, or its business which you may reasonably request. During such five (5) year period, if the Company shall have active subsidiaries, the foregoing financial statements shall be on a consolidated basis to the extent that the accounts of the Company and such subsidiaries are consolidated, and shall be accompanied by similar financial statements for any significant subsidiary which is not so consolidated.

(g) The Company will apply the net proceeds from the sale of the Shares being sold by it in the manner set forth under the caption "Use of Proceeds" in the Prospectus.

(h) The Company will maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar (which may be the same entity as the transfer agent) for its Common Stock.

(i) If the transactions contemplated hereby are not consummated by reason of any failure, refusal or inability on the part of the Company or any Selling Stockholder to perform any agreement on their respective parts to be performed hereunder or to fulfill any condition of the Underwriters' obligations hereunder, or if the Company shall terminate this Agreement pursuant to Section 11(a) hereof, or if the Underwriters shall terminate this Agreement pursuant to Section 11(a) or 11(b), then the provisions of Section 9 of that certain letter agreement dated June 25, 1996 between you and the Company (the "Letter Agreement") shall govern payment and reimbursement obligations of the parties.

(j) If at any time during the ninety (90) day period after the Registration Statement becomes effective, any rumor, publication or event relating to or affecting the Company shall occur as a result of which in your opinion the market price of the Common Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus), the Company will, after written notice from you advising the Company to the effect set forth above, forthwith prepare, consult with you concerning the substance of and disseminate a press release or other public statement, reasonably satisfactory to you, responding to or commenting on such rumor, publication or event.

(k) During the Lock-up Period, the Company will not, without the prior written consent of Cruttenden Roth Incorporated, effect the Disposition or purchase of, directly or indirectly, any Securities other than the sale of the Firm Shares and the Company's issuance of options or Common Stock currently reserved for issuance under the Company's presently authorized stock option and stock purchase plans described in the Registration Statement and the Prospectus.

(l) The Company shall issue and sell to the Representative upon the Closing Date, at a price of $0.001 per share, a warrant to purchase up to 162,500 shares of the Company's Common Stock at an exercise price equal to One Hundred and Twenty Percent (120%) public offering purchase price per share set forth in Section 3 hereof (the "Representative's Warrants"). The Representatives Warrants shall have a term of four (4) years from the date of issuance and shall be in substantially the form attached hereto as EXHIBIT A.

(m) For a period ending upon the earlier of (i) one (1) year following the Closing Date; and (ii) the closing of a public offering of the Company's securities in which the Representative has declined to exercise its rights under this subsection, the Company shall notify the Representative in writing at least thirty (30) days prior to initiating (A) any proposed private or public offering of any debt or equity securities (other than bank debt or similar financing with institutional lending institutions) by the Company or by any of its majority owned or controlled subsidiaries having as its principal objective the raising of capital for the Company; or (B) the proposed public offering of any equity securities by any of the Company's stockholders owning at least five percent (5%) of the outstanding Common Stock of the Company. Such written notice shall describe the proposed transaction giving rise to the notice, including the price and the terms and conditions upon which the Company proposed to conduct such transaction. The Representative or, at the option of the Representative, a group of associated investment bankers including and led by the Representative, shall have the right of first refusal to manage the offering on substantially the terms and conditions set forth in the notice. The Representative agrees to provide the Company with notice of its acceptance of such right of first refusal no later than ten (10) days of receipt of the Company's notice hereunder. If the Representative fails to exercise its right of first refusal within the ten (10) day period and the terms of the proposed subsequent financings thereafter are altered in any material respect, the Company shall again offer to the Representative this right of first refusal to manage such subsequent financings upon such altered terms, in the manner provided in this subsection.

(n) The Company will cause its Common Stock (including the Shares) to be listed on the Nasdaq National Market, and the Company will comply with all registration, filing, reporting and other requirements of the Exchange Act and any such exchange or the Nasdaq National Market which may from time to time be applicable to the Company, and the Company shall not agree to the delisting from the Nasdaq National Market without the prior written consent of the Representative.

(o) The Company will use its best efforts to maintain a board of directors that will at all times include at least two (2) non-employee directors.

5. EXPENSES.

(a) The Company agrees with each Underwriter that:

(i) The Company will pay and bear all costs and expenses in connection with the preparation, printing and filing of the Registration Statement (including financial statements, schedules and exhibits), Preliminary Prospectuses and the Prospectus and any amendments or supplements thereto; the drafting and printing of this Agreement, the Agreement Among Underwriters, the Selected Dealer Agreement, the Preliminary Blue Sky Survey and any Supplemental Blue Sky Survey, the Underwriters' Questionnaire and Power of Attorney, and any instruments related to any of the foregoing; the issuance and delivery of the Shares hereunder to the several Underwriters, including transfer taxes, if any, the cost of all certificates representing the Shares and transfer agents' and registrars' fees; the fees and disbursements of counsel for the Company; all fees and other charges of the Company's independent certified public accountants; the cost of furnishing to the several Underwriters copies of the Registration Statement (including appropriate exhibits), Preliminary Prospectus and the Prospectus, and any amendments or supplements to any of the foregoing; NASD filing fees and the cost of qualifying the Shares under the laws of such jurisdictions as you may designate (including filing fees and fees and disbursements of Underwriters' Counsel in connection with such NASD filings and Blue Sky qualifications) all fees and expenses in connection with listing the Shares on the Nasdaq National Market; and all other expenses directly incurred by the Company and the Selling Stockholders in connection with the performance of their obligations hereunder. In addition, upon the Closing Date the Company will pay the Representative a non-accountable expense allowance equal to one percent (1%) of the total proceeds from the offering

of the Shares (assuming exercise of the option provided by Section 7 hereof and the sale of the Option Shares pursuant thereto), less $25,000. The provisions of this Section 5(a)(i) are intended to relieve the Underwriters from the payment of the expenses and costs which the Selling Stockholders and the Company hereby agree to pay, but shall not affect any agreement which the Selling Stockholders and the Company may make, or may have made, for the sharing of any of such expenses and costs. Such agreements shall

not impair the obligations of the Company and the Selling Stockholders hereunder to the several Underwriters.

(ii) In addition to its other obligations under Section 8(b) hereof, the Company agrees that as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding described in Section 8(a) hereof, it will reimburse the Underwriters on a monthly basis for all reasonable legal or other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the Company's obligation to reimburse the Underwriters for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Underwriters shall promptly return such payment to the Company together with interest, compounded daily, determined on the basis of the prime rate (or other commercial lending rate for borrowers of the highest credit standing) listed from time to time in THE WALL STREET JOURNAL which represents the base rate on corporate loans posted by a substantial majority of the nation's thirty (30) largest banks (the "Prime Rate"). Any such interim reimbursement payments which are not made to the Underwriters within thirty (30) days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request.

(iii) In addition to their other obligations under Section 8(f) hereof, each Selling Stockholder agrees that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding described in Section 8(b) hereof relating to such Selling Stockholder, it will reimburse the Underwriters on a monthly basis for all reasonable legal or other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of such Selling Stockholder's obligation to reimburse the Underwriters for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Underwriters shall promptly return such payment to the Selling Stockholders, together with interest, compounded daily, determined on the basis of the Prime Rate. Any such interim reimbursement payments which are not made to the Underwriters within thirty (30) days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request. In no event shall the aggregate amount that any Selling Stockholder (as a Selling Stockholder) is required to advance pursuant to this paragraph exceed the net proceeds received by such Selling Stockholder from sales of Selling Stockholder Shares contemplated by this Agreement.

(b) In addition to their other obligations under Section 8(c) hereof, the Underwriters severally and not jointly agree that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding described in Section 8(c) hereof, they will reimburse the Company and each Selling Stockholder on a

monthly basis for all reasonable legal or other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the Underwriters' obligation to reimburse the Company and each such Selling Stockholder for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Company and each such Selling Stockholder shall promptly return such payment to the Underwriters together with interest, compounded daily, determined on the basis of the Prime Rate. Any such interim reimbursement payments which are not made to the Company and each such Selling Stockholder within thirty (30) days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request.

(c) It is agreed that any controversy arising out of the operation of the interim reimbursement arrangements set forth in Sections 5(a)(ii), 5(a)(iii) and 5(b) hereof, including the amounts of any requested reimbursement payments, the method of determining such amounts and the basis on which such amounts shall be apportioned among the reimbursing parties, shall be settled by arbitration conducted under the provisions of the Constitution and Rules of the Board of Governors of the New York Stock Exchange, Inc. or pursuant to the Code of Arbitration Procedure of the NASD. Any such arbitration must be commenced by service of a written demand for arbitration or a written notice of intention to arbitrate, therein electing the arbitration tribunal. In the event the party demanding arbitration does not make such designation of an arbitration tribunal in such demand or notice, then the party responding to said demand or notice is authorized to do so. Any such arbitration will be limited to the operation of the interim reimbursement provisions contained in Sections 5(a)(ii), 5(a)(iii) and 5(b) hereof and will not resolve the ultimate propriety or enforceability of the obligation to indemnify for expenses which is created by the provisions of Sections 8(a), 8(b) and 8(c) hereof or the obligation to contribute to expenses which is created by the provisions of Section 8(e) hereof:

6. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the several Underwriters to purchase and pay for the Shares as provided herein shall be subject to the accuracy, as of the date hereof and the Closing Date and any later date on which Option Shares are to be purchased, as the case may be, of the representations and warranties of the Company and the Selling Stockholders herein, to the performance by the Company and the Selling Stockholders of their respective obligations hereunder and to the following additional conditions:

(a) The Registration Statement shall have become effective not later than 2:00 P.M., San Diego time, on the date following the date of this Agreement, or such later date and time as shall be consented to in writing by you; and no stop order suspending the effectiveness thereof shall have been issued and no proceedings for that purpose shall have been initiated or, to the knowledge of the Company, any Selling

Stockholder or any Underwriter, threatened by the Commission, and any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the satisfaction of Underwriters' Counsel.

(b) All corporate proceedings and other legal matters in connection with this Agreement, the form of Registration Statement and the Prospectus, and the registration, authorization, issue, sale and delivery of the Shares, shall have been reasonably satisfactory to Underwriters' Counsel, and such counsel shall have been furnished with such papers and information as they may reasonably have requested to enable them to pass upon the matters referred to in this Section.

(c) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date, or any later date on which Option Shares are to be purchased, as the case may be, there shall not have been any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse and that makes it, in your sole judgment, impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus.

(d) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, the following opinion of counsel for the Company and the Selling Stockholders, dated the Closing Date or such later date on which Option Shares are to be purchased addressed to the Underwriters and with reproduced copies or signed counterparts thereof for each of the Underwriters, to the effect that:

(i) The Company and the Subsidiary have been duly incorporated and are validly existing as a corporation in good standing under the laws of the jurisdiction of their incorporation;

(ii) Each of the Company and the Subsidiary have the corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus;

(iii) Each of the Company and the Subsidiary are duly qualified to do business as a foreign corporation and are in good standing in each jurisdiction, if any, in which the ownership or leasing of their properties or the conduct of their business (as known to such counsel) requires such qualification, except where the failure to be so qualified or be in good standing would not have a material adverse effect on the condition (financial or otherwise), earnings, operations or business of the Company or the Subsidiary, as applicable. To such counsel's knowledge, the Company does not own or control directly or indirectly, any corporation, association or other entity other than the Subsidiary;

(iv) The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" as of the dates stated therein, the issued and outstanding shares of capital stock of the Company (including the Selling Stockholder Shares) have been duly and validly issued and are fully paid and nonassessable, and, to such counsel's knowledge, will not have been issued in violation of or subject to any preemptive right, co-sale right, registration right, right of first refusal or other similar right;

(v) The Firm Shares to be issued by the Company pursuant to the terms of this Agreement have been duly authorized and, upon issuance and delivery against payment therefor in accordance with the terms hereof; will be duly and validly issued and fully paid and nonassessable and will not have been issued in violation of or subject to any preemptive right, co-sale right, registration right, right of first refusal or other similar right contained in the Company's charter or bylaws or, to such counsel's knowledge, in any other agreement or contract to which the Company is a party.

(vi) The Company has the corporate power and authority to enter into this Agreement and to issue, sell and deliver to the Underwriters the Shares to be issued and sold by it hereunder,

(vii) This Agreement has been duly authorized by all necessary corporate action on the part of the Company and has been duly executed and delivered by the Company and, assuming due authorization, execution and delivery by you, is a valid and binding agreement of the Company, enforceable in accordance with its terms, except insofar as indemnification provisions may be limited by applicable law and except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally or by general equitable principles;

(viii) The Registration Statement has become effective under the Act and, to such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or threatened under the Act;

(ix) The Registration Statement and the Prospectus, and each amendment or supplement thereto (other than the financial statements (including supporting schedules), financial data derived therefrom and other financial and statistical information included therein as to which such counsel need express no opinion), as of the effective date of the Registration Statement, complied as to form in all material respects with the requirements of the Act and the applicable Rules and Regulations;

(x) The information in the Prospectus under the caption "Description of Capital Stock," to the extent that it constitutes matters of law or legal

conclusions, has been reviewed by such counsel and is a fair summary of such matters and conclusions; and the forms of certificates evidencing the Common Stock comply with Delaware law;

(xi) The description in the Registration Statement and the Prospectus of the charter and bylaws of the Company and of statutes are accurate and fairly present the information required to be presented by the Act and the applicable Rules and Regulations;

(xii) To such counsel's knowledge, there are no agreements, contracts, leases or documents to which the Company is a party of a character required to be described or referred to in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement which are not described or referred to therein or filed as required;

(xiii) The performance of this Agreement and the consummation of the transactions herein contemplated (other than performance of the Company's indemnification obligations hereunder, concerning which no opinion need be expressed) will not (a) result in any violation of the charter or bylaws of the Company or (b) to such counsel's knowledge, result in a material breach or violation of any of the terms and provisions of, or constitute a default under, any bond, debenture, note or other evidence of indebtedness, or any lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument known to such counsel to which the Company is a party or by which its properties are bound, or any applicable statute, rule or regulation known to such counsel or, to such counsel's knowledge, any order, writ or decree of any court, government or governmental agency or body having jurisdiction over the Company or any of its properties or operations; provided, however, that such counsel need not express any opinion or belief with respect to state securities or Blue Sky laws;

(xiv) No consent, approval, authorization or order of or qualification with any court, government or governmental agency or body having jurisdiction over the Company or any of its properties or operations is necessary in connection with the consummation by the Company of the transactions herein contemplated, except such as have been obtained under the Act or such as may be required under state or other securities or Blue Sky laws in connection with the purchase and the distribution of the Shares by the Underwriters;

(xv) To such counsel's knowledge, there are no legal or governmental proceedings pending or threatened against the Company of a character required to be disclosed in the Registration Statement or the Prospectus by the Act or the Rules and Regulations, other than those described therein;

(xvi) To such counsel's knowledge, the company is not presently (a) in material violation of its respective charter or bylaws, or (b) in material breach of any applicable statute, rule or regulation known to such counsel or, to such counsel's knowledge, any order, writ or decree of any court or governmental agency or body having jurisdiction over the Company or over any of its properties or operations; and

(xvii) To such counsel's knowledge, except as set forth in the Registration Statement and Prospectus, no holders of Common Stock or other securities of the Company have registration rights with respect to securities of the Company and, except as set forth in the Registration Statement and Prospectus, all holders of securities of the Company having rights known to such counsel to registration of such shares of Common Stock or other securities, because of the filing of the Registration Statement by the Company have, with respect to the offering contemplated thereby, waived such rights or such rights have expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement or have included securities in the Registration Statement pursuant to the exercise of and in full satisfaction of such rights;

(xviii) Each Selling Stockholder that is not a natural person has full right, power and authority to enter into and to perform its obligations under the Power of Attorney and Custody Agreement to be executed and delivered by it in connection with the transactions contemplated herein; the Power of Attorney and Custody Agreement of each Selling Stockholder that is not a natural person has been duly authorized by such Selling Stockholder; the Power of Attorney and Custody Agreement of each Selling Stockholder has been duly executed and delivered by or on behalf of such Selling Stockholder, and the Power of Attorney and Custody Agreement of each Selling Stockholder constitutes the valid and binding agreement of such Selling Stockholder, enforceable in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles;

(xix) Each of the Selling Stockholders has full right, power and authority to enter into and to perform its obligations under this Agreement and to sell, transfer, assign and deliver the Shares to be sold by such Selling Stockholder hereunder:

(xx) This Agreement has been duly authorized by each Selling Stockholder that is not a natural person and has been duly executed and delivered by or on behalf of each Selling Stockholder; and

(xxi) upon the delivery of and payment for the Shares as contemplated in this Agreement, each of the Underwriters will receive valid marketable title to the Shares purchased by it from such Selling Stockholder, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest in rendering such opinion, such counsel may assume that the Underwriters are without notice of any defect in the title of the Shares being purchased from the Selling Stockholders.

In addition, such counsel shall state that such counsel has acted as outside corporate legal counsel to the Company and participated in conferences with officials and other representatives of the Company, the Representative, Underwriters' Counsel and the independent certified public accountants of the Company, at which such conferences the contents of the Registration Statement and Prospectus and related matters were discussed, and although they have not verified the accuracy or completeness of the statements contained in the Registration Statement or the Prospectus, nothing has come to the attention of such counsel which leads such counsel to believe that, at the time the Registration Statement became effective and at all times subsequent thereto up to and on the Closing Date and on any later date on which Option Shares are to be purchased, the Registration Statement and any amendment or supplement thereto (other than the financial statements including supporting schedules, other financial information derived therefrom and other financial and statistical information included therein, as to which such counsel need express no comment) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or at the Closing Date or any later date on which the Option Shares are to be purchased, as the case may be, the Registration Statement, the Prospectus and any amendment or supplement thereto (except as aforesaid) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Counsel rendering the foregoing opinion may rely as to questions of law not involving the laws of the United States, the State of California or the corporate laws of the State of Delaware upon opinions of local counsel, and as to questions of fact upon representations or certificates of officers of the Company, the Selling Stockholders or officers of the Selling Stockholders (when the Selling Stockholder is not a natural person), and of

government officials, in which case their opinion is to state that they are so relying and that they have no knowledge of any material misstatement or inaccuracy in any such opinion, representation or certificate. Copies of any opinion, representation or certificate so relied upon shall be delivered to you, as Representative of the Underwriters, and to Underwriters' Counsel.

(e) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, an opinion of Luce, Forward, Hamilton & Scripps LLP, in form and substance satisfactory to you, with respect to the sufficiency of all such corporate proceedings and other legal matters relating to this Agreement and the transactions contemplated hereby as you may reasonably require, and the Company shall have furnished to such counsel such documents as they may have requested for the purpose of enabling them to pass upon such matters.

(f) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, a letter from Deloitte & Touche LLP ("D&T"), addressed to the Underwriters, dated the Closing Date or such later date on which Option Shares are to be purchased, as the case may be (in each case, the "Bring Down Letter"), confirming that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable published Rules and Regulations and based upon the procedures described in a letter delivered to you concurrently with the execution of this Agreement (herein called the "Original Letter"), but carried out to a date not more than two (2) business days prior to the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, (i) confirming, to the extent true, that the statements and conclusions set forth in the Original Letter are accurate as of the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, and (ii) setting forth any revisions and additions to the statements and conclusions set forth in the Original Letter that are necessary to reflect any changes in the facts described in the Original Letter since its date, or to reflect the availability of more recent financial statements, data or information. The Bring Down Letter shall not disclose any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse and that makes it, in your sole judgment, impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus. The Original Letter from D&T shall be addressed to or for the use of the Underwriters in form and substance satisfactory to the Underwriters and shall (i) represent, to the extent true, that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable published Rules and Regulations, (ii) set forth their opinion with respect to their examination of the balance sheet of the Company as of September 30, 1995 and related statements of operations, stockholders' equity and cash flows for the twelve (12) months ended September 30, 1995, (iii) state that D&T has performed the procedures set out in Statement on Auditing Standards No. 71 ("SAS 71") for a review of interim financial information and providing the report of D&T as described in SAS 71 on the financial

statements for the three-quarter period ended June 30, 1996 (the "Quarterly Financial Statements"), (iv) state that in the course of such review, nothing came to their attention that leads them to believe that any material modifications need to be made to any of the Quarterly Financial Statements in order for them to be in compliance with generally accepted accounting principles consistently applied across the periods presented, (v) state that nothing came to their attention that caused them to believe that the financial statements included in the Registration Statement and Prospectus do not comply as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X and that any adjustments thereto have not been properly applied to the historical amounts in the compilation of such statements, and (vi) address other matters agreed upon by D&T and you. In addition, you shall have received from D&T a letter addressed to the Company and made available to you for the use of the Underwriters stating that their review of the Company's system of internal accounting controls, to the extent they deemed necessary in establishing the scope of their examination of the Company's financial statements as of September 30, 1995, did not disclose any weaknesses in internal controls that they considered to be material weaknesses.

(g) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, a certificate of the Company, dated the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, signed by the Chief Executive Officer and Chief Financial Officer of the Company, to the effect that, and you shall be satisfied that:

(i) The representations and warranties of the Company in this Agreement are true and correct, as if made on and as of the Closing Date or any later date on which Option Shares are to be purchased, as the case may be, and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date or any later date on which Option Shares are to be purchased, as the case may be;

(ii) No stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or threatened under the Act;

(iii) When the Registration Statement became effective and at all times subsequent thereto up to the delivery of such certificate, the Registration Statement and the Prospectus, and any amendments or supplements thereto, contained all material information required to be included therein by the Act and the Rules and Regulations, and in all material respects conformed to the requirements of the Act and the Rules and Regulations, the Registration Statement, and any amendment or supplement thereto, did not and does not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, the Prospectus, and any amendment or supplement thereto, did not and does not include any untrue statement of a material fact or omit to state a material fact necessary to make the

statements therein, in the light of the circumstances under which they were made, not misleading, and, since the effective date of the Registration Statement, there has occurred no event required to be set forth in an amended or supplemented Prospectus which has not been so set forth; and

(iv) Subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been (a) any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company, (b) any transaction that is material to the Company, except transactions entered into in the ordinary course of business, (c) any obligation, direct or contingent, that is material to the Company, incurred by the Company, except obligations incurred in the ordinary course of business, (d) any change in the capital stock or outstanding indebtedness of the Company that is material to the Company or is out of the ordinary course of business of the Company, (e) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company, or (f) any loss or damage (whether or not insured) to the property of the Company which has been sustained or will have been sustained which has a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company.

(h) You shall be satisfied that, and you shall have received a certificate dated the Closing Date, or any later date on which Option Shares are to be purchased, as the case may be, from the Attorneys for each Selling Stockholder to the effect that, as of the Closing Date, or any later date on which Option Shares are to be purchased, as the case may be, they have not been informed that:

(i) The representations and warranties made by such Selling Stockholder herein are not true or correct in any material respect on the Closing Date or on any later date on which Option Shares arc to be purchased, as the case may be; or

(ii) Such Selling Stockholder has not complied with any obligation or satisfied any condition which is required to be performed or satisfied on the part of such Selling Stockholder at or prior to the Closing Date or any later date on which Option Shares are to be purchased, as the case may be.

(i) The Company shall have obtained and delivered to you an agreement from each officer and director of the Company, each Selling Stockholder and each entity that is a stockholder and is affiliated with a director of the Company in writing prior to the date hereof that such person will not, except as described below, during the Lock-up Period, effect the Disposition of any Securities now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, (ii) as a distribution to partners or stockholders of such person, provided that the distributees thereof agree in writing to be bound by the terms of this restriction, or (iii) with the prior written consent of Cruttenden

Roth Incorporated. The foregoing restriction shall have been expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than the such holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from Securities. Furthermore, such person will have also agreed and consented to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the Securities held by such person except in compliance with this restriction.

(j) The Company and the Selling Stockholders shall have furnished to you such other certificates and documents as you shall reasonably request (including certificates of officers of the Company, the Selling Stockholders or officers of the Selling Stockholders (when the Selling Stockholder is not a natural person) as to the accuracy of the representations and warranties of the Company and the Selling Stockholders herein, as to the performance by the Company and the Selling Stockholders of their respective obligations hereunder and as to the other conditions concurrent and precedent to the obligations of the Underwriters hereunder.

All such opinions, certificates, letters and documents will be in compliance with the provisions hereof only if they are reasonably satisfactory to Underwriters' Counsel. The Company and the Selling Stockholders will furnish you with such number of conformed copies of such opinions, certificates, letters and documents as you shall reasonably request.

(k) You shall have received the Representative's Warrant, in a form reasonably satisfactory to you, duly and validly executed by the President of the Company.

(l) Prior to the Closing Date, the Company's Common Stock, including the Shares, shall have been approved for listing on the Nasdaq National Market, subject only to official notice of issuance.

7. OPTION SHARES.

(a) On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the John M. and Sally B. Thornton Trust hereby grants to the several Underwriters, for the purpose of covering over-allotments, a nontransferable option to purchase up to an aggregate of 600,000 Option Shares at the purchase price per share for the Firm Shares set forth in Section 3 hereof. Such option may be exercised by the representative on behalf of the several Underwriters on one (1) or more occasions in whole or in part during the period of forty-five (45) days after the date on which the Firm Shares are initially offered to the public by giving written notice (the "Option Notice") to the Company and the Selling Stockholders. The number of Option Shares to be purchased by each Underwriter upon the exercise of such option shall be the same proportion of the total number of Option Shares to be purchased by the several Underwriters pursuant to the exercise of such option as the number of Firm Shares purchased by such Underwriter (set forth in Schedule A hereto) bears to the total number of Firm Shares purchased by the several Underwriters (set forth in

Schedule A hereto), adjusted by the Representative in such manner as to avoid fractional shares.

Delivery of definitive certificates for the Option Shares to be purchased by the several Underwriters pursuant to the exercise of the option granted by this Section 7 shall be made against payment of the purchase price therefor by the several Underwriters by certified or official bank check or checks drawn in next-day funds, payable to the order of the John M. Thornton and Sally B. Thornton Trust, as the case may be (and the John M. Thornton and Sally B. Thornton Trust, agrees not to deposit any such check in the bank on which it is drawn, and not to take any other action with the purpose or effect of receiving immediately available funds, until the business day following the date of its delivery to the payee). In the event of any breach of the foregoing, the Company shall reimburse the Underwriters for the interest lost and any other expenses borne by them by reason of such breach. Such delivery and payment shall take place at the offices of Gray Cary Ware & Freidenrich, 4365 Executive Drive, Suite 1600, San Diego, California or at such other place as may be agreed upon among the Representative, the Company and the John M. Thornton and Sally B. Thornton Trust (i) on the Closing Date, if written notice of the exercise of such option is received by the Company and the John M. Thornton and Sally B. Thornton Trust at least two (2) full business days prior to the Closing Date, or (ii) on a date which shall not be later than the third (3rd) full business day following the date the Company and the John M. Thornton and Sally B. Thornton Trust receive written notice of the exercise of such option, if such notice is received by the Company and the John M. Thornton and Sally B. Thornton Trust after the date two (2) full business days prior to the Closing Date.

The certificates for the Option Shares to be so delivered will be made available to you at such office or such other location including, without limitation, in New York City, as you may reasonably request for checking at least one (1) full business day prior to the date of payment and delivery and will be in such names and denominations as you may request, such request to be made at least two (2) full business days prior to such date of payment and delivery. If the Representative so elects, delivery of the Option Shares may be made by credit through full fast transfer to the accounts at The Depository Trust Company designated by the Representative.

It is understood that you, individually, and not as the Representative of the several Underwriters, may (but shall not be obligated to) make payment of the purchase price on behalf of any Underwriter or Underwriters whose check or checks shall not have been received by you prior to the date of payment and delivery for the Option Shares to be purchased by such Underwriter or Underwriters. Any such payment by you shall not relieve any such Underwriter or Underwriters of any of its or their obligations hereunder.

(b) Upon exercise of any option provided for in Section 7(a) hereof, the obligations of the several Underwriters to purchase such Option Shares will be subject (as of the date hereof and as of the date of payment and delivery for such Option Shares) to the accuracy of and compliance with the representations, warranties and agreements of the Company and the Selling Stockholders herein, to the accuracy of the statements of the Company, the Selling Stockholders and officers of the Company made pursuant to the provisions hereof, to the performance by the Company and the Selling Stockholders of their respective obligations hereunder, to the conditions set forth in Section 6 hereof, and to the condition that all proceedings taken at or prior to the payment date in connection with the sale and transfer of such Option Shares shall be satisfactory in form and substance to you and to Underwriters' Counsel, and you shall have been furnished with all such documents, certificates and opinions as you may request in order to evidence the accuracy and completeness of any of the representations, warranties or statements, the performance of any of the covenants or agreements of the Company and the Selling Stockholders or the satisfaction of any of the conditions herein contained.

8. INDEMNIFICATION AND CONTRIBUTION.

(a) The Company and the Principal Stockholder agree to indemnify and hold harmless, jointly and severally, each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject (including, without limitation, in its capacity as an Underwriter or as a qualified independent underwriter within the meaning of Schedule E of the Bylaws of the NASD), under the Act, the Exchange Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities (or actions in respect thereof) arising out of or based upon (i) any breach of any representation, warranty, agreement or covenant of the Company herein contained, (ii) any untrue statement or alleged untrue statement or any material fact contained in the Registration Statement or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and agrees to reimburse each Underwriter for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, such Preliminary Prospectus or the Prospectus, or any such amendment or supplement thereto, in reliance upon, and in conformity with, written information relating to any Underwriter furnished to the Company by such Underwriter, directly or through you, specifically for use in the preparation thereof and, PROVIDED FURTHER, that the indemnity agreement provided in this Section 8(a) with respect to any Preliminary

Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any losses, claims, damages, liabilities or actions based upon any untrue statement or alleged untrue statement of material fact or omission or alleged omission to state therein a material fact purchased Shares, if a copy of the Prospectus in which such untrue statement or alleged untrue statement or omission or alleged omission was corrected had not been sent or given to such person within the time required by the Act and the Rules and Regulations, unless such failure is the result of noncompliance by the Company with Section 4(d) hereof.

The indemnity agreement in this Section 8(a) shall extend upon the same terms and conditions to, and shall inure to the benefit of each person, if any, who controls any Underwriter within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which the Company may otherwise have.

(b) Each Selling Stockholder, severally and not jointly, agrees to indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject (including, without limitation, in its capacity as an Underwriter or as a "qualified independent underwriter" within the meaning of Schedule E or the Bylaws of the NASD) under the Act, the Exchange Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities (or actions in respect thereof) arising out of or based upon (i) any breach of any representation, warranty, agreement or covenant of such Selling Stockholder herein contained, (ii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, all to the extent that any such untrue statement or omission, or alleged untrue statement or omission, was known, or after due inquiry should have been known, to such Selling Stockholder and agrees to reimburse each Underwriter for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that the indemnity agreement provided in this Section 8(b) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any losses, claims, damages, liabilities or actions based upon any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state therein a material fact purchased Shares, if a copy of the Prospectus in which such untrue statement or alleged untrue statement or omission or alleged omission was corrected had not been sent or given to such person within the time required by the Act and the Rules and Regulations, unless such failure is the result of noncompliance by the Company with Section 4(d) hereof.

The indemnity agreement in this Section 8(b) shall extend upon the same terms and conditions to, and shall inure to the benefit of each person, if any, who

controls any Underwriter within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which such Selling Stockholder may otherwise have.

(c) Each Underwriter, severally and not jointly, agrees to indemnify and hold harmless the Company and each Selling Stockholder against any losses, claims, damages or liabilities, joint or several, to which the Company or such Selling Stockholder may become subject under the Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities (or actions in respect thereof) arising out of or based upon (i) any breach of any representation, warranty, agreement or covenant of such Underwriter herein contained, (ii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, in the case of subparagraphs (ii) and (iii) of this Section 8(c) to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter, directly or through you, specifically for use in the preparation thereof, and agrees to reimburse the Company and each such Selling Stockholder for any legal or other expenses reasonably incurred by the Company and each such Selling Stockholder in connection with investigating or defending any such loss, claim, damage, liability or action.

The indemnity agreement in this Section 8(c) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each officer of the Company who signed the Registration Statement and each director of the Company, each Selling Stockholder and each person, if any, who controls the Company or any Selling Stockholder within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which each Underwriter may otherwise have.

(d) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against any indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof, but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section 8 except to the extent that it has been prejudiced by such omission. In case any such action is brought against any indemnified party, and it notified the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it shall elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof, with counsel reasonably satisfactory

to such indemnified party; PROVIDED, HOWEVER, that if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of the indemnifying party's election so to assume the defense of such action and approval by the indemnified party of counsel, the indemnifying party will not be liable to such indemnified party under this Section 8 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel (together with appropriate local counsel) approved by the indemnifying party representing all the indemnified parties under Section 8(a), 8(b) or 8(c) hereof who are parties to such action), (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of the action or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party. In no event shall any indemnifying party be liable in respect of any amounts paid in settlement of any action unless the indemnifying party shall have approved the terms of such settlement; PROVIDED that such consent shall not be unreasonably withheld. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnification could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on all claims that are the subject matter of such proceeding.

(e) In order to provide for just and equitable contribution in any action in which a claim for indemnification is made pursuant to this Section 8 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last sight of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 8 provides for indemnification in such case, all the parties hereto shall contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that the Underwriters severally and not jointly are responsible pro rata for the portion represented by the percentage that the underwriting discount bears to the public offering price, and the Company and the Selling Stockholders are responsible for the remaining portion, PROVIDED, HOWEVER, that (i) no Underwriter shall be required to contribute any amount in excess of the amount by which the underwriting discount applicable to the Shares purchased by such Underwriter exceeds the amount of damages which such Underwriter has otherwise been required to pay and (ii) no person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the

Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. The contribution agreement in this Section 8(e) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls any Underwriter, the Company or any Selling Stockholder within the meaning of the Act or the Exchange Act and each officer of the Company who signed the Registration Statement and each director of the Company.

(f) The liability of each Selling Stockholder (other than the Principal Stockholder) under the representations, warranties and agreements contained herein and under the indemnity agreements contained in the provisions of Section 8(b) shall be limited to an amount equal to the gross proceeds of the Selling Stockholder Shares sold by such Selling Stockholder to the Underwriters. The Company and such Selling Stockholders may agree, as among themselves and without limiting the rights of the Underwriters under this Agreement, as to the respective amounts of such liability for which they each shall be responsible.

(g) The parties to this Agreement hereby acknowledge that they are sophisticated businesspersons who were represented by counsel during the negotiations regarding the provisions hereof including, without limitation, the provisions of this Section 8, and are fully informed regarding said provisions. They further acknowledge that the provisions of this Section 8 fairly allocate the risks in light of the ability of the parties to investigate the Company and its business in order to assure that adequate disclosure is made in the Registration Statement and Prospectus as required by the Act and the Exchange Act.

9. REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS TO SURVIVE DELIVERY. All representations, warranties, covenants and agreements of the Company, the Selling Stockholders and the Underwriters herein or in certificates delivered pursuant hereto, and the indemnity and contribution agreements contained in Section 8 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter within the meaning of the Act or the Exchange Act, or by or on behalf of the Company or any Selling Stockholder, or any of their officers, directors or controlling persons within the meaning of the Act or the Exchange Act, and shall survive the delivery of the Shares to the several Underwriters hereunder or termination of this Agreement.

10. SUBSTITUTION OF UNDERWRITERS. If any Underwriter or Underwriters shall fail to take up and pay for the number of Firm Shares agreed by such Underwriter or Underwriters to be purchased hereunder upon tender of such Firm Shares in accordance with the terms hereof, and if the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters so agreed but failed to purchase does not exceed 10% of the Firm Shares, the remaining Underwriters shall be obligated, severally in proportion to their respective commitments hereunder, to take up and pay for the Firm Shares of such defaulting Underwriter or Underwriters.

If any Underwriter or Underwriters so defaults and the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters agreed but failed to take up and pay for exceeds 10% of the Firm Shares, the remaining Underwriters shall have the right, but shall not be obligated, to take up and pay for (in such proportions as may be agreed upon among them) the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase. If such remaining Underwriters do not, at the Closing Date, take up and pay for the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase, the Closing Date shall be postponed for twenty-four (24) hours to allow the several Underwriters the privilege of substituting within twenty-four (24) hours (including nonbusiness hours) another underwriter or underwriters (which may include any nondefaulting Underwriter) satisfactory to the Company. If no such underwriter or underwriters shall have been substituted as aforesaid by such postponed Closing Date, the Closing Date may, at the option of the Company, be postponed for a further twenty-four (24) hours, if necessary, to allow the Company the privilege of finding another underwriter or underwriters, satisfactory to you, to purchase the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase. If it shall be arranged for the remaining Underwriters or substituted underwriter or underwriters to take up the Firm Shares of the defaulting Underwriter or Underwriters as provided in this Section 10, (i) the Company shall have the right to postpone the time of delivery for a period of not more than seven (7) full business days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees promptly to file any amendments to the Registration Statement, supplements to the Prospectus or other such documents which may thereby be made necessary, and (ii) the respective number of Firm Shares to be purchased by the remaining Underwriters and substituted underwriter or underwriters shall be taken as the basis of their underwriting obligation. If the remaining Underwriters shall not take up and pay for all such Firm Shares so agreed to be purchased by the defaulting Underwriter or Underwriters or substitute another underwriter or underwriters as aforesaid and the Company shall not find or shall not elect to seek another underwriter or underwriters for such Firm Shares as aforesaid, then this Agreement shall terminate.

ln the event of any termination of this Agreement pursuant to the preceding paragraph of this Section 10, then other than as set forth in the Letter Agreement, neither the Company nor any Selling Stockholder shall be liable to any Underwriter (except as provided in Sections 5 and 8 hereof) nor shall any Underwriter (other than an Underwriter who shall have failed, otherwise than for some reason permitted under this Agreement, to purchase the number of Firm Shares agreed by such Underwriter to be purchased hereunder, which Underwriter shall remain liable to the Company, the Selling Stockholders and the other Underwriters for damages, if any, resulting from such default) be liable to the Company or any Selling Stockholder (except to the extent provided in Sections 5 and 8 hereof).

The term "Underwriter" in this Agreement shall include any person substituted for an Underwriter under this Section 10.

11. EFFECTIVE DATE OF THIS AGREEMENT AND TERMINATION.

(a) This Agreement shall become effective at the earlier of (i) 6:30 A.M., San Diego time, on the first full business day following the effective date of the Registration Statement, or (ii) the time of the public offering of any of the Shares by the Underwriters after the Registration Statement becomes effective. The time of the public offering shall mean the time of the release by you, for publication, of the first newspaper advertisement relating to the Shares, or the time at which the Shares are first generally offered by the Underwriters to the public by letter, telephone, telegram or telecopy, whichever shall first occur. By giving notice as set forth in Section 12 before the time this Agreement becomes effective, you, as Representative of the several Underwriters, or the Company, may prevent this Agreement from becoming effective without liability of any party to any other party, except as provided in Sections 4(i) and 8 hereof.

(b) You, as Representative of the several Underwriters, shall have the right to terminate this Agreement by giving notice as hereinafter specified at any time on or prior to the Closing Date or on or prior to any later date on which Option Shares are to be purchased, as the case may be, (i) if the Company or any Selling Stockholder shall have failed, refused or been unable to perform any agreement on its part to be performed, or because any other condition of the Underwriters' obligations hereunder required to be fulfilled is not fulfilled, including, without limitation, any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse, or (ii) if additional material governmental restrictions, not in force and effect on the date hereof, shall have been imposed upon trading in securities generally or minimum or maximum prices shall have been generally established on the New York Stock Exchange or on the American Stock Exchange or in the over the counter market by the NASD, or trading in securities generally shall have been suspended on either such exchange or in the over the counter market by the NASD, or if a banking moratorium shall have been declared by federal, New York or California authorities, or (iii) if the Company shall have sustained a loss by strike, fire, flood, earthquake, accident or other calamity of such character as to interfere materially with the conduct of the business and operations of the Company regardless of whether or not such loss shall have been insured, or (iv) if there shall have been a material adverse change in the general political or economic conditions or financial markets as in your reasonable judgment makes it inadvisable or impracticable to proceed with the offering, sale and delivery of the Shares, or (v) if there shall have been an outbreak or escalation of hostilities or of any other insurrection or armed conflict or the declaration by the United States of a national emergency which, in the reasonable opinion of the Representative, makes it impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus. In the event of termination pursuant to subparagraph (i) above, the Company and the Selling Stockholders shall remain obligated to pay costs and expenses pursuant to Sections 4(i) and 8 hereof. Any termination pursuant to any of subparagraphs (ii) through (v) above shall be without liability of any party to any other party except as provided in Sections 4(i) and 8 hereof.

If you elect to prevent this Agreement from becoming effective or to terminate this Agreement as provided in this Section 11, you shall promptly notify the Company by telephone, telecopy or telegram, in each case confirmed by letter. If the Company shall elect to prevent this Agreement from becoming effective, the Company shall promptly notify you by telephone, telecopy or telegram, in each case, confirmed by letter.

12. NOTICES. All notices or communications hereunder, except as herein otherwise specifically provided, shall be in writing and if sent to you shall be mailed, delivered, telegraphed (and confirmed by letter) or telecopied (and confirmed by letter) to you c/o Cruttenden Roth Incorporated, 18301 Von Karman, Suite 100, Irvine, California 92715, telecopier number (714) 852-9603, Attention: [General Counsel]; if sent to the Company, such notice shall be mailed, delivered, telegraphed (and confirmed by letter) or telecopied (and confirmed by letter) to Mitek Systems, Inc., 10070 Carroll Canyon Road, San Diego, CA 92131, Attention: President, if sent to one or more of the Selling Stockholders, such notice shall be sent mailed, delivered, telegraphed (and confirmed by letter) or telecopied (and confirmed by letter) to _____, as Attorney-in-Fact for the Selling Stockholders, at _____.

13. PARTIES. This Agreement shall inure to the benefit of and be binding upon the several Underwriters, the Company and the Selling Stockholders and their respective executors, administrators, successors and assigns. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person or entity, other than the parties hereto and their respective executors, administrators, successors and assigns, and the controlling persons within the meaning of the Act or the Exchange Act, officers and directors referred to in Section 8 hereof, any legal or equitable right, remedy or claim in respect of this Agreement or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and their respective executors, administrators, successors and assigns and said controlling persons and said officers and directors, and for the benefit of no other person or entity. No purchaser of any of the Shares from any Underwriter shall be construed a successor or assign by reason merely of such purchase.

In all dealings with the Company and the Selling Stockholders under this Agreement, you shall act on behalf of each of the several Underwriters, and the Company and the Selling Stockholders shall be entitled to act and rely upon any statement, request, notice or agreement made or given by you jointly or by Cruttenden Roth Incorporated on behalf of you.

14. APPLICABLE LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

15. COUNTERPARTS. This Agreement may be signed in several counterparts, each of which will constitute an original.

[SIGNATURE PAGE FOLLOWS]

If the foregoing correctly sets forth the understanding among the Company, the Selling Stockholders and the several Underwriters, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among the Company, the Selling Stockholders and the several Underwriters.

Very truly yours,

MITEK SYSTEMS, INC.

By:

PRINCIPAL STOCKHOLDER

By:

John M. Thornton

SELLING STOCKHOLDERS

By:

Attorney-in-Fact for the
Selling Stockholders (other
than the Principal Stockholder
named in Schedule B hereto

Accepted as of the date first above written:

CRUTTENDEN ROTH INCORPORATED

On their behalf and on behalf of each
of the several Underwriters named in
Schedule A hereto.

By CRUTTENDEN ROTH INCORPORATED

By

Authorized Signatory

SCHEDULE A

Underwriters	Number of Firm Shares To Be Purchased
Cruttenden Roth Incorporated	
Total	4,075,000

SCHEDULE B

Company	Number of Firm Shares To Be Sold
Mitek Systems, Inc..	up to 2,500,000*
Total	

Name of Selling Stockholder	Number of Selling Stockholder Shares To Be Sold
John M. and Sally B. Thornton Trust.	up to [1,500,000]*
Tracks International, Inc.	up to [3,000]*
Richard S. Dawson.	up to [17,724]
Stephen M. Baird	up to [19,224]*
Glenn Hamilton	up to [7,200]*
Ken Davis.	up to [8,700]*
ETL Holdings Canada Inc.	up to [9,576]*
Solion Corporation of Alberta Ltd.	up to [9,576]*
Total	[1,575,000]

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* [The Company's independent directors shall determine the number of Option Shares, if any, to be sold by the Company. Any remaining Option Shares shall be sold by the Selling Stockholders in proportion to the number of shares indicated on this Exhibit B or as they may otherwise agree.]

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, THE SALE IS MADE IN ACCORDANCE WITH RULE 144 UNDER THE ACT, OR THE COMPANY RECEIVES AN OPINION OF COUNSEL FOR THE HOLDER OF THESE SECURITIES REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SUCH ACT.

Void after 5:00 p.m., San Diego Time, on December 31, 1997.

MITEK SYSTEMS, INC.
COMMON STOCK PURCHASE WARRANT

THIS CERTIFIES THAT, for value received, Luce, Forward, Hamilton & Scripps, a California general partnership, is entitled to purchase Fifteen Thousand (15,000) shares of the Common Stock of MITEK SYSTEMS, INC., a Delaware corporation, at a price of $1.50 per share ("Warrant Price"), subject to adjustments and all other terms and conditions set forth in this Warrant.

1 DEFINITIONS. As used herein, the following terms, unless the context otherwise requires, shall have the following meanings:

(a) "Act" shall mean the Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

(b) "Commission" shall mean the Securities and Exchange Commission, or any other Federal agency at the time administering the Act.

(c) "Common Stock" shall mean shares of the Company's presently or subsequently authorized Common Stock, and any stock into which such Common Stock may hereafter be exchanged.

(d) "Company" shall mean MITEK SYSTEMS, INC., a Delaware corporation, and any corporation which shall succeed to or assume the obligations of MITEK SYSTEMS, INC., under this Warrant.

(e) "Date of Grant" shall be deemed February 1, 1996.

(f) "Exercise Date" shall mean the effective date of the delivery of the Notice of Exercise pursuant to Sections 4 and 11 below.

(g) "Holder" shall mean any person who shall at the time be the registered holder of this Warrant.

(h) "Shares" shall mean shares of the Company's Common Stock, as described in the Company's certificate of determination and articles of incorporation.

(i) "Warrant Shares" shall mean 15,000 shares of the Company's Common Stock which this Warrant entitles the Holder to purchase, provided the Warrant Shares have become vested as provided in Section 3 hereof.

2. ISSUANCE OF WARRANT AND CONSIDERATION THEREFOR. This Warrant is issued in consideration of legal services previously rendered to the Company.

3. TERM. The purchase right represented by this Warrant is exercisable only during the period commencing upon the Date of Grant and ending on the earlier of (i) December 31, 1997 or (ii) concurrently with the closing date of: a sale of all or substantially all of the Company's assets; a merger of the Company with or into another entity or of an entity with or into the Company following which the voting control of the surviving entity in the merger is ultimately controlled by persons who presently do not own beneficially or otherwise 10 percent or more of the issued and outstanding voting stock of the Company; or sale by existing shareholders of at least 51 percent of the presently issued and outstanding stock of the Company. The foregoing events are collectively referred to as a "change of control." After December 31, 1997 or a change of control, this Warrant shall be of no further force or effect.

4. METHOD OF EXERCISE AND PAYMENT.

(a) METHOD OF EXERCISE. Subject to Section 3 hereof and compliance with all applicable Federal and state securities laws, the purchase right represented by this Warrant may be exercised, in whole or in part and from time to time, by the Holder by (i) surrender of this Warrant and delivery of the Notice of Exercise (the form of which is attached hereto as Exhibit A), duly executed, at the principal office of the Company and (ii) payment to the Company of an amount equal to the product of the then applicable Warrant Price multiplied by the number of Shares then being purchased pursuant to one of the payment methods permitted under Section 4(b) below.

(b) METHOD OF PAYMENT. Payment shall be made either (1) by check made payable to the Company, (2) by cash, or (3) by wire transfer of United States funds for the account of the Company.

(c) DELIVERY OF CERTIFICATE. In the event of any exercise of the purchase right represented by this Warrant, certificates for the Shares so purchased shall be delivered to the Holder within thirty (30) days of delivery of the Notice of Exercise and, unless this Warrant has been fully exercised or has expired, a new warrant representing the portion of the Shares with respect to which

this Warrant shall not then have been exercised shall also be issued to the Holder within such thirty (30) day period.

(d) NO FRACTIONAL SHARES. No fractional shares shall be issued in connection with any exercise hereunder, but in lieu of such fractional shares the Company shall make a cash payment therefor upon the basis of the fair market value per Share as of the date of exercise.

5. ADJUSTMENT OF WARRANT PRICE AND NUMBER OF SHARES. In case the Company shall at any time after the Date of Grant (i) subdivide the outstanding shares of its common stock, (ii) combine the outstanding shares of its common stock into a smaller number of shares of common stock, or (iii) issue by reclassification of its shares of common stock other securities of the Company (including any such reclassification in connection with a consolidation or merger in which the Company is the surviving person), the number and kind of shares purchasable upon exercise of this Warrant outstanding immediately prior thereto shall be adjusted so that the Holder shall be entitled to receive at the same aggregate Warrant Price the kind and number of shares of common stock or other securities of the Company which the holder would have owned or have been entitled to receive after the happening of any of the events described above had such Warrant been exercised in full immediately prior to the earlier of the happening of such event or any record date with respect thereto. In the event of any adjustment of the total number of shares of common stock purchasable upon the exercise of this Warrant, the Warrant Price shall be adjusted to be the amount resulting from dividing the number of shares of common stock (including fractional shares of common stock) covered by this Warrant immediately after such adjustment into the total amount payable upon exercise of this Warrant in full immediately prior to such adjustment. An adjustment made pursuant to this Section 5 shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event. Such adjustment shall be made successively whenever any event listed above shall occur.

6. COMPLIANCE WITH ACT; TRANSFERABILITY AND NEGOTIABILITY OF WARRANT; INVESTMENT INTENT.

(a) COMPLIANCE WITH ACT. The Holder, by acceptance hereof, agrees that this Warrant and the Shares to be issued upon the exercise hereof are being acquired solely for its own account (or a trust account if the Holder is a trust) and not as a nominee for any other party and not with a view toward the resale or distribution thereof and that it will not offer, sell or otherwise dispose of this Warrant or any Shares to be issued upon the exercise hereof except under circumstances which will not result in a violation of the Act. Upon the exercise of this Warrant, the Holder shall confirm in writing, in a form satisfactory to the Company, that the Shares so issued are being acquired solely for its own account (or a trust account if the Holder is a trust) and not as a nominee for any other party and not with a view toward resale or distribution thereof. This Warrant and the Shares to be issued upon the exercise hereof (unless registered under the Act) shall be imprinted with a legend in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") AND ARE "RESTRICTED SECURITIES" AS DEFINED IN RULE 144 PROMULGATED UNDER THE ACT. THE SECURITIES MAY NOT BE SOLD OR OFFERED FOR SALE OR OTHERWISE DISTRIBUTED EXCEPT (i) IN CONJUNCTION WITH AN EFFECTIVE REGISTRATION STATEMENT FOR THE SHARES UNDER THE ACT OR (ii) IN COMPLIANCE WITH RULE 144, OR (iii) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE ACT.

In addition, this Warrant and the Shares to be issued upon the exercise hereof shall bear any legends required by the securities laws of any applicable states.

Any legend endorsed on a certificate pursuant to this Section 6 shall be removed, and the Company shall issue a certificate without such legend to the Holder of such securities if (i) such securities are registered and sold under the Act and a prospectus meeting the requirements of Section 10 of the Act is available, (ii) such securities are sold or may be sold in compliance with Rule 144(k), or (iii) at the request of any holder, if the holder shall have obtained an opinion of counsel at such holder's expense (which counsel may be counsel to the Company) reasonably acceptable to the Company to the effect that the securities proposed to be disposed of may lawfully be so disposed of without registration, qualification or legend.

(b) NO TRANSFER. Holder will not dispose of any of the Warrants or the Shares to be issued upon exercise of the Warrants other than (i) in conjunction with an effective registration statement for the Warrants and/or Warrant Shares under the Act, (ii) in compliance with Rule 144 promulgated under the Act or (iii) in compliance with any applicable exemption from registration under the Act, and in compliance with applicable state, local or foreign securities laws. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144.

(c) KNOWLEDGE AND EXPERIENCE. Holder (i) has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of such Holder's prospective investment in the Warrants and the Shares to be issued upon exercise of the Warrants; (ii) has the ability to bear the economic risks of such Holder's prospective investment; (iii) has been furnished with and has had access to such information as such Holder has considered necessary to make a determination as to the purchase of the Warrants and the Shares to be issued upon exercise of the Warrants together with such additional information as is necessary to verify the accuracy of the information supplied; (iv) has had all questions which have been asked by such Holder satisfactorily answered by the Company; and (v) has not been offered the Warrants and the Shares to be issued upon exercise of the Warrants by any form of advertisement, article, notice or other communication published in any newspaper, magazine, or similar media or broadcast over television or radio, or any seminar or meeting whose attendees have been invited by any such media.

7. RIGHTS OF HOLDERS. No Holder shall be entitled to vote or receive dividends or be deemed the holder of Shares or any other securities of the Company which may at any time be issuable on the exercise of this Warrant for any purpose, nor shall anything contained herein be construed to confer upon the Holder, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, consolidation, merger, transfer of assets or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until this Warrant shall have been exercised and the Shares issuable upon exercise hereof shall have become deliverable, as provided herein. The Company shall provide to the Holder all notices and other information which it provides to its stockholders.

8. REPLACEMENT OF WARRANTS. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company at its expense shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor.

9. EXCHANGE OF WARRANT. Subject to the other provisions of this Warrant, on surrender of this Warrant for exchange, properly endorsed and subject to the provisions of this Warrant with respect to compliance with the Act, the Company at its expense shall issue to or on the order of the Holder a new warrant or warrants of like tenor, in the name of the Holder or as the Holder (on payment by the Holder of any applicable transfer taxes) may direct, for the number of Shares issuable upon exercise thereof.

10. GOVERNING LAW. This Agreement shall be governed in all respects by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within California.

11. SURVIVAL. The representations, warranties, covenants and agreements made herein shall survive the execution of this Agreement and the closing of the transactions contemplated hereby.

12. SUCCESSORS AND ASSIGNS. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

13. NOTICES, ETC. All notices and other communications required or permitted hereunder shall be in writing and shall be sent by facsimile, overnight courier or mailed by certified or registered mail, postage prepaid, return receipt requested, to the facsimile number or address shown on the signature pages to this Agreement or to such other facsimile number address provided to the

parties to this Agreement in accordance with this Section 13 Such notices or other communications shall be deemed received upon receipt of a confirmation of facsimile receipt or three (3) days after deposit in the mails.

14. SEVERABILITY. In case any provision of this Agreement shall be declared invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

15. TITLES AND SUBTITLES. The titles of the sections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

16. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

DATED: February 1, 1996

MITEK SYSTEMS, INC., a Delaware corporation

By:_____
John Kessler, President

ACCEPTANCE OF WARRANT

The undersigned hereby accepts this Warrant and agrees to abide by all the terms and conditions hereof. The undersigned further represents and agrees that it is accepting this Warrant for its own account for investment purposes and not with a view to or for sale in connection with a distribution of the Warrant or the Warrant Shares. The undersigned further affirms the representations contained in Section 6 of the Warrant

WARRANT HOLDER:

LUCE, FORWARD, HAMILTON & SCRIPPS

By:_____

Name:_____

Title:_____

EXHIBIT A

NOTICE OF EXERCISE

TO: MITEK SYSTEMS, INC.:

1. The undersigned Holder of the attached original, executed Common Stock Purchase Warrant hereby elects to exercise its purchase right under such Warrant with respect to Shares, as defined in the Warrant, of MITEK SYSTEMS, INC.

2. The undersigned Holder elects to pay the aggregate Warrant Price for such Shares (the "Exercise Shares') in the following manner:

[ ] by the enclosed cash or check made payable to the Company in the amount of $_____; or

[ ] by wire transfer of United States funds to the account of the Company in the amount of $_____, which transfer has been made before or simultaneously with the delivery of this Notice pursuant to the instructions of the Company.

3. Please issue a stock certificate or certificates representing the appropriate number of Shares in the name of the undersigned or in such other names as is specified below;

Name:_____

Address:_____
_____

Tax Ident. No._____

HOLDER:

_____

By:_____

Dated: _____ Title:_____

July 8, 1996

Mitek Systems, Inc.
10070 Carroll Canyon Road
San Diego, CA 92131

Re: MITEK SYSTEMS, INC.

Ladies and Gentlemen:

We are counsel for Mitek Systems, Inc., a Delaware corporation ("Mitek"), in connection with its proposed public offering under the Securities Act of 1933, as amended, of 2,500,000 shares ("Shares") of its Common Stock and of 1,575,000 shares (2,186,250 shares if the overallotment option is exercised in full) which are being sold by certain selling stockholders of Mitek ("Selling Stockholders") through a Registration Statement on Form SB-2 (the "Registration Statement") as to which this opinion is a part, to be filed with the Securities and Exchange Commission (the "Commission").

In connection with rendering our opinion as set forth below, we have reviewed and examined originals or copies of such corporate records and other documents and have satisfied ourselves as to such other matters as we have deemed necessary to enable us to express our opinion hereinafter set forth.

Based upon the foregoing, it is our opinion that:

The Shares covered by the Registration Statement, when issued in accordance with the terms and conditions set forth therein, will be duly authorized, validly issued, fully paid, and non-assessable shares of Common Stock.

The shares of Common Stock being registered for the account of the Selling Stockholders are duly authorized, validly issued, fully paid and nonassessable shares of Common Stock.

We hereby consent to the filing of this opinion as an Exhibit to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in the Prospectus included in the Registration Statement.

Very truly yours,

LUCE, FORWARD, HAMILTON & SCRIPPS

MITEK SYSTEMS, INC.
1986 STOCK OPTION PLAN

SECTION 1. PURPOSE

The purpose of the Plan is to authorize the grant to Key Employees of Mitek Systems, Inc. (the "Company") or any Subsidiary thereof, of (i) non-qualified stock options and (ii) incentive stock options to purchase shares of Common Stock and thus benefit the Company by giving such employees a greater personal interest in the success of the enterprise and an added incentive to continue and advance in their employment.

SECTION 2. DEFINITIONS

The following terms, when used in the Plan, shall have the meanings set forth in this Section 2:

BOARD: The Board of Directors of the Company.

CODE: Internal Revenue Code of 1986, as amended.

COMMITTEE: Such committee as shall be appointed by the Board pursuant to the provisions of Section 9.

COMMON STOCK: The Common Stock of the Company, $0.001 par value per share, or such other class of shares or other securities as may be applicable pursuant to the provisions of Section 4.

COMPANY: Mitek Systems, Inc., a Delaware corporation.

DISABILITY: Inability to perform the services normally rendered by the employee due to any physical or mental impairment that can be expected either to be of indefinite duration or to result in death, as determined by the Committee on the basis of appropriate medical evidence.

FAIR MARKET VALUE: As applied to the Common Stock on any day, the closing market price of such stock on the last preceding day if such stock is listed on a national securities exchange; the average of the bid prices on the last preceding day if such stock is traded over-the-counter; or, if not so listed or traded such per share price as the Committee

shall in good faith determine, but in no event less than the book value per share of the Company on the last preceding month end.

INCENTIVE STOCK OPTION: An option to purchase shares of Common Stock as set forth in Section 6.

KEY EMPLOYEE: With respect to Incentive Stock Options, the term "Key Employee" as used hereinafter shall include any employee of the Company or of a Subsidiary, including an officer or director who is an employee, who in the Committee's judgment can contribute significantly to the growth and successful operations of the Company or of a Subsidiary. With respect to Non-Qualified Stock Options only, the term "Key Employee" as used hereinafter shall also include all directors, whether or not employees, officers and executive, managerial and other key employees of the Company or any of its Subsidiaries, together with such other key persons or entities who are consultants to the Company and any of its Subsidiaries, associated with the Company and any of its Subsidiaries, and important to its continued success, whether or not employees, with regard to which the Committee may determine the potential of a proprietary interest represented by the options granted pursuant to this Plan would promote the interests of the Company. From this eligible class of persons or entities, the Committee shall have complete discretion to select those to whom Non-Qualified Stock Options shall be granted. Notwithstanding anything herein to the contrary, the term "Key Employee" shall exclude any person who owns stock possessing more than 10% of the total combined voting power or value of all classes of stock of the Company or a Subsidiary.

NON-QUALIFIED STOCK OPTION: An option to purchase shares of Common Stock as set forth in Section 5.

PLAN: Mitek Systems, Inc. 1986 Stock Option Plan herein set forth, as amended from time to time.

STOCK INCENTIVE: A stock incentive granted under the Plan in one of the forms provided for in Section 3.

SUBSIDIARY: A corporation at least 50 percent of whose issued and outstanding voting stock is owned, directly or indirectly, by the Company.

SECTION 3. GRANTS OF STOCK INCENTIVES

(a) Subject to the provisions of the Plan, the Committee may at any time, or from time to time, grant Stock

Incentives under the Plan to Key Employees who are not directors.

(b) Subject to stockholder approval, all Stock Incentives held as of December 18, 1987 by Key Employees who are directors will be cancelled and replaced by Stock Incentives under the Plan, as amended, for an equal number of shares. Additional Stock Incentives shall be granted to Key Employees who are directors according to the following schedule:

(i) For non employee directors: Each nonemployee director in office prior to the date of the 1988 annual meeting of stockholders to whom no Stock Incentives had been granted previously shall receive a Stock Incentive for 10,000 shares. Each nonemployee director elected at the 1988 annual meeting (including those nonemployee directors receiving options under the other provisions of this paragraph (b)) and at each annual meeting thereafter during the term of the Plan, shall receive Stock Incentives for 5,000 shares. If any nonemployee is hereafter appointed to the Board between annual meetings, such person shall automatically receive a pro rata portion of a Stock Incentive for 5,000 shares, based on the number of full months to the next anniversary of the last annual meeting divided by 12.

(ii) For employee directors: The Committee will be authorized to approve the grant of Stock Incentives to them from time to time in amounts determined by the Committee in its discretion, limited to Stock Incentives for no more than 150,000 shares per person in any consecutive period of twelve months.

(c) Stock Incentives may be in the following forms:

(i) a Non-Qualified Stock Option, in accordance with Section 5, or

(ii) an Incentive Stock Option, in accordance with Section 6.

SECTION 4. STOCK SUBJECT TO THE PLAN

(a) Subject to adjustment as provided in Section 7, the aggregate number of shares of Common Stock which may be made the subject of Stock Incentives granted under the Plan shall not exceed 630,000 shares. Charges against such

aggregate number are governed by the provisions of paragraph (c) of this Section 4 and paragraph (j) of Section 5 (and said paragraph (j) of Section 5 as incorporated in Incentive Stock Options by paragraph (a) of Section 6).

(b) Such shares may be either authorized but unissued shares or shares issued and thereafter acquired by the Company.

(c) If any shares subject to a Stock Incentive shall cease to be subject thereto because of the termination without exercise, in whole or in part, of such Stock Incentive, the shares as to which the Stock Incentive was not exercised shall no longer be charged against the aggregate limitation in paragraph (a) of this Section 4 and may again be made subject to Stock Incentives.

SECTION 5. NON-QUALIFIED STOCK OPTIONS

Stock Incentives in the form of Non-Qualified Stock Options shall be subject to the following provisions

(a) The option price per share shall be the Fair Market Value at the time of the grant of the option.

(b) Subject to the provisions of paragraph (f) of this Section 5 and the provisions of paragraph (a) of Section 10 relating to absence on leave, an option granted under the Plan may not be exercised unless, at the time of such exercise, the optionee shall be in the employ of or be a director or consultant to or have a close beneficial association with the Company or a Subsidiary.

(c) Each option shall expire at such time as the Committee may determine at the time the option shall be granted but not later than ten years from the date such option shall have been granted.

(d) Each option shall be exercised solely by the person to whom granted (or by his guardian or legal representative), except as provided in paragraph (f)(i) of this Section 5 in the case of such person's death.

(e) After completion of the required period of employment or association specified in the option grant, the option may be exercised, in whole or in part, at any time or from time to time during the balance of the term of the option, except as limited by provisions contained in the option (including provisions regarding exercise in installments). The

minimum number of shares as to which any option shall be exercisable is twenty, except for a smaller number of shares which are all of the shares subject to a currently exercisable option or portion thereof.

(f) Subject to the exceptions listed in (i), (ii), and (iii) immediately below, an optionee whose employment terminates for any reason may exercise his option on the date of such termination or at any time within the one-month period next succeeding such termination (but in no event after the date of expiration of his option), as to any or all shares purchasable on the date of his termination of employment. In the event of death, disability or termination of the employee's employment for cause, as defined herein below at (iii), the final exercise dates should be determined as follows:

(i) If the optionee shall die while employed by the Company or a Subsidiary or within one month after termination of such employment, the option theretofore granted to him may be exercised within, but only within, the period of twelve months next succeeding his death, and in no event after the date of expiration of his option, and then only as and to the extent that he was entitled to exercise it at the date he terminated employment with the Company.

(ii) If an optionee terminates employment prior to retirement by reason of disability, he may exercise his option on, or any time within the twelve months next succeeding, the date of such termination by disability (but in no event after the date of expiration of his option) as to any or all shares purchasable on such date.

(iii) If an optionee is terminated from employment by the Company for cause, the optionee shall be prohibited from exercising the option until the Board makes a determination in its sole discretion that the option is exercisable ("the determination"). For this purpose, an employee shall be considered terminated upon receipt of written notice of termination. If the employee is not available for service of notice, then the employee shall be considered terminated upon posting by registered mail of such notice. The Board shall make its determination and provide notice of its determination to the optionee within twenty days of termination. Unless the Board determines that the option is exercisable, the option will expire as of the date of termination. In the event the Board determines that the option is exercisable, the optionee may exercise the option only to such extent, for such time, and upon such terms and conditions as if he had ceased to be employed by the Company or such affiliate upon the date of such termination for a reason other than for cause, death, or

disability. Termination for cause shall include termination for malfeasance or gross misfeasance in the performance of duties or conviction or illegal activity in connection therewith or any conduct detrimental to the interests of the Company or any affiliate, or the definition of "for cause" in a written employment agreement, if applicable, by which the optionee is employed, and in any event, the determination of the Board with respect thereto shall be final and conclusive.

(g) A person electing to exercise an option shall give written notice to the Company of such election and of the number of shares to which such election relates.

(h) The Committee may impose such conditions on the exercise of any option as may be required to satisfy the requirements of Rule 16b-3 adopted under the Securities Exchange Act of 1934, as amended (or any successor provision in effect at the time).

(i) Shares purchased upon exercise of an option shall be paid for in full in cash, by check to the order of the Company, or in shares of Common Stock with an aggregate Fair Market Value equal to the aggregate option price at the time of exercise.

(j) The forms of option authorized by the Plan may contain such other provisions as the Committee shall deem advisable. Without limiting the foregoing and if so authorized by the Committee, the Company may, with the consent of the optionee, and at any time or from time to time, cancel all or a portion of any option granted under the Plan then subject to exercise and discharge its obligation in respect of the option either by payment to the optionee of an amount of cash equal to the excess, if any, of the Fair Market Value, at such time, of the shares subject to the portion of the option so cancelled over the aggregate purchase price of such shares, or by issuance or transfer to the optionee of shares of Common Stock with a Fair Market Value, at such time, equal to any such excess, or by a combination of cash and shares. Upon any such payment of money or issuance of shares, (1) there shall be charged against the aggregate limitation in paragraph (a) of Section 4 a number of shares equal to (i) the number of shares so issued plus (ii) the number of shares purchasable with the amount of any cash paid to the optionee on the basis of the Fair Market Value as of the date of payment; and (2) the number of shares subject to the portion of the option so cancelled, less the number of shares so charged against such limitation, shall thereafter be available for other grants of Stock Incentives.

SECTION 6. INCENTIVE STOCK OPTIONS

(a) Except as otherwise provided in this Section 6, Stock Incentives in the form of Incentive Stock Options shall be subject to the same provisions as Non-Qualified Stock Options set forth in Section 5.

(b) If an Incentive Stock Option is to be granted to a Key Employee, who immediately before such grant owned stock representing more than 10 percent of the voting power of all classes of stock of the Company or any of its Subsidiaries, the option price per share shall be not less than 110 percent of the Fair Market Value at the time of the grant of the Incentive Stock Option, and the Incentive Stock Option shall expire not more than five years from the date such option shall have been granted.

(c) The aggregate Fair Market Value (as determined at the time the Option is granted) of Incentive Stock Options first exercisable by any Key Employee may not exceed $100,000 in any calendar year.

(d) The excess of any Incentive Stock Options granted during any calendar year which exceed the limitation set forth in paragraph (c) of this Section 6 or which upon audit by the Internal Revenue Service do not for whatever reason qualify as Incentive Stock Options under the Internal Revenue Code of 1986, as amended (the "Code"), shall be treated as and subject to the provisions for Non-Qualified Stock Options under the Plan.

(e) Incentive Stock Options shall terminate not more than one month after the optionee terminates employment with the Company and its Subsidiaries; provided, however, that if the termination occurs by reason of the optionee's disability or death, such option shall expire not more than one year from the date of death.

(f) Incentive Stock Options granted under the Plan are intended to qualify as "Incentive Stock Options" under Section 422A of the Code. Accordingly, the Board, subject to Section 11, may at any time amend or revise this Section 6 to impose or remove such conditions on the grant, exercise, or other provisions of any heretofore unissued Incentive Stock Options as may be required to comply with Section 422A of the Code (or any successor provision in effect at the time).

SECTION 7. ADJUSTMENT PROVISIONS

(a) The options granted under the Plan shall contain such provisions as the Committee may determine with respect to adjustments to be made in the number and kind of shares covered by such options and in the option price in the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering or any other change in the corporate structure or shares of the Company; and in the event of any such change, the aggregate number and kind of shares available under the Plan shall be appropriately adjusted.

(b) Adjustments under this Section 7 shall be made by the Board of Directors, whose determination as to the adjustments to be made, and the extent thereof, shall be final, binding and conclusive. No fractional shares of Common Stock shall be issued under the Plan on account of any such adjustment.

SECTION 8. TERM

(a) The Plan shall become effective when adopted by the Board; provided, however, that no shares may be issued pursuant to options granted hereunder until the Plan is approved by the shareholders of the Company. No options shall be granted under the Plan after ten years from the earlier of the date of adoption by the Board or the date approved by the shareholders.

SECTION 9. ADMINISTRATION

(a) The Plan shall be administered by the Committee, to be appointed from time to time by the Board and to consist of at least one but not more than three of the then members of the Board. No member of the Committee shall at the time he exercises discretion in administering the Plan, or at any time within the twelve months prior thereto, be eligible for selection as a person to whom stock may be allocated or to whom stock options may be granted pursuant to the Plan or any other plan of the issuer or any of its affiliates entitling the participants therein to acquire stock, stock option or stock appreciation rights of the issuer or any of its affiliates.

(b) The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as it shall deem advisable. The greater of two members or one-third of the entire Committee shall constitute a

quorum, and the act of a majority of the members present shall be the act of the Committee. Any decision or determination reduced to writing, signed by all members of the Committee and filed with the minutes of the proceedings of the Committee, shall be fully as effective as if made by a unanimous vote at a meeting duly called and held. The Committee may appoint a Secretary, shall keep minutes of its meetings, and shall make such rules and regulations for the conduct of its business and for the carrying out of the Plan as it shall deem appropriate.

(c) Stock Incentives under the Plan shall be granted in accordance with the Committee's determinations pursuant to the Plan, and by execution and prompt delivery to the employee of instruments approved by the Committee. Any such grant shall be effective on the date of such determination or, if later, on the date specified in the instrument evidencing the grant.

(d) The interpretation and construction by the Committee of any provision of the Plan and of any Stock Incentives granted thereunder shall, unless otherwise determined by the Board, be final and conclusive on all persons having any interest thereunder.

SECTION 10. GENERAL PROVISIONS

(a) Absence on leave approved by an officer of the Company or a Subsidiary authorized to give such approval shall not be considered an interruption or termination of employment for any purpose of the Plan, or Stock Incentives granted thereunder, except that no Stock incentives may be granted to an employee while he is absent on leave.

(b) Stock Incentives may be granted under the Plan from time to time in substitution for stock options held by employees of other corporations who are or are about to become employees of the Company or a Subsidiary as the result of a merger or consolidation of the employing corporation with the Company or a Subsidiary, or the acquisition by the Company or a Subsidiary of the assets of the employing corporation, or the acquisition by the Company or a Subsidiary of stock of the employing corporation as the result of which it becomes a Subsidiary. The terms and conditions of the substitute Stock Incentives so granted may vary from the terms and conditions set forth in Sections 5 and 6 to such extent as the Board may deem appropriate to conform, in whole or in part, to the provisions of the substituted stock options.

(c) Nothing in the Plan nor in any instrument executed pursuant thereto shall confer upon any employee any right to continue in the employ of the Company or a Subsidiary.

(d) No shares of Common Stock shall be sold, issued, or transferred pursuant to a Stock Incentive unless and until there has been compliance, in the opinion of counsel to the Company, with all applicable legal requirements, including without limitation those relating to securities laws and stock exchange listings, as applicable.

(e) No employee (individually or as a member of a group), and no beneficiary or other person claiming under or through him, shall have any right, title, or interest in or to any shares of Common Stock allocated or reserved for the Plan or subject to any Stock Incentive except as to such shares of Common Stock, if any, as shall have been sold, issued or transferred to him. The Company will forward a copy of its annual report to stockholders to each option holder who does not otherwise receive one.

(f) The Company or a Subsidiary may make such provisions as it may deem appropriate for the withholding of any taxes which the Company or Subsidiary determines it is required to withhold in connection with any Stock Incentive.

(g) No Stock Incentives and no rights under the Plan, contingent or otherwise, (i) shall be assignable or subject to any encumbrance, pledge, or charge of any nature, whether by operation of law or otherwise, (ii) shall be subject to execution, attachment, or similar process, or (iii) shall be transferable other than by will or the laws of descent and distribution, and every Stock Incentive and all rights under the Plan shall be exercisable during the employee's lifetime only by him or by his guardian or legal representative.

(h) Nothing in the Plan is intended to be a substitute for, or shall preclude or limit the establishment or continuation of, any other plan, practice or arrangement for the payment of compensation or fringe benefits to any employee which the Company or any Subsidiary now has or may hereafter put into effect, including, without limitation, any retirement, pension, savings or thrift, insurance, death benefit, stock purchase, incentive compensation, or bonus plan.

(i) In the event of any reorganization or recapitalization of the Company (by reclassification of its outstanding Common Stock or otherwise) or in the event of any consolidation or merger with or into another corporation, or the sale, conveyance, lease, or other transfer by the Company

of all or substantially all of its assets, pursuant to which the then outstanding shares of the Company's Common Stock are split, combined, changed into, or become exchangeable for other shares of stock or property, any outstanding unexercised Stock Incentives granted pursuant to the Plan shall be assumed by any successor corporation and, in lieu of being options to purchase shares of the Company's Common Stock, shall become options to purchase such other shares of stock or property which the shares subject to the Stock Incentives would have been changed into or exchangeable for, if they had been outstanding at the time of the transaction, and, on exercise of the Stock Incentives, each Key Employee shall be entitled to receive the shares of stock or property which that Key Employee would have received as a result of such reorganization, recapitalization, consolidation, merger, sale, or other transfer if, at the time of such event, the Key Employee had held shares of the Company's Common Stock instead of the Stock Incentives and had exchanged such shares in accordance with the terms of the reorganization, recapitalization, consolidation, merger, sale, or other transfer.

SECTION 11. AMENDMENT OR DISCONTINUANCE OF PLAN

(a) The Plan may be amended by the Board at any time, provided that, without the approval of the stockholders of the Company, no amendment shall be made which (i) increases the aggregate number of shares of Common Stock which may be made the subject of Stock Incentives as provided in paragraph (a) of Section 4, (ii) materially increases the benefits accruing to participants under the Plan, (iii) materially modifies the requirements as to eligibility for participation in the Plan, (iv) amends Section 8 to extend the term of the Plan, or (v) amends this Section 11.

(b) The Board may discontinue the Plan at any time.

(c) No amendment or discontinuance of the Plan shall adversely affect, except with the consent of the holder, any Stock Incentive theretofore granted; provided that any Stock Incentive granted under the Plan, or as a result of an amendment thereto requiring stockholder approval, shall not be exercisable until the Plan or the amendment is approved by the stockholders of the Company within one year following adoption of the Plan or the amendment.

TO BE EXERCISED NOT LATER THAN 4 p.m., Pacific time on (insert date)
(the day next preceding the sixth anniversary of the Date of Grant).

OPTION NO. ___

MITEK SYSTEMS, INC.

INCENTIVE STOCK OPTION GRANTED UNDER
1986 STOCK OPTION PLAN (THE "PLAN")

Option granted on (insert date) (hereinafter called the "Date of Grant") by MITEK SYSTEMS, INC. (a Delaware corporation hereinafter called the "Company") to

(Insert Name) ----------
(hereinafter called the "Optionee")

(insert #) shares --------
$(insert cost) per share ----------

1. GRANT OF OPTION. The Company grants to the Optionee an option to purchase on the terms and conditions hereinafter set forth, (insert #of shares) shares (hereinafter called "Option Shares") of the Company's Common Stock, $0.001 par value per share, at $ (insert cost) per share (hereinafter called "Option Price"). This Option is an Incentive Stock Option granted pursuant to Section 6 of the Plan and is intended to qualify as an "Incentive Stock Option" under Section 422A of the Code.

2. PERIOD OF OPTION AND CERTAIN LIMITATIONS ON RIGHT TO EXERCISE. This Option will expire at 4 p.m. Pacific time, on the day next preceding the sixth anniversary of the Date of Grant (such day of expiration being hereinafter called the "Expiration Date"), except that (a) if the Optionee ceases, on or before the Expiration Date, for any reason other than death, to be an Employee, this Option shall expire as provided in Section 5 below, and (b) if the Optionee dies on or before the Expiration Date, this Option shall expire as provided in Section 6 below. The term "Employee" as used in this Option means a Key Employee as defined in Section 2 of the Plan.

Unless otherwise provided hereinafter, and subject to the right of the Committee to accelerate the rate at which this Option is exercisable, and subject to the further provisions of this Section 2 and to Sections 5 and 6 below, the right to exercise this Option shall be determined as follows:

Commencing on issuance, the Option grant is exercisable at a cumulative rate of 1/36th each month until the Option is fully exercisable on the third anniversary of the Date of Grant.

If this Option is exercisable in installments, the right to purchase the shares comprised in each installment shall be cumulative; i.e., once such right has become exercisable it may be exercised in whole at any time, or in part from time to time, until the Expiration Date (subject to the provisions

hereof), except that not less than twenty shares may be purchased at any time unless the number of shares then purchasable hereunder shall be less than twenty.

Except as provided in Sections 5 and 6 below, none of the Option Shares may be purchased hereunder unless the Optionee, at the time he/she exercises this Option, is an Employee and has continuously been an Employee since the date hereof. Absence on leave, if approved in writing by an officer of the Company or of any subsidiary authorized to give such approval, shall not be considered an interruption or termination of employment for any purpose of this Option.

3. METHOD OF EXERCISE OF OPTION. This Option shall be exercised in, and only in, the following manner: the Optionee shall give written notice to the Company, in a form satisfactory to the Company, specifying the number of Option Shares which he/she then elects to purchase, accompanied by payment, in cash or by check to the order of the Company, or in the Fair Market Value of shares of the Company's Common Stock, $0.001 par value per share, duly endorsed to the order of the Company, of the full option price of the shares being purchased.

4. NON-TRANSFERABILITY OF OPTION. This Option shall not be transferable by the Optionee other than by Will or the laws of descent and distribution, and it shall be exercisable, during the lifetime of the Optionee, only by him/her (or by his/her legal guardian or legal representative).

5. TERMINATION OF EMPLOYMENT. If the Optionee ceases on or before the Expiration Date, to be an Employee for any reason other than death, disability or for cause: (a) he/she may, but only within the period of one month next succeeding such cessation and in no event after the Expiration Date, exercise this Option to the extent that he/she was entitled to exercise it at the date of such cessation, and (b) such Option shall expire (except as provided in Section 6 below) at 4 p.m. Pacific time, on whichever is the earlier of (i) the last day of the aforesaid one month period or (ii) the Expiration Date.

Notwithstanding the foregoing provisions of this Section 5, if the Optionee terminates employment by reason of disability (as defined in the Plan) (a) he/she may exercise this Option on, or any time within the period of twelve months next succeeding, the date of such disability (but in no event after the Expiration Date) as to any or all shares purchasable on such disability termination date (i.e., those comprised in all installments which shall have become exercisable on or prior to such date, to the extent not already exercised), and (b) such Option shall expire (except as provided for in Section 6 below) at 4 p.m. Pacific time, on whichever is the earlier of (i) the last day of the aforesaid twelve month period or (ii) the Expiration Date.

If an Optionee is terminated from employment by the Company for cause (as defined in the Plan), the Optionee shall be prohibited from exercising the Option until the Board of Directors of the Company (the "Board"), in its sole discretion, makes a determination that the Option is exercisable. The Board shall make its determination and provide notice of its determination to the Optionee within twenty days of termination. Unless the Board determines that the Option is exercisable, the Option will expire as of the date of termination. In the event the Board determines that the Option is exercisable, the Optionee may exercise the Option only to such extent, for such time, and upon such terms and conditions as if he/she had ceased to be employed by the Company or such affiliate upon the date of such termination for a reason other than for cause, death or disability.

This Option confers no right upon the Optionee with respect to the continuation of his/her employment with the Company or any of its subsidiaries and shall not interfere with the right of the Company or its subsidiaries, or of the Optionee, to terminate his/her employment at any time.

6. DEATH OF OPTIONEE. If the Optionee dies on or before the Expiration Date either while he/she is an Employee or within one month after ceasing to be an Employee, (a) this Option shall be exercisable by the Optionee's executor or administrator, or the person or persons to whom the Optionee's rights under this Agreement are transferred by Will or by the laws of descent and distribution within, but only within, the twelve month period next succeeding such death, and in no event after the Expiration Date, and then only if, and to the extent that, the Optionee was entitled to exercise it at the date of his/her death (i.e., with respect to the shares comprised in all installments which shall have become exercisable on or prior to such date, to the extent not already exercised), and (b) this Option shall expire at 4 p.m. Pacific time, on whichever is the earlier of (i) the first anniversary of the Optionee's death or (ii) the Expiration Date.

7. ADJUSTMENTS UPON THE OCCURRENCE OF CERTAIN EVENTS. The following provisions shall apply on the occurrence of the indicated events:

(a) In case the Company shall hereafter declare or pay to the holders of its Common Stock a dividend or dividends in stock of the Company, the Optionee, upon any exercise of this Option, shall be entitled to receive (in addition to the Option Shares purchased upon such exercise and without any payment other than the Option Price for such shares) such additional share or shares of stock as the Optionee would have received as such dividend or dividends if, from the Date of Grant of this Option, he/she had been the holder of record of the Option Shares so purchased and had not, prior to the date of such exercise, disposed of any of such Option Shares or any shares which he/she would have received as a stock dividend or dividends stemming from such holding or such Option Shares.

(b) In case of any reorganization or recapitalization of the Company (by reclassification of its outstanding Common Stock or otherwise), or its consolidation or merger with or into another corporation, or the sale, conveyance, lease or other transfer by the Company of all or substantially all of its property, pursuant to any of which events the then outstanding shares of the Company's Common Stock are split up or combined, or are changed into or become exchangeable for other shares of stock or property, the Optionee, upon any exercise of this Option, shall be entitled to receive, in lieu of the Option Shares which he/she would otherwise be entitled to receive upon such exercise and without any payment in addition to the option price therefore, the shares of stock or property which the Optionee would have received upon such reorganization, recapitalization, consolidation, merger, sale or other transfer, if immediately prior thereto he/she had owned the Option Shares to which such exercise of the Option relates and had exchanged such Option Shares in accordance with the terms of such reorganization, recapitalization, consolidation, merger, sale or other transfer. In case any such reorganization, recapitalization, consolidation, merger, sale or other transfer is preceded by (i) a stock dividend or dividends of the type for which adjustment is provided in paragraph (a) of this Section 7, or (ii) a reorganization, recapitalization, consolidation, merger, sale or other transfer of the character referred to in the next preceding sentence, shall be deemed to include or refer to the stock or other property which the Optionee would, upon exercise of this Option, be entitled to receive in addition to or in lieu of the Option Shares as a result of such preceding stock dividend, reorganization, recapitalization, consolidation, merger, sale or other transfer.

(c) In case of any distribution of the Company rights to stockholders, the issuance of stock options to persons other than Employees, the issuance by the Company of securities convertible into the Company's Common Stock or into shares of any stock or security into which such Common Stock shall have been changed or for which it shall have been exchanged, or any other change in the capital structure of the Company (other than as specified above in this Section 7) which, in the judgment of the Company, would effect a dilution of the Optionee's rights hereunder, the Company may make such adjustment, if any, as it shall deem appropriate in the number or kind or option price of shares then purchasable under this Option, and such adjustment shall be effective and binding for all purposes of this Option. The decision to make an adjustment contemplated by this paragraph (c) shall be completely at the discretion of the Board of Directors of the Company.

No adjustment provided for in this Section 7 shall require the Company to sell a fractional share under this Option.

8. DELIVERY OF STOCK CERTIFICATES. Upon each exercise of this Option, the Company, as promptly as practicable, shall mail or deliver to the Optionee a stock certificate representing the shares then purchased, and will pay all stamp taxes payable in connection therewith. The issuance of such shares and delivery of the certificate or certificates therefore shall, however, be subject to any delay necessary to complete (a) the listing of such shares on any stock exchange upon which shares of the same class are then listed, (b) such registration or other qualification of such shares under any state or federal law, rule, or regulation as the Company may determine to be necessary or advisable, and (c) the making of provision for payment or withholding of any taxes required to be withheld pursuant to any applicable law, in respect of the exercise of this Option or the receipt of such shares.

9. NOTICES, ETC. Any notice hereunder by the Optionee shall be given to the Company in writing and such notice and any payment by the Optionee hereunder shall be deemed duly given or made only upon receipt thereof at the Company's office c/o Corporate Secretary, Mitek Systems, Inc., 10070 Carroll Canyon Road, San Diego, California 92131, or at such other address as the Company may designate by notice to the Optionee.

Any notice or other communication to the Optionee shall be in writing and any such communication and any delivery to the Optionee hereunder shall be deemed duly given or made if mailed or delivered to the Optionee at such address as the Optionee may have on file with the Company or in care of the Company at its above office.

10. WAIVER. The waiver by the Company of any provision of this Option shall not operate as or be construed to be a waiver of the same provision or any other provision hereof at any subsequent time or for any other purpose.

11. IRREVOCABILITY. This Option shall be irrevocable until it expires as herein provided.

12. EFFECTIVE DATE. This Option shall be deemed granted and effective on the Date of Grant, provided that no options granted under the Plan or as a result of an amendment thereto requiring stockholder approval shall be exercisable until the Plan or the amendment is approved by the stockholders of the Company within one year following the adoption of the Plan or the amendment.

13. INTERPRETATION AND CONSTRUCTION. The interpretation and construction of this Option by the Committee provided for in the Plan under which this Option is granted shall, unless otherwise determined by the Company's Board of Directors, be final and conclusive. Terms used in this Option shall have the same meaning given those terms in the Mitek Systems, Inc. 1986 Stock Option Plan unless otherwise specified herein. The section headings in this Option are for convenience of reference only and shall not be deemed part of, or germane to the interpretation or construction of, this Option.

IN WITNESS WHEREOF, the Company has caused this Option to be executed and its corporate seal to be hereunto affixed by its proper corporate officers thereunto duly authorized.

ATTEST:
MITEK SYSTEMS, INC.

By

John M. Thornton, Chairman

MITEK SYSTEMS, INC.

By

John F. Kessler, President & CEO

EXHIBIT 10.2

MITEK SYSTEMS, INC.
1988 NONQUALIFIED STOCK OPTION PLAN

A Nonqualified Stock Option Plan is hereby adopted for the benefit of directors, officers and key management employees of Mitek Systems, Inc. and its subsidiaries, hereinafter sometimes referred to collectively as the "Corporation" or "Mitek."

1. PURPOSE. The purpose of the Plan is to advance the interests of the Corporation and its shareholders by providing for directors, officers and key management employees an incentive to serve and to continue service with the Corporation. By encouraging such directors, officers,and key management employees to become owners of the capital stock in Mitek, the Corporation seeks to attract and retain in its employ people of "training, experience and ability, and to furnish additional incentive to employees upon whose judgment, initiative and efforts the successful conduct of its business depends. It is the intention of the Corporation that this objective will be accomplished through the granting of nonqualified stock options and stock appreciation rights to certain directors, officers and key management employees, including newly employed executives.

A Committee appointed by the Board of Directors shall have full discretion to grant stock options and stock appreciation rights within the limits herein prescribed.

Numbers and genders as used herein are interchangeable as the context requires.

2. DEFINITIONS. As used herein:

a. The words "Committee" or "Plan Committee" refer to the "Mitek Stock Option Committee" to be appointed by the Board of Directors of Mitek.

b. The word "Plan" refers to the Mitek 1988 Nonqualified Stock Option Plan.

c. The word "Corporation" refers to either Mitek or any one or more of its subsidiaries, as the context may require.

d. The words "option" or "options" or "stock options" refer to stock option or options giving the optionee the right to purchase shares in Mitek. It is not intended that the options which may be granted hereunder be qualified for favorable tax treatment under the Internal Revenue Code of 1986, as amended.

e. The words "stock appreciation right" or "stock appreciation rights" refer to a stock appreciation right or rights giving an Employee the right to receive cash or shares in Mitek, or a combination of cash and shares, upon exercise of the stock appreciation right and surrender of the related option.

f. The term "Discounted Options" shall have the meaning ascribed to it in Paragraph 7(b).

g. The words "Eligible Employee" or "Employee" refer to directors, officers and key management employees, including newly employed executives, who may be so designated from time to time by the Board of Directors or the Committee, in their discretion. Directors who are members of the Committee or who have irrevocably waived, in writing, their right to participate in the Plan, as directors, are not eligible to participate in the Plan.

3. TERM AND EFFECTIVE DATE OF PLAN. The term of the Plan shall be for ten years and one day fron its effective date, designated by the Board of Directors of Mitek as September 13, 1988, if ratified and approved by a majority of the stockholders on or before March 1, 1989.

4. SHARES OF STOCK SUBJECT TO PLAN. The shares of stock which may be issued under the Plan, on exercise of a stock option or settlement of a related stock appreciation right, shall not exceed in the aggregate 650,000 shares of the Corporation's no par value Common Stock. Such shares will be authorized and unissued shares. Any shares subject to an option, which for any reason expires or is terminated unexercised, shall again be subject to and be available for future issuance under this Plan. If a stock appreciation right related to an option is exercised in whole or in part, all or a portion of the related option, as the case may be, shall be surrendered. The shares subject to the related option shall be available for future issuance under this Plan, less the number of shares actually issued upon exercise of the stock appreciation right. If the Committee permits pursuant to Paragraph 8(e), an employee to surrender all or a portion of his then exercisable options in exchange for a number of shares, the shares subject to such surrendered option shall be available

for future issuance under this Plan, less the number of shares actually issued to the employee.

5. ADMINISTRATION OF THE PLAN. Within the limitations described herein, the Committee shall administer the Plan, select the Employees to whom options and stock appreciation rights will be granted, determine the number of shares subject to such options and rights for each Employee, determine the method of payment for option shares exercised, including deferred payment not to exceed five (5) years from the date of exercise, together with interest at times and rates determined reasonable by the Committee during the existence of the Plan, and interpret, construe and implement the provisions of the Plan. By the adoption of this Plan, the Board of Directors is delegating to the Committee which it appoints by resolution plenary authority to administer the Plan. A member of the Committee shall not be eligible to receive any option or stock appreciation right under the Plan other than those options classified as "Discounted." Upon its appointment and during its tenure, the Committee rather than the Board shall have authority to adopt rules and regulations for carrying out the Plan, to interpret, construe and implement the provisions of the Plan, including the right to make loans to or guarantee any obligations of any participants, including officers and directors, in connection with the Plan, whenever the Committee determines that such loan or guarantee may reasonably be expected to benefit the Corporation. The Committee, in its absolute discretion, grant to optionees in exchange for the surrender and cancellation of their options, new options having option prices lower (or higher) than the option price provided in the options so surrendered and cancelled and containing such other terms and conditions as the Committee may deem appropriate. Decisions of the Committee shall be binding on the Corporation and on all employees eligible to participate in the Plan. The selection of any Mitek director or officer to be a recipient of any options or stock appreciation rights and the number of such options or stock appreciation rights to be granted are subject to approval either by a majority of the Committee, if all the members of the Committee are disinterested persons, or by the Board of Directors. With respect to the participation of directors, a majority of the Board and a majority of the directors acting in the matter must be disinterested persons. "Disinterested" means a person who, at the time of such approval, is not eligible, and has not at any time within one year prior thereto been eligible, for selection as a person to whom stock options or stock appreciation rights may be allocated or to whom stock options or stock appreciation rights may be granted pursuant to this Plan or any other plan of the Corporation entitling participants therein to acquire stock, stock options or stock appreciation rights of the Corporation.

6. INDEMNIFICATION. In addition to such other rights of indemnification as they may have as Directors or as members of the Committee, members of the Committee shall be indemnified by the Corporation against the reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any option or stock appreciation right granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Corporation), or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Committee member is liable for negligence or misconduct in his duties; provided that within 60 days after the institution of such action, suit or proceeding, a Committee member shall offer the Corporation, in writing, the opportunity, at its own expense, to handle and defend the same.

7. NUMBER OF OPTIONS GRANTED.

a. NUMBER OF 0PTIONS GRANTED TO AN ELIGIBLE EMPLOYEE. In addition to an initial grant to an Employee, such Employee may be granted, during the term of the Plan, additional options and stock appreciation rights if in the opinion of the Committee the circumstances warrant.

b. DISCOUNTED OPTIONS FOR DIRECTORS. Discounted Options shall be granted automatically on the first business day of January of any year to any nonemployee Director who, prior to said date files with the Secretary of the Company an irrevocable election to receive a stock option in lieu of retainer fees to be earned in the following calendar year. A nonemployee Director shall receive that number of options equal to the amount of his annual retainer divided by the difference between the fair market value of a share of Mitek common stock on the date of the grant and $1.00.

8. STOCK 0PTION AGREEMENT.

a. FORM. Options and stock appreciation rights shall be evidenced by stock option agreements in such form and not inconsistent with this Plan as the Committee shall approve from time to time, which agreements shall contain in substance the following terms and conditions:

b. PRICE. The purchase price per share of stock deliverable upon the exercise of an option shall be the fair

market value of the stock on the date of grant. In the event of a grant conditioned, among other things, on stockholder ratification of this Plan, the date of such conditional grant shall be the date of grant for the purpose of this Paragraph 8. In the case of Discounted Options, the purchase price shall be $1.00 per share.

c. NUMBER OF SHARES. The option agreement shall specify the number of shares subject to the option and the stock appreciation right, if any.

d. EXERCISABILITY. Options shall become exercisable at such times and in such installments (which may be cumulative) as the Committee shall provide in the terms of each individual option. Discounted Options shall be 100% vested and exercisable on the first anniversary of the date of the grant.

e. EXERCISE OF 0PTION AND TIME AND METHOD OF PAYMENT. Each employee exercising an option pursuant to a stock option agreement as herein provided shall notify the Secretary of the Corporation of the exercise thereof, in writing, and shall pay to the Secretary, in cash or by check, at the time of delivery of such notice, or on a deferred basis evidenced by a promissory note, containing such terms and subject to such security as the Committee shall determine fair and reasonable from time to time, for the total option price for the number of shares so elected, whereupon the Secretary shall cause to be issued and delivered to such employee, as soon as practicable thereafter, a certificate of stock in the name of the employee for the shares so purchased. The Committee, in its sole discretion, may accept payment in Mitek stock, subject to compliance with applicable laws and regulations and such conditions as the Committee may impose.

Solely at the discretion of the Committee, upon the application of any employee, the Committee may elect to permit the employee to surrender to the Corporation all or part of his then exercisable options in lieu of exercising those options and to receive in exchange therefor the number of shares of the Corporation's common stock whose total fair market value on the date of surrender is equal to the difference between the option price and the fair market value of the shares covered by the option or options which the employee has surrendered.

f. EMPLOYEE'S AGREEMENT TO SERVE. Each employee receiving an option shall, as one of the terms of the option agreement referred to in Paragraph 8, agree that he will remain within the employ of the Corporation or one or more of its subsidiaries, for a period of at least six (6) months from the date the option is granted to him, subject to vacations, sick

leaves, and other approved absences, or as required from time to time by the Board of Directors. Such employment, subject, however, to the provisions of any contract between the Corporation or any such subsidiary and such employee, shall be at the pleasure of the employing Corporation or Corporations and at such compensation as such employing Corporation shall reasonably determine.

g. TERMINATION OF EMPLOYMENT. Any stock option which has not been exercised prior to its expiration date shall terminate and be cancelled. If the employment of an employee or service as a director terminates during the option period (other than by reason of dishonesty or willful neglect of his duties), such employee shall have thirty (30) days after such termination within which to exercise his stock option; and if termination is due to death of an employee, his legal representatives shall have six (6) months from the date of his death to exercise the stock option; provided, however, that in no event shall the exercise occur after the expiration date of the option. If an employee's employment terminates due to dishonesty or willful neglect of his duties, all of the stock options shall forthwith terminate. Notwithstanding the foregoing, Discounted Options shall become exercisable in whole upon the retirement of the optionee, or his total and permanent disability or upon his death.

h. STOCK APPRECIATION RIGHTS. Stock appreciation rights may be granted in connection with any option granted under the Plan, either at the time of the grant of such option or at any tine thereafter during the term of the option, subject to Paragraph 17 of the Plan. A stock appreciation right shall entitle the employee upon exercise of the stock appreciation right and surrender of the related option, or a portion thereof, to receive a number of shares or cash or some combination of the two, equal to the difference between the fair market value on the exercise date of the shares subject to the stock appreciation right and the exercise price of the related option. A stock appreciation right shall be exercisable by the holder thereof (or by such other person entitled to exercise the related option) at such time or times and to the extent, but only to the extent, that the related option shall be exercisable. The Committee may place an upper limit on the amount payable on exercise of a stock appreciation right, may limit the exercise of such a right to a portion of the shares subject to the related option, may require a portion of the shares subject to the option to be exercised as a condition to exercise the stock appreciation right, may provide for the manner of settlement of the stock appreciation right (for example, limit settlements to stock, or specify a partial percentage of cash or stock), and may provide such other provisions or limitations relating to the stock appreciation right as are consistent with the Plan, in their sole

discretion, including such conditions on exercise of a stock appreciation right as may be required to satisfy the requirements of Rule 16b-3 under the Securities Exchange Act of 1934 (or any successor provision in effect at the time).

i. TAX BENEFIT RIGHTS. The Committee may grant tax benefit rights ("TBRs") to the employees on such basis as the Committee shall determine, including, but not limited to, TBRs which become exercisable only upon an employee's being subject to the restrictions of Section 16 of the Securities Exchange Act of 1934 and, consequently, Section 83 of the Internal Revenue Code of 1986, as amended. A TBR may be granted only with respect to a stock option under the Plan, and may be granted concurrently with or after the grant or exercise of a stock option. A TBR shall entitle an employee to receive from the Corporation an amount in cash equal to: the amount of ordinary income, if any, realized by the employee for Federal income tax purposes as a result of the exercise or surrender of a nonqualified stock option multiplied by a percentage, not to exceed 60%, which may vary according to the employee's annual compensation, estimated income tax and other factors selected by the Committee. The Committee may cancel or place a limit on the term of, or the amount payable for, any TBR at any time. The Committee shall determine all other terms and provisions of any TBR grant.

j. REPLACEMENT OPTIONS. The Committee, in its absolute discretion may grant to optionees in exchange for the surrender and cancellation of their options, new options having option prices lower (or higher) than the option price provided in the options so surrendered and cancelled and containing such other terms and conditions as the Committee may deem appropriate.

9. RECAPITALIZATION. In the event that dividends are payable in Common Stock of the Corporation, or in the event there are splits, subdivisions or combinations of shares of Common Stock of the Corporation, the number of shares available under the Plan shall be increased or decreased proportionately, as the case may be, without change in the aggregate purchase price (where applicable).

10. REORGANIZATION. In case the Corporation is merged or consolidated with another corporation and the Corporation is not the surviving corporation, or in case the property or stock of the Corporation is acquired by another corporation, or in case of a separation, reorganization or liquidation of the Corporation, the Board of Directors of the Corporation, or the Board of Directors of any corporation assuming the obligations of the Corporation hereunder, shall as to outstanding options and stock appreciation rights: either (a) make appropriate provision for protection of any such outstanding options or stock

appreciation rights by the substitution of an equitable basis of appropriate stock of the Corporation, or of the merged, consolidated or otherwise reorganized corporation which will be issuable in respect to the shares of Common Stock of the Corporation, provided only that the excess of the aggregate fair market value of the shares subject to the options (and stock appreciation rights, if applicable) immediately after such substitution over the purchase price thereof is not more than the excess of the aggregate fair market value of the shares subject to such options (and stock appreciation rights, if applicable) immediately before such substitution over the purchase price thereof, or (b) upon written notice to the Employee provide that the option (or stock appreciation right, if applicable) must be exercised within sixty (60) days of the date of such notice or it will be terminated. In any such case, the Board of Directors may, in its discretion, advance the waiting periods and exercise dates.

11. GENERAL RESTRICTION. Each option shall be subject to the requirement that, if at any time the Board of Directors or the Committee, in its discretion, shall determine that the listing, registration, or qualification of the shares subject to such option upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option, or the issue or purchase of shares thereunder, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board of Directors.

12. RIGHTS AS A SHAREHOLDER. The holder of an option shall have no rights as a shareholder with respect to any shares covered by the option until the issuance of a stock certificate to him or her for such shares. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued. The Plan Committee and the Board of Directors agree to use their best efforts to secure prompt issuance of stock certificates following full performance of exercise duties by any optionee.

13. NON-ASSIGNABILITY OF OPTIONS. No option or stock appreciation right shall be assignable or transferable by the recipient except by will or by the laws of descent and distribution, as provided in Paragraph 8(g). During the life of the recipient, the option and stock appreciation right, if applicable, shall be exercisable only by him or her, or by the

duly appointed legal representative of an incompetent option holder.

14. SUBSIDIARY. As used herein, the term "subsidiary" shall mean any future or present corporation which would be a "subsidiary corporation" of the Corporation as the term is defined in Section 425 of the Internal Revenue Code of 1986, as amended.

15. WITHHOLDING TAXES. Whenever under the Plan shares are to be issued or cash is to be paid in satisfaction of options or stock appreciation rights granted thereunder, the Corporation shall have the right to require the recipient to remit to the Corporation an amount sufficient to satisfy federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such shares or payment of such cash. In the alternative, at the sole discretion of the Committee, the Corporation may withhold that number of shares, based on the market valve of the shares, which would satisfy the federal, state and local withholding amounts due in connection with the shares to be issued to the Employee upon exercise of the Employee's option.

16. AMENDMENT OF THE PLAN. The Plan may, at any time or from time to time, be terminated, modified or amended by a majority vote of the shareholders of the Corporation. The Board of Directors may, at any time and from time to time, modify or amend the Plan in any respect, except that without shareholder approval, the Board of Directors may not materially increase the benefits accruing to participants under the Plan, materially increase the number of shares which may be issued under the Plan (other than increases due to changes in capitalization) or materially modify the requirements as to eligibility for participation in the Plan. The termination, modification, or amendment of the Plan shall not, without the consent of an Employee, affect his or her rights under an option or stock appreciation right previously granted to him or her. With the consent of each Employee affected, the Board of Directors may amend outstanding option agreements in a manner not inconsistent with the Plan.

17. TERMINATION. Unless previously terminated by the Board of Directors, this Plan shall terminate at the close of business on September 13, 1998, and no options or stock appreciation rights shall be granted under it thereafter, but such termination shall not affect any option theretofore granted.

Approved by the Board of Directors on September 13, 1988.

Approved by the Stockholders on _____.

TO BE EXERCISED NOT LATER THAN 4 p.m., Pacific time on "anniv_date"(the day next preceding the sixth anniversary of the Date of Grant).

Option No. "option no"

MITEK SYSTEMS, INC

NON-QUALIFIED STOCK OPTION GRANTED UNDER
1988 STOCK OPTION PLAN (THE "PLAN")

Option granted on "date_of_grant"(hereinafter called the "Date of Grant") by MITEK SYSTEMS, INC. (a Delaware corporation hereinafter called the "Company") to

"name"	#of shares	shares
(hereinafter called the "Optionee")	"share cost"	per share

THIS AGREEMENT, effective as of "date-of-grant" is entered into by and between Mitek Systems, Inc. a Delaware corporation ("Corporation") and "name" Holder").

WHEREAS, pursuant to the 1988 Nonqualified Stock Option Plan of the Company ("Plan"), the Mitek Stock Option Committee ("Committee"), as appointed by the Board of Directors of the Corporation, has granted to Holder effective as of "date-of-grant", a nonqualified stock option ("Option") to purchase shares of common stock, $.001 par value, of the Corporation (the "Shares"), for the term and upon the terms and conditions set forth below:

NOW, THEREFORE, in consideration of the mutual promises, and covenants made herein and the mutual benefits to be derived herefrom, the parties hereto agree as follows:

1. GRANT OF OPTION. The Corporation hereby grants to Holder as a matter of separate inducement and agreement in connection with the Holder's employment or engagement, and not in lieu of any salary or other compensation for his or her services (other than in lieu of retainer fees paid to nonemployee Directors), the right and option to purchase in accordance with the Plan and on the terms and conditions hereinafter set forth, all and any part of an aggregate of "spell-of-shares" (authorized but unissued Shares at the Price, exercisable from time to time prior to the close of business on the Expiration Date. The Price shall be "share-cost" unless adjusted pursuant to the term of this agreement. In the event dividends are payable in common stock of the Corporation, or in the event that there are splits, subdivisions, or combinations of Shares, the number of Shares subject to this Option shall be increased or decreased proportionately, as the case may be, without change in the aggregate purchase price.

2. EXERCISABILITY OF OPTION. The Option shall become exercisable, to the extent of one-thirty-sixth (1/36) share of Shares represented by the Option on each one-month anniversary from the Date of Grant. To the extent that the Holder does not purchase in any month or year, as the case may be, all or any part of the Shares to which the Holder is entitled, the Holder has the right cumulative thereafter to purchase any Shares not so purchased and such rights shall continue until the Option terminates or expires. The Option may be exercised only as to whole Shares. Fractional Share interests shall be disregarded except that they may be accumulated from year to year. This Agreement and the Option shall expire on the Expiration Date unless therefore terminated in accordance with the provisions hereof and of the Plan.

3. CONTINUANCE OF EMPLOYMENT. As consideration for granting the Option, the Holder hereby agrees to remain the employ or engagement of Corporation or one of its subsidiaries, if any, for a period of not less than six (6) months from the Date of Grant, subject to vacations, sick leaves and other approved absences, or as required from time to time by the Board of Directors of the Corporation. Nothing contained in this Agreement nor in the Plan shall confer upon the Holder any right with respect to his or her continued employment or engagement by the Corporation or one of its subsidiaries, if any, or interfere in any way with the right of the Corporation or of such subsidiary at any time to terminate such employment or engagement or to increase or decrease the compensation received by the Holder, but nothing contained herein shall effect any otherwise existing contractual rights of the Holder.

4. METHOD OF EXERCISE AND PAYMENT. Each exercise of Option shall be by means of written notice of exercise, conforming to paragraph 8 of this Agreement, delivered to the Secretary of the Corporation and specifying the number of whole Shares with respect to which the Option is being exercised, together, in the case of exercise of the Option, with tender to Corporation of the full Price attributable to the Shares to be purchased. The Committee, in its sole discretion, may accept payment in Shares. The Committee, in its sole discretion, may elect to permit the Holder to exercise the Option by paying any part of the Price in cash, by check, or by issuing a promissory note containing such terms as subject to such security as the Committee, in in its sole discretion, determines to be fair and reasonable. The Committee in its sole discretion may, upon request of Holder, elect to permit the Holder to exchange all or a portion of his or her then exercisable Option for Shares whose fair market value at the time of exchange equals the difference between the Price and fair market value of the Shares covered by the Option.

5. TERMINATION OF OPTION. The Option and all the rights thereunder, to the extent such rights shall not have been exercised, shall terminate and become null and void at such time as the Holder ceases to be employed or engaged by either the Corporation or a subsidiary, if any, by reason of dishonesty or willful neglect of the Holder's duties. In the event of the Holder's termination of employment or engagement, other than termination by reason of dishonesty or willfull neglect of duties, the Holder may at any time within the period of thirty (30) days after such termination, exercise the Option to the extent is exercisable by him or her on date of such termination except that, in the event that the Holder dies while in the employ or engagement of the Corporation or such subsidiary, then the Option, to the extent that the Holder (or former Holder) would have been entitled to exercise it as of the date of his or her death may be exercised within six (6) months after such death by the legal representatives of the Holder; provided, however, that in no event may the Option be exercised to any extent by any person after the Expiration Date.

6. NONASSIGNABILITY OF OPTION. Subject to the provisions of paragraph 5 above, and paragraph 8 (g) of the Plan, the Option and the rights and privileges conferred hereby are not transferrable or assignable, and shall not be pledged or hypothecated in any way (whether by operation of law or otherwise), and shall not be subject to execution, attachment, garnishment, levy or similar process. The Option may be exercised during the lifetime of Holder only by Holder (or the duly appointed legal representative of any incompetent Holder) or, subject to the provisions of paragraph 5, within six (6) months after death by Holder's transferees by will or under the laws of descent and distribution and not otherwise, regardless of any community property or other interest therein of the spouse of the Holder or such spouse's successor-in-interest. In the event that the Holder's spouse shall have acquired a community property interest in the Option, the Holder, or such transferees, may exercise it on behalf of the spouse or such spouse's successor-in-interest. Any person other than the Holder who is entitled to exercise the Option shall be subject to the provisions of this Agreement as if such person were the Holder.

7. HOLDER NOT A STOCKHOLDER. Holder shall have no rights as a stockholder with respect to the Shares covered by the Option until the date of issuance of a stock certificate or stock certificates to him or her. No adjustments will be made for dividends or other rights for which the record date is prior to the date on which stock certificate or certificates are issued even if such record date is subsequent to the date upon which notice of exercise is delivered and tender of payment was accepted.

8. NOTICES. Any notice to be given under the terms hereof shall be hand delivered to the Secretary of the Corporation or sent by certified mail, return receipt requested to Mitek Systems, Inc., Attention: Secretary, 10070 Carroll Canyon Road, San Diego, California, 92131, and any notice to be given to the Holder shall be addressed to him or her at the address given beneath his or her signature hereto, or such other addresses a party may to designate in writing to the other party. Notice shall have been deemed duly given when enclosed in a properly sealed envelope, addressed as aforesaid, certified mail, and deposited (postage or certified fee prepaid) in a post office or branch post office regularly maintained by the United States Government.

9. APPLICATION OF SECURITIES LAWS. No Shares may be purchased pursuant to the Option unless and until any then applicable requirements of the Securities and Exchange Commission, the California Corporations Commission or any other regulatory agency having jurisdiction over the Shares and of any exchanges upon which the Shares may be listed shall have been fully complied with. Holder represents and agrees that if he or she exercises the Option, in whole or in part, at a time when there is not (i) in effect under the Securities Act of 1933, as amended ("Act"), a registration statement relating to the Shares issuable upon exercise and (ii) available for delivery to him or her a prospectus ("Prospectus") meeting the requirements of Section 10 (a) (3) of the Act, he or she will not acquire the Shares issuable upon such exercise except for the purpose of investment and without a view to their resale or distribution and that, as a condition to each such exercise, Holder will furnish to the Corporation written statements satisfactory to the Corporation in form and substance. The Holder further represents and agrees that if and when he or she proposes to publicly offer to sell shares which are issued to Holder hereunder, he or she will notify the Corporation prior to any such offering or sale and will abide by the opinion of counsel to the Corporation as to whether and under what conditions and circumstances, if any, Holder may offer and sell such shares, but such procedure need not be followed if a Prospectus was delivered to Holder with the Shares and the Shares were and are listed on a national securities exchange. Any person or persons entitled to exercise the Option under the provision of paragraph 5 above shall be obligated on the provision of this paragraph 9 to the same extent as is Holder.

10. EFFECT OF AGREEMENT. This Agreement shall be binding upon and inure to benefit of any successor or successor of the Corporation only in accordance with paragraph 13 of the Plan.

11. PLAN. The Option and this Agreement are subject to, and the Corporation and Holder agree to be bound by, all the terms and conditions of the Plan. The rights of the Holder are subject to limitations, adjustments, modifications, suspension, and termination in certain conditions as set forth in the Plan.

12. TAX WITHHOLDING. The Corporation shall have the right to require Holder to remit to the Corporation an amount sufficient to satisfy federal, state and local withholding tax requirements prior to delivery of any stock certificate or certificates for such cash. In the alternative, at the sole discretion of the Committee, the Corporation may withhold that number of Shares based on the market value of the Shares, which would satisfy the federal, state and local tax withholding amounts due in connection with the Shares to be issued to the Holder upon exercise of the Option.

13. LAW APPLICABLE TO CONSTRUCTION. The interpretation, performance and enforcement of the Option and this Agreement shall be governed by the laws of the State of California.

The Corporation and the Holder execute this Agreement as of the date first above written.

MITEK SYSTEMS, INC.

By:

John M. Thornton, Chairman

MITEK SYSTEMS, INC. 401(K) SAVINGS PLAN

PREAMBLE

This AGREEMENT is made and entered into by Mitek Systems, Inc. (Hereinafter referred to as "Employer").

The Employer desires to provide its Eligible Employees with a method of saving money for their security upon retirement, disability, or death.

The Mitek Systems, Inc. 401(k) Savings Plan is hereby created for the sole and exclusive benefit of Eligible Employees and their Beneficiaries. The Plan, and the Trust described in the Plan, are designed and intended to qualify under the appropriate provisions of the Internal Revenue Code and the appropriate State or Territory Taxation Code.

401(k) SAVINGS PLAN

I N D E X

ARTICLE ONE
ELECTIVE PROVISIONS

1.1 PLAN INFORMATION AND DEFINITIONS

(a) PLAN shall mean the MITEK SYSTEMS, INC. 401(k) SAVINGS PLAN.

(b) EFFECTIVE DATE shall mean January 1, 1991.

(c) PLAN ADMINISTRATOR shall mean the Employer.

(d) PLAN YEAR shall mean the twelve (12)-consecutive month period commencing on January 1st, and ending on December 31st.

(e) LIMITATION YEAR shall be the same as the Plan Year.

(f) HOUR OF SERVICE, for all Employees covered under the Plan, shall be determine on the basis of actual hours for which an Employee is paid, or entitled to payment.

(g) LOOK BACK YEAR shall mean prior Plan Year.

(h) TOTAL DISABILITY shall be defined by considering a Participant's age, education an work experience, the inability to engage in any substantial gainful activity by reason of any medically determinable physical, or mental impairment that can be expected to result in death, or which has lasted, or can be expected to last for a continuous period of not less than twelve (12) months. The permanence and degree of such impairment to be supported by medical evidence.

1.2 PARTICIPATION

(a) ELIGIBILITY REQUIREMENTS. An Eligible Employee shall mean any Employee of the Employer who was employed as of the Effective Date and has satisfied the age requirement set forth below. Thereafter, Employees must satisfy both the age and service eligibility requirements set forth below.

An Employee shall satisfy the eligibility requirements upon attaining age twenty-one (21) and completing three (3) Months during which an Employee shall not be required to complete any specified number of Hours of Service to receive credit for such fractional year.

(b) ELIGIBILITY COMPUTATION PERIODS shall mean the Initial Eligibility Computation Period, which is the twelve (12) consecutive month period beginning with the date upon which an Employee first performs an Hour of Service for the Employer, and the Subsequent Eligibility Computation Period which shall mean the Plan Year which includes the first anniversary of the commencement of the twelve (12) consecutive month period beginning with the date upon which an Employee first performs an Hour of Service for the Employer, and, where additional periods are necessary, succeeding Plan Years.

(c) ENTRY DATE shall be the date an Eligible Employee commences participation in the Plan, and shall mean the earlier of the first day of the Plan Year, or first day of the 7th month of the Plan Year following the Participant's satisfaction of the Eligibility Requirements of the Plan, or the date required under the provisions of Section 3.7.

1.3 EMPLOYER CONTRIBUTIONS, ALLOCATIONS AND ALLOCATION LIMITS

(a) COMPENSATION shall mean the W-2 earnings paid to each Participant.

Compensation shall be based on the Plan Year.

Compensation for the first year of participation shall be recognized as of the Participant's Entry Date.

Compensation and "414(s) Compensation" shall include compensation which is not currently includable in the Participant's income by reason of the application of Code Sections 125, 402(a)(8), 402(h)(1)(B), or 403(b).

(b) EMPLOYEE DEFERRALS

A Participant may elect to defer from one percent (1%) to fifteen percent (15%) of his Compensation into the Trust each Plan Year.

Bonuses, paid within two and one-half months after the end of the Plan Year, shall not be subject to elective deferral for the prior Plan Year, but shall be included in the definition of Compensation for purposes of determining the percentage of salary deferrals for the year in which such bonus was received.

(1) COMMENCEMENT OF EMPLOYEE DEFERRALS

A Participant may begin to defer Compensation upon electing to make payroll deductions, beginning with the next payroll period coincident with, or following each Entry Date.

(2) CHANGE OF EMPLOYEE DEFERRAL AMOUNTS

(i) A Participant may increase the rate of his deferral on each Entry Date during the Plan Year.

(ii) A Participant may decrease the rate of his deferral on each Entry Date of each Plan Year. stop his deferral

(iii) A Participant may stop his deferral anytime during the Plan Year.

(iv) In order to make a requested change in the deferral rate in a timely manner, the Administrator must be given at least ten (10) working days notice of any changes in deferral percentage.

(c) MATCHING CONTRIBUTIONS

(1) EMPLOYER MATCHING CONTRIBUTIONS

The Employer may make a Hatching Contribution equal to a discretionary percentage, subject to the limitations set forth in Section 1.3(c)(2).

In the event that the Employer contributions are insufficient to provide the full Hatching Contribution as described above, the matching contribution shall be prorated to the amount of Employer contribution available at the time of the allocation.

(2) LIMITATIONS ON MATCHING CONTRIBUTIONS

Matching Contributions shall not exceed Code Section 401(m) limitations as set forth in Article Four, Section 4.12.

(3) EMPLOYEES ELIGIBLE TO RECEIVE A MATCHING CONTRIBUTION

All Participants who elect to make deferrals shall be entitled to receive an allocation of Hatching Contributions, subject to the provisions of Section 1.3(c)(4) and Section 4.12 of the Plan.

(4) ELIGIBILITY FOR MATCHING CONTRIBUTIONS

In order to receive a Hatching Contribution, a Participant must complete 1,000 Hours of Service, and be employed on the last day of the Fiscal Year.

If, by the Participants not sharing in Employer Matching Contributions, or forfeitures (if any) of such contributions for the Plan Year, the Plan would fail to meet the coverage requirements of Code Section 410(b)(1) for the Plan Year, then, subject to Section 4.18(b), and within the provisions of Code Section 401(b), the members of the group of Participants, previously specified in this Section as not sharing in Employer Contributions, shall share in Employer Contributions for the Plan Year as follows: the minimum number required to meet the coverage tests under Code Section 410(b)(1) shall be eligible to receive an allocation based on their number of Hours of Service credited during the Plan Year, ranked in descending order. If more than one individual receives credit for the lowest number of Hours of Service for which any individual must be covered in order to meet the coverage tests, then all individuals receiving credit for exactly that number of Hours of Service shall share in the allocation of Employer Contributions.

(5) FORFEITURES OF MATCHING CONTRIBUTIONS

All forfeitures of Hatching Contributions shall be used to reduce Employer contributions.

(6) TIMING OF FORFEITURES OF MATCHING CONTRIBUTIONS

Forfeitures of Matching Contributions shall occur immediately upon the distribution of benefits from the Plan to the Participant, subject to the requirements of Article Eleven.

(d) EMPLOYER NON-ELECTIVE CONTRIBUTIONS (DISCRETIONARY)

Non-elective (discretionary) Contributions shall not be made to the Plan.

QUALIFIED NON-ELECTIVE CONTRIBUTIONS

Qualified Non-elective Contributions may be made in an amount to be determined by the Employer in accordance with Section 4.14.

ELIGIBILITY TO RECEIVE AN ALLOCATION OF QUALIFIED NON-ELECTIVE CONTRIBUTIONS

In order to receive an allocation of Qualified Non-elective Contributions, a Participant must complete 1,000 Hours of Service during a Plan Year, and be employed on the last day of the Fiscal Year.

(e) EMPLOYEE VOLUNTARY (AFTER-TAX) CONTRIBUTIONS:

Employee Voluntary (after-tax) Contributions shall not be permitted under the Plan.

(f) ROLLOVERS FROM QUALIFIED PLANS:

Rollovers, from other qualified plans, shall be allowed from any Employee, even if not a Participant.

(g) TRANSFERS FROM QUALIFIED PLANS:

Transfers, from other qualified plans, shall be allowed from any Employee, even if not a Participant, but must be distributed in a form permitted by the Plan.

(H) VALUATION RELATED INFORMATION

(1) DEPOSIT OF EMPLOYER CONTRIBUTIONS

The Employer shall deposit Employer Contributions into the Trust as prescribed in Section 4.2(c), or on a more frequent basis at the discretion of the Employer.

(2) ALLOCATION DATE(S)

Employer contributions shall be allocated on an annual basis, or more frequently at the discretion of the Plan Administrator.

(3) GUARANTEED RATE OF RETURN

There shall be no guaranteed rate of return in the Plan. Investment returns shall be based on actual earnings of the Trust.

(4) VALUATIONS PER YEAR

On a quarterly basis (or more frequently at the discretion of the Plan Administrator), a valuation shall be performed subject to the provisions of Section 4.18(d).

(i) FAILSAFE ELECTION FOR CODE SECTION 415 LIMITS

If any Participant in the Plan is also covered by one or more qualified retirement plans, a welfare benefit fund, as defined in Code Section 419(e), an individual medical account, as defined in Code Section 415(1)(2), which are maintained, or considered to be maintained by the Employer, then the following method shall be used in regard to the treatment of Annual Additions with respect to any Participant in the Plan.

No participant has ever been covered by one, or more qualified plans maintained by this Sponsoring Employer.

(j) MINIMUM TOP-HEAVY ALLOCATIONS: Contributions and forfeitures, equal to 3% of each non-Key Employee's Compensation, shall be allocated to the Employee's account when the Plan is Top-Heavy, subject to the contribution allocations to Key Employees.

(k) MINIMUM BENEFITS FOR COMBINATION PLANS

For Employers who maintain both defined benefit and defined contribution plans:

The Minimum Top-Heavy Allocation, referenced in Section 1.3(j), shall be provided by this Plan.

For Employers who maintain two or more defined contribution plans, the Minimum Top-Heavy Allocation, referenced in Section 1.3(j), shall be provided under this Plan.

The term "Present Value" shall refer to the Account Balance(s) of each Participant in the Plan, as the Employer does not maintain a Defined Benefit Pension Plan.

1.4 VESTING OF EMPLOYER CONTRIBUTIONS

(a) VESTING COMPUTATION PERIOD shall mean the twelve (12) consecutive month period concurrent with the Plan Year.

(b) VESTING SCHEDULE

(1) Each Participant shall have a fully vested, nonforfeitable interest in his Employee Deferral Account.

(2) Matching Contributions shall become vested in accordance with the following vesting schelule:

YEARS OF COUNTED SERVICE	VESTED PERCENTAGE
Less than 2 years	0%
2	33%
3	66%
4 or more years	100%

(3) TOP-HEAVY VESTING SCHEDULE, for years in which the Plan is Top-Heavy, and all years thereafter, shall be determined on the basis of:

The same vesting schedule as the non Top-Heavy vesting schedule.

(4) COUNTED YEARS OF SERVICE FOR VESTING:

All of an Employee's Years of Service with the Employer are counted to determine the vested percent of the Employee's account balance derived from Employer Contributions.

1.5 DISTRIBUTION OF BENEFITS

(a) NORMAL RETIREMENT AGE shall mean age sixty (60).

(b) NORMAL RETIREMENT or NORMAL RETIREMENT DATE shall mean the date the date the Participant attains Normal Retirement Age.

(c) EARLY RETIREMENT AGE shall mean age fifty-five (55).

(d) EARLY RETIREMENT DATE shall be the date the Participant attains Early Retirement Age.

(e) FORM OF DISTRIBUTIONS:
Distributions shall be made in lump sums.

Further, distributions shall be made in cash only (other than insurance, or annuity contracts).

(f) DISTRIBUTIONS UPON DEATH, as set forth in Article Thirteen, shall be made pursuant to the election of the Participant, or beneficiary.

(g) AMOUNT OF DISTRIBUTION UPON TERMINATION OR RETIREMENT:

The Participant shall be eligible to receive a distribution of the vested portion of his Account, and the balance of any other accounts of such Participant.

(h) CONDITIONS FOR DISTRIBUTIONS UPON TERMINATION:

At the Participant's election, immediate distributions shall be made as soon as administratively feasible.

(i) IN-SERVICE DISTRIBUTIONS -- WITHDRAWAL OF EMPLOYER CONTRIBUTIONS shall not be allowed

(j) PRE-RETIREMENT DISTRIBUTIONS shall be permitted if the Participant is 100% vested, and has reached the age of 59-1/2. The Participant may request a distribution of his Account balance without terminating employment. The Participant may take distributions from the following Participant's Account(s):

All Accounts.

(k) HARDSHIP DISTRIBUTIONS:

Participants may request a distribution based on financial hardship, subject to the provisions of Section 11.9 of the Plan. This distribution shall only be permitted from a Participant's Employee Deferral Account.

(l) The LIFE EXPECTANCIES of the Participant, and the Participant's spouse, should the Participant (or spouse) so elect under Article Eleven of the Plan, shall be recalculated pursuant to Code Section 401(a)(9)(D).

1.6 MISCELLANEOUS

(a) PARTICIPANT DIRECTED ACCOUNTS:

Participants shall be permitted to direct the investment of their accounts regardless of the Participant's vested interest in the Plan.

(b) LOANS TO PARTICIPANTS:

Participants shall be permitted to borrow from the Trust, pursuant to the provisions of the loan policy.

Monies borrowed from Employer derived contributions shall be treated as a general investment of Plan assets. Monies borrowed from Employee deferral shall be credited directly to such Participant's account(s). The minimum loan amount is $1,000.

(c) LIFE INSURANCE:

The purchase of life insurance shall not be allowed.

ARTICLE TWO

DEFINITIONS

2.1 ACCOUNT BALANCE shall mean the balance of the Participant's Account which shall be the accrued benefit.

2.2 ADMINISTRATIVE COMMITTEE, COMMITTEE OR PLAN ADMINISTRATOR shall mean the individual, individuals or Employer specified in Article One, Section 1.1(c) appointed to act in accordance with the provisions of Article Six hereof.

2.3 AGGREGATION GROUP shall mean (i) each plan of the Employer in which a Key Employee is a Participant, and (ii) each other plan of the Employer which enables any plan described in subsection (i) above to meet the requirements of Sections 401(a)(4) or 410 of the Code. The Employer may treat any plan not required to be included in an Aggregation Group under subsections (i) and (ii) above, as being a part of such group if such group would continue to meet the requirements of Sections 401(a)(4) and 410 of the Code with such plan being taken into account. Collectively-bargained plans that include a Key Employee of the Employer must be included in the required Aggregation Group for that Employer.

2.4 ANNIVERSARY DATE shall mean the last day of the Plan Year.

2.5 ANNUAL ADDITIONS: For Plan Years beginning on or after January 1, 1987, the sum of the following amounts credited to a Participant's Account for the Limitation Year:

(i) Employer Contributions (including Employee Deferrals),

(ii) Employee (after-tax) Contributions,

(iii) Forfeitures, and

(iv) amounts allocated, after March 31, 1984, to an individual medical account, as defined in Section 415(1)(2) of the Code, which is part of a pension or annuity plan maintained by the Employer are treated as Annual Additions to a defined contribution plan. Also amounts derived from contributions paid or accrued after December 31, 1985, in taxable years ending after such date, which are attributable to post-retirement medical benefits, allocated to the separate account of a Key Employee, as defined in Section 419A(d)(3) of the Code, under a welfare benefit fund, as defined in Section 419(e) of the Code, maintained by the Employer are treated as Annual Additions to a defined contribution plan.

For this purpose, any excess amount applied under Sections 4.19(d) or 4.19(k) in the Limitation Year to reduce Contributions will be considered Annual Additions for such Limitation Year.

For this purpose, any excess amount applied under Sections 4.19(d) or 4.19(k) in the Limitation Year to reduce Contributions will be considered Annual Additions for such Limitation Year.

2.6 BENEFICIARY shall mean the recipient selected by a Participant to receive death benefits from the Participant's Account. If a Participant fails to designate a Beneficiary, the Committee shall be empowered to designate a Beneficiary or Beneficiaries from among the following persons and in the following order: (1) spouse at time of death; (2) natural and adopted children; (3) parents; (4) brothers, sisters, nieces and nephews; (5) estate of the Participant. Neither the Employer nor the Trustee shall be named as Beneficiary.

2.7 BREAK IN SERVICE shall mean a Vesting Computation Period, Eligibility Computation Period, or other relevant twelve (12) consecutive month period (computation period) during which the Participant does not complete more than five hundred (500) Hours of Service with Employer.

2.8 CODE shall mean the Internal Revenue Code of 1986 as amended.

2.9 COMPENSATION shall mean a Participant's compensation as specified by the Employer in Section 1.3(a). For any self-employed individual covered under the Plan, Compensation will mean Earned Income.

For purposes of Section 1.3(a), "415 Compensation" shall mean the 415 Safe Harbor Compensation as defined in Section 4.19(m), "W-2 earnings" shall mean wages as defined in Section 3401(a) of the Code for the purposes of income tax withholding at the source but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment for the services performed (such as the exception for agricultural labor in Code Section 3401(a)(2), "total compensation" shall mean wages as defined in Section 3121(a) of the Code for purposes of calculating social security taxes but determined without regard to the wage base limitation in Section 3121(a)(1), the limitations on the exclusions from wages in Section 3121(a)(5)(C) and (D) for employee elective deferrals and payments by reason of salary reduction agreements, the special rules in Code Section 3121(v), any rules that limit covered employment based on the type or location of an employee's employer, and any rules that limit the remuneration included in wages based on familial relationship or based on the nature or location of the employment or the services performed (such as the definition of employment in Code Section 3121(b)(1) through (20).

As an alternative to the definition of Compensation provided in Section 1.3(a), an Employer may, by written resolution or certificate, elect to use the definition contained in Internal Revenue Temporary Regulation 1.414(s)-1T(c)(3) which is a "safe-harbor alternative definition". Compensation, using this safe-harbor definition, shall mean compensation as defined in Code Section 415(c)(3) or the "415 Safe Harbor Compensation" defined in Section 4.8(m) of the Plan reduced by all of the following: reimbursements or other expense allowances, fringe benefits (cash or noncash), moving expenses, deferred compensation, and

welfare benefits. The foregoing safe-harbor definition shall not be used to determine the Compensation of a self-employed individual.

Notwithstanding the above, if elected by the Employer in Section 1.3(a), Compensation shall include any amount which is contributed by the Employer pursuant to a salary reduction agreement and which is not includible in the gross income of the Employee under Sections 125, 402(a)(8), 402(h) or 403(b) of the Code.

For years beginning after December 31, 1988, the annual Compensation of each Participant taken into account under the Plan for any year shall not exceed two hundred thousand dollars ($200,000), as adjusted by the Secretary at the same time and in the same manner as under Section 415(d) of the Code, except that the dollar increase in effect on January 1st of any calendar year is effective for years beginning such calendar year and the first adjustment to the $200,000 limitation is effected on January 1, 1990. If a plan determines Compensation on a period of time that contains fewer than twelve calendar months, then the annual Compensation limit is an amount equal to the annual Compensation limit for the calendar year in which the Compensation period begins multiplied by the ratio obtained by dividing the number of full months in the period by 12. In determining the Compensation of a Participant for purposes of this limitation, the rules of Section 414(q)(6) of the Code shall apply, except in applying such rules, the term "family" shall include only the spouse of the Participant and any lineal descendants of the Participant who have not attained age nineteen (19) before the close of the year. If, as a result of the application of such rules the adjusted two hundred thousand dollars ($200,000) limitation is exceeded, then (except for purposes of determining the portion of Compensation up to the integration level if this Plan provides for permitted disparity), the limitation shall be prorated among the affected individuals in proportion to each such individual's Compensation as determined under this Section prior to the application of this limitation.

If Compensation for any prior Plan Year is taken into account in determining an Employee's contributions or benefits for the current year, the Compensation for such prior year shall be subject to the applicable annual Compensation limit in effect for that prior year. For this purpose, for years beginning after January 1, 1990, the applicable annual Compensation limit shall be $200,000.

The term Compensation does not include (i) contributions made by the Employer to a plan of deferred compensation to the extent that, before the application of Code Section 415 limitations to that plan, the contributions are not includable in the gross income of the Employee for the taxable year in which contributed; (ii) Employer Contributions made on behalf of an Employee to a simplified Employee pension described under Code Section 408(k) are not considered as Compensation for the taxable year in which contributed to the extent that such contributions are deductible by the Employee under Code Section 219(b)(7); (iii) distributions from a plan of deferred compensation are not considered as Compensation herein, regardless of whether such amounts are includable in the gross income of the Employee when distributed. However, any

amounts received by the Employee pursuant to an unfunded nonqualified plan of deferred compensation may be considered as Compensation herein in the year such amounts are includable in the gross income of the Employee; (iv) amounts realized from the exercise of a nonqualified stock option, or when restricted stock (or property) held by an Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture; (v) amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; or (vi) other amounts which receive special tax benefits, such as premiums for group term life insurance (but only to the extent that the premiums are not includable in the gross income of the Employee) or contributions made by an Employer (whether or not under a salary reduction agreement) towards the purchase of an annuity contract described under Section 403(b) of the Code, whether or not the contributions are excludable from the gross income of the Employee.

2.10 DEFINED BENEFIT PLAN FRACTION shall mean a fraction, the numerator of which is the sum of the Participant's projected annual benefits under all the defined benefit plans (whether or not terminated) maintained by the Employer, and the denominator of which is the lesser of 125 percent of the dollar limitation determined for the Limitation Year under Sections 415(b) and (d) of the Code or 140 percent of the highest average Compensation, including any adjustments under Section 415(b) of the Code.

Notwithstanding the above, if the Participant was a Participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than 125 percent of the sum of the annual benefits under such plans which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Section 415 for all Limitation Years beginning before January 1, 1987.

2.11 DEFINED CONTRIBUTION PLAN FRACTION shall mean a fraction, the numerator of which is the sum of the Annual Additions to the Participant's account under all the defined contribution plans (whether or not terminated) maintained by the Employer for the current and all prior Limitation Years (including the Annual Additions attributable to the Participant's nondeductible Employee contributions to all defined benefit plans, whether or not terminated, maintained by the Employer, and the Annual Additions attributable to all welfare benefit funds, as defined in Section 419(e) of the Code, and individual medical accounts, as defined in Section 415(1)(2) of the Code, maintained by the Employer), and the denominator of which is the sum of the maximum aggregate amounts for the current and all prior Limitation Years of Service with the Employer (regardless of whether a defined contribution plan was maintained by the Employer). The maximum aggregate amount in any Limitation Year is the lesser of one hundred twenty-five (125) percent of the dollar limitation determined under Sections 415(b) and (d) of the Code in effect under

Section 415(c)(1)(A) of the Code or thirty-five (35) percent of the Participant's Compensation for such year.

If the Employee was a Participant as of the end of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined contribution plans maintained by the Employer which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the defined benefit fraction would otherwise exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (1) the excess of the sum of the fractions over 1.0 times (2) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the Plan made after May 5, 1986, but using the Section 415 limitation applicable to the first Limitation Year beginning on or after January 1, 1987. For prior years calculations may be made as if the Tax Reform Act of 1986 was applicable to such years.

The annual addition for any Limitation Year beginning before January 1, 1987, shall not be recomputed to treat all Employee contributions as Annual Additions.

2.12 DETERMINATION DATE shall mean, with respect to any Plan Year, the last day of the preceding Plan Year, or in case of the initial Plan Year, the last day of such Plan Year.

2.13 EARNED INCOME shall mean the net earnings from self-employment in the trade or business with respect to which the Plan is established, for which personal services of the individual are a material income-producing factor. Net earnings shall be determined with regard to the deduction allowed to the Employer by Section 164(f) of the Code for taxable years beginning after December 31, 1989. Net earnings shall be determined without regard to items not included in gross income and the deductions allocable to such items. Net earnings shall be reduced by contributions by the Employer to a qualified plan to the extent deductible under Section 404 of the Code.

2.14 ELAPSED TIME: In the event that the "Elapsed Time" method is used to determine a year of Service for Eligibility or Vesting as described in Article One, an Employee will receive credit for the aggregate of all time period(s) commencing with the Employee's first day of employment or reemployment and ending on the date a Break in Service begins. The first day of employment or reemployment is the first day the Employee performs an Hour of Service. An Employee will also receive credit for any period of severance of less than 12-consecutive months. Fractional periods of a year will be expressed in terms of days.

Break in Service, for purposes of this Section, is a Period of Severance of at least 12-consecutive months.

Period of Severance is a continuous period of time during which the Employee is not employed by the Employer. Such period begins on the date the Employee retires, quits or is discharged, or if earlier, the 12-month anniversary of the date on which the employee was otherwise first absent from service.

An Employee who incurs a Break in Service under this Section 2.15, Elapsed Time shall re-enter the Plan in accordance with the provisions of Section 3.5; however, the term "Break in Service" as used in Section 3.5 shall have the meaning set forth herein.

In the case of an Employee who is absent from work for maternity or paternity reasons, the 12-consecutive month period beginning on the first anniversary of the first date of such absence shall not constitute a Break in Service. For purposes of this Paragraph, an absence from work for maternity or paternity reasons means an absence (1) by reason of the pregnancy of the Employee, (2) by reason of a birth of a child of the Employee, (3) by reason of the placement of a child with the Employee in connection with the adoption of such child by such Employee, or (4) for purposes of caring for such child for a period beginning immediately following such birth or placement. The time credited under this Paragraph shall be credited in the computation period in which the absence begins if the crediting is necessary to prevent a Break in Service in that period, or in all other cases, in the following computation period. No credit will be given under this Section, however, unless the Employee returns to covered employment and furnishes to the Administrative Committee such timely information as the Committee may reasonably require to establish that the absence from work is for reasons qualifying for the maternity/paternity provision (as set forth above) and the number of days for which there was an absence.

2.15 ELIGIBLE EMPLOYEE shall mean any Employee who meets the Eligibility Requirements of Section 1.2(a).

2.16 EMPLOYEE shall mean any common-law Employee who is employed in any capacity by the Employer maintaining the Plan or of any other Employer required to be aggregated with such Employer under Sections 414(b), (c), (m) or (o) of the Code.

Unless specifically excluded under Section 1.2(a), the term Employee shall also include any leased Employee deemed to be an Employee of any Employer described in Section 2.32 as provided in Sections 414(n) or (o) of the Code.

2.17 EMPLOYEE CONTRIBUTIONS (AFTER-TAX) shall mean the amount, if any, which the Participant contributes to the Plan, on an after-tax basis.

2.18 EMPLOYEE CONTRIBUTION ACCOUNT shall mean the account maintained to record the Participant's Employee Contributions and adjustments relating thereto.

2.19 EMPLOYEE DEFERRAL CONTRIBUTION shall mean the amount of Compensation electively deferred by the Participant on a pre-tax basis to the Plan in accordance with the provisions of Article Four.

2.20 EMPLOYEE DEFERRAL OR DEFERRED INCOME ACCOUNT shall mean the account of a Participant to which are credited the Employee Deferral Contributions made this Plan.

2.21 EMPLOYER shall mean the Employer adopting this Plan as signatory hereto and any successor assuming the obligations created hereunder. The Employer shall include all trades or businesses which are members of a controlled group of corporations under common control or members of an affiliated service group, as defined in Sections 414(b), (c) and (m) of the Code (subject, however to the provisions of Code Section 415(h) when applying the benefit limitations of Code Section 415). If subsequent to the Employer's adoption of this Plan another employer adopts this Plan and/or is required to be included within the meaning of "Employer", then for purposes of Article Six "Employer" shall mean the initial adopting Employer, unless otherwise stated herein. An AFFILIATED EMPLOYER shall mean an entity described in the second sentence of this definition.

2.22 EMPLOYER CONTRIBUTIONS shall mean the amount contributed to the Trust Fund by the Employer pursuant to the terms of this Plan. This term shall not include Employee Deferral Contributions unless specifically noted but shall include Employer Matching Contributions and Employer Non-elective Contribution unless otherwise stated herein.

2.23 EMPLOYER CONTRIBUTION OR GENERAL ACCOUNT shall mean an account that is credited with Employer Contributions and each Participant's share of any net income or loss of the Trust, but shall not include amounts allocated to the Employee Deferral Account and the earnings and losses therefrom.

2.24 EMPLOYER MATCHING CONTRIBUTION OR MATCHING CONTRIBUTION shall mean the amount contributed to the Trust Fund by the Employer according to the provisions of Article One and Section 4.10.

2.25 EMPLOYER MATCHING ACCOUNT shall mean an account that is credited with each eligible Participant's share of any Employer Matching Contribution, and any net income or loss of the Trust in relation to such contributions.

2.26 ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended.

2.27 FIDUCIARY shall mean a person who exercises any discretionary authority or discretionary control affecting the management of the Plan; who exercises any authority or control respecting the management or disposition of Plan assets; who renders investment advice for a fee or other compensation, direct or indirect, with respect to any money or other property of the Plan or has any authority or responsibility to do so; who has any discretionary authority or discretionary responsibility in the administration of the Plan; or who, when designated by a Named Fiduciary pursuant to authority granted by the Plan, acts to carry out a

fiduciary responsibility, subject to any exceptions granted directly or indirectly by ERISA or any regulations promulgated thereunder.

2.28 FISCAL YEAR shall mean the fiscal year of the Employer's business.

2.29 HIGHLY COMPENSATED EMPLOYEE shall mean any highly compensated active Employees and highly compensated Former Employees.

(a) Highly compensated active Employee includes any Employee who performs service for the Employer during the determination year and who, during the look-back year: (i) received compensation from the Employer in excess of $75,000 (as adjusted pursuant to Section 415(d) of the Code); (ii) received compensation from the Employer in excess of $50,000 (as adjusted pursuant to Section 415(d) of the Code) and was a member of the top-paid group for such year; or (iii) was an officer of the Employer and received compensation during such year that was greater than fifty percent of the dollar limitation in effect under Section 415(b)(1)(A) of the Code. The term Highly Compensated Employee also includes: (i) Employees who are both described in the preceding sentence if the term "determination year" is substituted for the term "look-back year" and the Employee is one of the 100 Employees who received the most compensation from the Employer during the determination year; and (ii) Employees who are five (5) percent owners at any time during the look-back year or determination year.

(1) If no officer has satisfied the compensation requirement of (iii) above during either a determination year or look-back year, the highest-paid officer for such year shall be treated as a Highly Compensated Employee.

(i) For this purpose, the determination year shall be the Plan Year. The look-back year shall be as provided for in Section 1.1(g).

(b) A highly compensated former Employee includes any Employee who separated from service (or was deemed to have separated) prior to the determination year, performs no service for the Employer during the Determination Year, and was a highly compensated active Employee for either the separation year or any Determination Year ending on or after the Employee's fifty-fifth (55th) birthday.

(c) If an Employee is, during a determination year or look-back year, a family member of either a five (5) percent owner who is an active or former Employee or a Highly Compensated Employee who is one of the ten (10) most highly compensated Employees ranked on the basis of compensation paid by the Employer during such year, then the family member and the five (5) percent owner or top-ten highly compensated Employee shall be aggregated. In such case, the family member and five (5) percent owner or top-ten (10) highly compensated Employee shall be treated as a single Employee receiving compensation and plan contributions or benefits equal to the sum of such compensation and contributions or benefits of the

family member and five (5) percent owner or top-ten (10) Highly Compensated Employee. For purposes of this Section, family member includes the spouse, lineal ascendants and descendants of the Employee or former Employee and the spouses of such lineal ascendants and descendants.

(d) The determination of who is a Highly Compensated Employee, including the determinations of the number and identity of Employees in the top-paid group, the top one-hundred (100) Employees, the number of Employees treated as officers and the compensation that is considered, will be made in accordance with Section 414(q) of the Code and the Regulations thereunder.

2.30 HOUR OF SERVICE shall have the meaning set forth in Section 1.1(f) for the performance of duties during the applicable computation period. An Hour of Service shall also mean each hour for which back pay, irrespective of mitigation of damages, has been either awarded or agreed to be awarded by the Employer to the extent not otherwise credited to the Employee pursuant to this Section. An Hour of Service shall also mean each hour for which an Employee is paid, or entitled to payment, on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), lay-off, jury duty, military leave or leave of absence; provided, however, that no hours shall be credited for a payment which reimburses an Employee for medical expenses, and further provided that no more than five hundred one (501) Hours of Service shall be credited under this sentence to an Employee on account of any single continuous period during which the Employee performs no duties. Hours for nonperformance of duties shall be credited in accordance with Department of Labor Regulations Section 2530.200b-2(b). Hours shall be credited to the applicable computation period in accordance with Department of Labor Regulations Section 2530.200b-2(c).

For purposes of determining whether a Break in Service, as defined herein, for participation and vesting purposes has occurred in a computation period, an Employee who is absent from work for maternity or paternity reasons shall receive credit for the Hours of Service which would otherwise have been credited to such Employee but for such absence, or in any case in which such hours cannot be determined eight (8) Hours of Service per day of such absence (but not to exceed five hundred one (501) Hours of Service in any computation period). For purposes of this Paragraph, an absence from work for maternity or paternity reasons means an absence (1) by reason of the pregnancy of the Employee, (2) by reason of a birth of a child of the Employee, (3) by reason of the placement of a child with the Employee in connection with the adoption of such child by such Employee, or (4) for purposes of caring for such child for a period beginning immediately following such birth or placement. The Hours of Service credited under this Paragraph shall be credited in the computation period in which the absence begins if the crediting is necessary to prevent a Break in Service in that period, or in all other cases, in the following computation period. No credit will be given under this Section, however, unless the Employee

returns to covered employment and furnishes to the Administrative Committee such timely information as the Committee may reasonably require to establish that the absence from work is for reasons qualifying for the maternity/paternity provision (as set forth above) and the number of days for which there was an absence.

2.31 KEY EMPLOYEE shall mean any Employee or former Employee (and the beneficiaries of such Employee) who at any time during the determination period was an officer of the Employer if such individual's annual compensation exceeds fifty (50) percent of the dollar limitation under Section 415(b)(1)(A) of the Code, an owner (or considered an owner under Section 318 of the Code) of one of the ten (10) largest interests in the Employer if such individual's compensation exceeds one hundred (100) percent of the dollar limitation under Section 415(c)(1)(A) of the Code, a five (5) percent owner of the Employer, or a one (1) percent owner of the Employer who has an annual compensation of more than one hundred fifty thousand ($150,000). Annual compensation means compensation as defined in Section 415(c)(3) of the Code, but including amounts contributed by the Employer pursuant to a salary reduction agreement which are excludible from the Employee's gross income under Section 125, Section 402(a)(8), Section 402(h) or Section 403(b) of the Code. The determination period is the Plan Year containing the Determination Date and the four (4) preceding Plan Years.

The determination of who is a Key Employee will be made in accordance with Section 416(i)(1) of the Code and Regulations thereunder.

2.32 LEASED EMPLOYEE shall mean any person (other than an Employee of the recipient) who pursuant to an agreement between the recipient and any other person ("leasing organization") has performed services for the recipient (or for the recipient and related persons determined in accordance with Section 414(n)(6) of the Code) on a substantially full time basis for a period of at least one (1) year, and such services are of a type historically performed by Employees in the business field of the recipient Employer. Contributions or benefits provided a leased Employee by the leasing organization which are attributable to services performed for the recipient Employer shall be treated as provided by the recipient Employer. If and to the extent, that there are contributions or benefits provided by a leasing organization on behalf of a Leased Employee, any reduction or offset which may be made under this Plan shall be in accordance with Regulation Section 1.401(a)(26)-2(d)(9), and shall not constitute a separate current or prior benefit structure.

A leased Employee shall not be considered an Employee of the recipient if: (i) such Employee is covered by a money purchase pension plan providing: (1) a nonintegrated Employer contribution rate of at least ten (10) percent of compensation, as defined in Section 415(c)(3) of the Code, but including amounts contributed pursuant to a salary reduction agreement which are excludable from the Employee's gross income under Section 125, Section 402(a)(8), Section 402(h) or Section 403(b) of the Code, (2) immediate participation, and (3) full and immediate vesting; and (ii) leased Employees do not constitute more than twenty (20) percent of the recipient's nonhighly compensated workforce.

2.33 NAMED FIDUCIARY shall mean the parties in Section 2.2.

2.34 NET PROFITS shall mean current and accumulated earnings of the Employer before federal and state taxes based upon net income as determined by the Employer's annual tax return and contributions to this and any other qualified plan.

2.35 NON-KEY EMPLOYEE shall mean any Employee or Beneficiary of any Employee or former Employee who is not a Key Employee.

2.36 OWNER-EMPLOYEE shall mean a self-employed individual who is either a sole proprietor or a partner who owns more than ten percent (10%) of the capital interest or profits interest in a partnership.

2.37 PARTICIPANT shall mean an Eligible Employee as defined in Section 1.2.

2.38 PARTICIPANT'S ACCOUNT OR ACCOUNTS shall mean the account(s) maintained to record the Participant's Employee Deferral Account, Employee Contribution Account, Employer Contribution Account, Employer Matching Account and any other account maintained for the Participant, collectively or singly as the context requires.

2.39 PARTY-IN-INTEREST shall mean any person or other entity defined as a Party-in-interest under Section 3(14) of ERISA.

2.40 PRIOR PLAN shall mean any plan of the Employer which is superseded by this Plan.

2.41 QUALIFIED JOINT AND SURVIVOR ANNUITY shall mean an immediate annuity for the life of the Participant wit a survivor annuity for the life of the spouse which is not less than fifty (50) percent and not more than one hundred (100) percent of the amount of the annuity which is payable during the joint lives of the Participant and the spouse, which is the amount of benefit which can be purchased with the Participant's vested Account Balance or, if greater, of any optional form of life annuity offered under the Plan. The percentage of the Survivor Annuity under the Plan shall be fifty percent (50%).

No Qualified Joint and Survivor Annuity shall provide that payments to the spouse of a deceased Participant are terminated because of the spouse's remarriage.

2.42 QUALIFIED PRE-RETIREMENT SURVIVOR ANNUITY shall mean an annuity for the life of the spouse of a Participant, the actuarial equivalent of which is not less than fifty percent (50%) of the Account Balance of the Participant as of the date of death and which commences upon the death of the Participant.

2.43 SELF-EMPLOYED INDIVIDUAL shall mean an individual who has Earned Income for the taxable year from the trade or business for which the Plan is established; also, an individual who would have had Earned Income but for the fact that the trade or business had no Net Profits for the taxable year.

2.44 SHAREHOLDER-EMPLOYEE shall mean an Employee or officer of an electing small business corporation who owns, or is considered as owning within the meaning of Code Section 318(a)(1), on any day during the taxable year of such corporation, more than five percent (5%) of the outstanding stock of such corporation.

2.45 TAXABLE YEAR OR FISCAL YEAR shall mean the twelve (12) month period used by the Employer for reporting income.

2.46 TOP-HEAVY GROUP shall mean any Aggregation Group if the sum (as of the Determination Date) of (i) the present value of the cumulative Accrued Benefits for Key Employees under all defined benefit plans included in such group, and (ii) the aggregate of the accounts of Key Employees under all defined contribution plans included in such group, exceed sixty percent (60%) of a similar sum determined for all Employees, excluding former Key Employees. For purposes of determining the present value of the cumulative benefit for any Participant, or the amount of the account of any Participant, such present value or amount shall be determined in accordance with Regulations issued by the Department of Treasury and such present value or amount shall be increased by the aggregate distributions made with respect to such Participant under the Plan during the five (5) year period ending on the Determination Date.

Account Balances shall be determined as of the most recent valuation date occurring within a twelve (12) month period ending on the Determination Date and shall be adjusted for contributions due or made as of the Determination Date.

If an Aggregation Group includes two (2) or more defined benefit plans, the same actuarial assumptions must be used with respect to all such plans and must be specified in such plans.

2.47 TOP-HEAVY PLAN shall mean for any Plan Year beginning after December 31, 1983, this Plan is top-heavy if any of the following conditions exists:

(1) if the top-heavy ratio for this Plan exceeds sixty percent (60%) and this Plan is not part of any required Aggregation Group or permissive Aggregation Group of plans, or

(2) if this Plan is part of a required Aggregation Group of plans but not part of a permissive Aggregation Group and the top-heavy ratio for the group or plans exceeds sixty percent (60%), or

(3) if this Plan is part of a required Aggregation Group and part of a permissive Aggregation Group of plans and the top-heavy ratio for the permissive Aggregation Group exceeds sixty percent (60%).

2.48 TOTAL DISABILITY shall have the meaning set forth in Section 1.1.

2.49 TRUST OR TRUST FUND shall mean the Trust which is established by the Employer in connection with the adoption of this Plan and which holds the assets of the Plan for the benefit of the Participants and their Beneficiaries. However, if all of the assets of the Plan are insurance

contracts, within the meaning of ERISA Section 403, then all references to Trust or Trust Fund shall refer to these assets.

2.50 TRUST AGREEMENT shall mean the agreement between the Employer and the Trustee which provides for the administration of the Trust Fund. However, if all of the assets of the Plan are insurance contracts, within the meaning of ERISA Section 403, then all references to Trust Agreement shall refer to these assets.

2.51 TRUSTEE shall mean the Trustee of the Trust Fund. However, if all of the assets of the Plan are insurance contracts, within the meaning of ERISA Section 403, then all references to Trustee shall refer to either the Committee or the insurance company as appropriate.

2.52 YEAR OF SERVICE shall mean a relevant twelve (12) consecutive month period (computation period) during which the Employee completes at least 1,000 Hours of Service with the Employer.

In the event that the Employer adopts and maintains the Plan of a predecessor employer, service with such predecessor employer shall be treated as Years of Service with the successor Employer.

The foregoing terms whenever used in this Plan shall have the meaning set forth herein unless a different meaning is specifically provided for in this Plan.

ARTICLE THREE

PARTICIPATION

3.1 ELIGIBILITY TO PARTICIPATE

The Plan Administrator shall establish an application procedure for the purpose of enrolling new Participants. Each Employee who is an Eligible Employee (as defined in Section 1.2) shall become a Participant as of the applicable Entry Date. Any Employee who does not elect to participate hereunder at the time he initially becomes an Eligible Employee may become a Participant on the next applicable Entry Date upon giving written notice to the Administrator. The Committee may establish forms and requirements through which an Eligible Employee may elect not to become a Participant.

3.2 TERMINATION

A Participant shall continue to participate hereunder until employment with the Employer is terminated by Normal Retirement, Late Retirement, Death, Total Disability or a Break in Service. An Employee whose participation has ceased may resume Plan participation upon re-hire as determined under Section 3.5 herein.

3.3 LEAVE OF ABSENCE AND MILITARY SERVICE

(a) A Participant's employment with the Employer shall not be deemed terminated, and the Participant shall not incur a Break in Service, if the Participant:

(1) Has been on a leave of absence, granted in writing by the Employer in a nondiscriminatory manner before or after the absence, for any purpose including, but not limited to, sickness, accident or other casualty, or for the convenience of the Employer, provided that the Participant returns to work before or at the expiration of such leave of absence or any extension thereof; or

(2) Has been in the service of the Armed Forces of the United States or any of its allies during a period of declared national emergency or in time of war, or in the compulsory military service of the United States whether during time of war or otherwise, provided that the Participant returns to work within the period during which the Participant's employment rights are guaranteed by applicable federal law following a discharge or severance from such service; and

(3) Was in the employ of the Employer on the day immediately preceding the period of absence.

(b) If the Participant fails to return to work within the time required following such period of absence, such individual shall be deemed to have terminated employment with the Employer as of the first day of such leave unless the failure to return was due to the Participant's death, Total Disability, Late Retirement, or Normal Retirement during such leave, in which event the Participant shall be deemed a Participant up to the time of the Participant's death, Total Disability, Late Retirement, or Normal Retirement.

3.4 INACTIVE PARTICIPANTS

Subject to the eligibility requirements in Section 1.2 and eligibility requirements to receive an allocation of Employer contributions described in Article One, Section 1.3(c) and Section 1.3(d), a Participant with more than five hundred (500) Hours of Service but less than one thousand (1,000) Hours of Service in any Plan Year shall be an inactive Participant for such Plan Year. Amounts previously credited to the Participant's Account shall continue to be held in trust for such Participant and the Participant shall be entitled to benefits in accordance with the other provisions of the Plan throughout the period during which the Participant is an inactive Participant.

3.5 BREAK IN SERVICE RULES - ELIGIBILITY

(a) Except as otherwise provided in this Section, all of an Employee's Years of Service with the Employer shall be taken into account when determining whether such Employee is an Eligible Employee.

(b) In the case of an Employee who incurs a Break in Service, the Employee's service before the Break in Service shall be disregarded when determining the Employee's Years of Service for purposes of eligibility until the Employee completes the eligibility requirements set forth in Section 1.2 after such Break in Service.

(1) Such Years of Service will be measured by the twelve (12) consecutive month period beginning on an Employee's reemployment commencement date and, if necessary, Plan Years beginning with the Plan Year which includes the first anniversary of the reemployment commencement date.

(2) The reemployment commencement date is the first day on which the Employee is credited with an Hour of Service for the performance of duties after the first eligibility computation period in which the Employee incurs a one year Break in Service.

(3) If a Participant completes the eligibility requirements in Section 1.2 in accordance with this provision, the Participant's participation will be reinstated as of the reemployment commencement date.

(c) In the case of a Participant who does not have any nonforfeitable right under the Plan to the Participant's Account Balance derived

from Employer Contributions, Years of Service prior to a period of consecutive one (1) year Breaks in Service shall be disregarded when determining the Employee's Years of Service for purposes of eligibility if the number of the Participant's consecutive one (1) year Breaks in Service equals or exceeds the greater of five (5) or the aggregate number of Years of Service prior to such period of consecutive Breaks in Service. When computing the aggregate number of Years of Service prior to such Break in Service, Years of Service which could have been disregarded under this Paragraph by reason of any prior Break in Service shall be disregarded.

(1) If a Participant's Years of Service are disregarded pursuant to Section 3.5(c), such Participant will be treated as a new Employee for eligibility purposes. If a Participant's Years of Service may not be disregarded pursuant to Section 3.5(c), such Participant shall continue to participate in the Plan, or, if terminated, shall participate immediately upon reemployment.

3.6 ELIGIBILITY COMPUTATION PERIODS [Section 1.2(b)]

(a) Except as provided in Section 3.6(d), Hours of Service completed in the Initial Eligibility Computation Period of the Employee shall be used when determining whether the Employee has completed the eligibility requirements of Section 1.2 for purposes of this Article. If the Employee fails to complete the required number of Hours of Service in the Initial Eligibility Computation Period, then the Hours of Service completed within the Subsequent Eligibility Computation Period shall be used.

(b) For purposes of determining Years of Service and Breaks in Service for purposes of eligibility, the Initial Eligibility Computation Period and Subsequent Eligibility Computation Period are those periods defined in Section 1.2(b).

(c) For purposes of Section 3.5, Years of Service shall be computed by reference to the Hours of Service performed within the Initial Eligibility Computation Period and Subsequent Eligibility Computation Period, if any, prior to the time that the Employee becomes an Eligible Employee, plus the Vesting Computation Period beginning with the Vesting Computation Period which includes the date upon which the Employee becomes an Eligible Employee.

(d) Except as provided in Section 3.6(f) of this Section, the Hours of Service completed within each Vesting Computation Period shall be used when determining whether an Employee has incurred a Break in Service.

(e) Years of Service and Breaks in Service will be measured on the same eligibility computation period.

(f) When determining whether an Employee who is not a Participant is an Eligible Employee, and for purposes of Section 3.6, a Break in

Service shall be measured by Hours of Service completed within an Eligibility Computation Period.

3.7 COMMENCEMENT OF PARTICIPATION

If the Plan provides for an eligibility requirement of a period equal to or greater than six (6) months which elapses from a Participant's first Hour of Service and/or the attainment of an age greater than twenty and one-half (20-1/2) years, and does not provide a dual Entry Date in the definition of Entry Date in Section 1.2(c) hereof, then the provisions of this Article shall be construed and enforced so that it will be impossible for an Eligible Employee to become a Participant later than the earlier of the first day of the Plan Year which follows the date on which the Employee satisfies the statutory requirements or the date six (6) months after the date on which the Employee first satisfies such statutory requirements, unless the Employee separates from service with the Employer and does not return before the earlier of such dates. For purposes of this Section, if an Employee's prior service is disregarded by the Break in Service rules of the Plan, such service shall also be disregarded for purposes of determining the date upon which such Employee first became an Eligible Employee.

An Employee who has met the eligibility requirements but terminates employment before becoming a Participant, will participate on the later of the Employee's date of reemployment or the first Entry Date following the date the Employee met the eligibility requirements, if such individual is rehired prior to incurring a Break in Service.

3.8 PARTICIPATION UPON RETURN TO ELIGIBLE CLASS

(a) In the event a Participant is no longer a member of an eligible class of Employees and becomes ineligible to participate but has not incurred a Break in Service, such Employee will participate immediately upon returning to an eligible class of Employees. If such Participant incurs a Break in Service, eligibility will be determined under the Break in Service rules of the Plan.

(b) In the event an Employee who is not a member of an eligible class of Employees becomes a member of an eligible class, such Employee will participate immediately if such Employee has satisfied the minimum age and service requirements and would have otherwise previously become a Participant.

ARTICLE FOUR
CONTRIBUTIONS AND ALLOCATIONS

4.1 COST OF PLAN

The entire cost of establishing the Plan shall be borne by the Employer. No Participant shall be required to contribute hereunder.

4.2 EMPLOYER CONTRIBUTIONS

(a) Each Plan Year the Employer shall contribute an amount equal to the Employee Deferral contributions. These contributions shall be allocated in accordance with Section 4.18 among the Employee Deferral Accounts. Unless other procedures are selected by the Committee, Participant deferrals shall generally be made by payroll deduction in accordance with procedures established by the Committee and shall be paid to the Trustee as soon as reasonably practicable after the close of the calendar month in which the deferral was made, and in no event later than the close of the next following calendar month.

(b) In the event that contributions shall be required in accordance with Article One, Section 1.3 (e.g. required matching contributions or mandatory non-elective contribution), or shall be deemed mandatory or non-discretionary as provided in the various Articles of this Plan, the Employer shall contribute an amount equal to such required contributions into the Trust each Plan Year.

(c) In addition, each Fiscal Year the Employer shall contribute such amounts as the Employer may determine in its sole discretion, provided that (i) no contribution shall be made for any Fiscal Year in excess of the maximum allowable tax deduction, including carry-over amounts that are available, for a contribution to this Plan for such Fiscal Year under the then current tax laws; and (ii) the Fiscal Year for which each contribution is made shall be designated at the time of the contribution.

(d) All contributions shall be made by the Employer no later than the time prescribed by law for filing the federal income tax return of the Employer, including extensions thereof, for the Fiscal Year for which a deduction for such contribution is claimed. The Employer's Contribution may be made either in cash or in kind, or partly in both cash and kind, but it shall be the Employer's responsibility to determine the fair market value of a contribution which is not made entirely in cash.

(e) Notwithstanding anything herein to the contrary, for Plan Years in which the Plan is deemed to be a Top-Heavy Plan, Employer Contributions and allocations shall be subject to the requirements of Article Fourteen herein.

4.3 EMPLOYEE (AFTER-TAX) CONTRIBUTIONS

(a) Participants are not required to make any contribution under this Plan. However, if permitted by the provisions of Section 1.3(h), a Participant may, each Fiscal Year, voluntarily contribute to this Plan and to all other qualified plans of deferred compensation in which such individual is a Participant, an amount which does not exceed the amount provided for in Section 1.3(h). Further, all Employee Contributions will be limited so as to meet the nondiscrimination test of Section 401(m) of the Code. Employee Contributions may be made by payroll deduction or by other methods and at other intervals in accordance with rules established by the Committee. A Participant's contribution shall be transmitted to the Trustee by the Employer within sixty (60) days after the date on which the contribution was made. The Employer shall promptly notify the Committee of any amounts so paid by it to the Trustee.

(b) If nondeductible Employee Contributions were permitted prior to the year in which this Plan was adopted, then, either a separate account wi11 be maintained by the Trustee for the nondeductible Employee contributions of each Participant, or the Account Balance derived from nondeductible Employee contributions is the Employee's total Account Balance multiplied by a fraction, the numerator of which is the total amount of nondeductible Employee contributions less withdrawals and the denominator of which is the sum of the numerator and the total contributions made by the Employer on behalf of the Employee less withdrawals. For this purpose, contributions include contributed amounts used to provide ancillary benefits and withdrawals include only amounts distributed to the Employee and do not reflect the cost of any death benefits.

(c) A Participant may withdraw the Employee Contributions made by him at any time upon thirty (30) days' written notice to the Committee, which notice must be signed by the Participant's spouse in the presence of a Notary Public or a Plan representative.

(d) No forfeitures will occur solely as a result of an Employee's withdrawal of Employee contributions.

(e) If deductible Employee Contributions were permitted prior to the Plan Year in which this Plan was adopted, then, the Committee will not accept deductible Employee contributions which are made for a taxable year beginning after December 31, 1986. Contributions made prior to that date will be maintained in a separate account which will be nonforfeitable at all times. The account will share in the gains and losses of the Trust in the same manner as described in Section 4.17 of the Plan. No part of the deductible Employee Contribution account will be used to purchase life insurance. Subject to Section 12.2, Joint and Survivor Annuity requirements (if applicable), the Participant may withdraw any part of the deductible Employee Contribution account by making a written application to the Committee.

4.4 EMPLOYEE DEFERRAL ELECTION

(a) Each Plan Year a Participant shall be entitled to defer a portion of his Compensation (in an amount permitted under Section 4.4(d), below) and to have such deferred amount allocated to his Employee Deferral Account in the Plan by submitting a written election to the Committee (on forms provided by the Committee or the Employer) which designates the amount of Compensation to be deferred and which is signed by the Participant. No amount shall be deferred for any pay period in excess of the Participant's Compensation for services rendered while an active Participant. All deferrals under this Section shall constitute Employer Contributions to the Plan. Notwithstanding the above, in no event shall any Participant defer his Compensation in an amount which exceeds the amount permitted under Section 4.5 for any Plan Year.

(b) Except as otherwise permitted by the Administrative Committee, elections under Section 4.4(a) may only be made according to the options chosen in Section 1.3(d). If job positions are first covered by the Plan during the course of the Plan Year, the Administrative Committee may elect to apply the preceding sentence to affected Employees as if the first day on which their job positions are covered by the Plan was the first day of the Plan Year. An Employee who transfers into a position covered by the Plan shall be permitted to make a deferral election for the balance of the Plan Year in which the transfer occurs if and to the extent permitted under written personnel practices of the Employer covering the facility to which the individual transferred. Such practices shall be uniformly and consistently applied.

(c) An election made under Section 4.4(a) may be modified in accordance with the provisions of Article One, Section 1.3(b)(2). If an election is revoked while in effect during the Plan Year, no further deferrals shall be made for the balance of the Plan Year [unless otherwise noted in Section 1.3(b)(2)(iii)], effective as soon as administratively practicable after the Employer receives written notice of the revocation. A revocation shall not cause amounts which were deferred before the revocation became effective to become distributable. Any new deferral election made after a revocation shall become effective as of the first day of the immediately following Plan Year.

(d) Subject to Article One, each Plan Year a Participant shall be entitled to defer his Compensation in a stated dollar amount which complies with the percentage limitations above.

(e) All Participant elections under this Section shall be considered permanent and shall be effective in subsequent Plan Years unless otherwise stated in the Participant's written election to defer annual compensation.

4.5 Elective Deferrals-Contribution Limitation

No Participant shall be permitted to have Elective Deferrals made under this Plan, or any other qualified plan maintained by the Employer, during any taxable year, in excess of the dollar limitation contained in Section 402(g) of the Code in effect at the beginning of such taxable year.

4.6 DISTRIBUTION OF EXCESS ELECTIVE DEFERRALS

(a) A Participant may assign to this Plan any Excess Elective Deferrals made during a taxable year of the Participant by notifying the Plan Administrator on or before April 1st of the following year of the amount of the Excess Elective Deferrals to be assigned to the Plan.

Notwithstanding any other provisions of the Plan, Excess Elective Deferrals, plus any income and minus any loss allocable thereto, shall be distributed no later than April 15th to any Participant to whose account Excess Elective Deferrals were assigned for the preceding year and who claims Excess Elective Deferrals for such taxable year.

(b) Definitions:

(1) "Elective Deferrals" shall mean any Employer contributions made to the Plan at the election of the Participant, in lieu of cash compensation, and shall include contributions made pursuant to a salary reduction agreement or other deferral mechanism. With respect to any taxable year, a Participant's Elective Deferral is the sum of all Employer contributions made on behalf of such Participant pursuant to an election to defer under any qualified plan as described in Section 401(k) of the Code, any simplified employee pension cash or deferred arrangement as described in Section 402(h)(l)(B), any eligible deferred compensation plan under Section 457, any plan as described under Section 501(c)(18), and any Employer contributions made on the behalf of a Participant for the purchase of an annuity contract under Section 403(b) pursuant to a salary reduction agreement.

(2) "Excess Elective Deferrals" shall mean those Elective Deferrals that are includible in a Participant's gross income under Section 402(g) of the Code to the extent such Participant's Elective Deferrals for a taxable year exceed the dollar limitation under such Code Section. Excess Elective Deferrals shall be treated as Annual Additions under the Plan. Excess Elective Deferrals shall be adjusted for any income or loss up to the date of distribution. The income or loss allocable to Excess Elective Deferrals is the sum of: (1) income or loss allocable to the Participant's Elective Deferral Account for the taxable year multiplied by a fraction, the numerator of which is such Participant's Excess

Elective Deferrals for the year and the denominator is the Participant's Account Balance attributable to Elective Deferrals without regard to any income or loss occurring during such taxable year; and (2) ten percent of the amount determined under (1) multiplied by the number of whole calendar months between the end of the Participant's taxable year and the date of distribution, counting the month of distribution if distribution occurs after the 15th of such month.

4.7 ACTUAL DEFERRAL PERCENTAGE TEST

(a) The Actual Deferral Percentage (hereinafter "ADP") for Participants who are Highly Compensated Employees for each Plan Year and the Actual Deferral Percentage for Participants who are Non-highly Compensated Employees for the same Plan Year must satisfy one of the following tests:

(1) The Actual Deferral Percentage for Participants who are Highly Compensated Employees for the Plan Year shall not exceed the Actual Deferral Percentage for Participants who are Non-highly Compensated Employees for the same Plan Year multiplied by 1.25; or

(2) The Actual Deferral Percentage for Participants who are Highly Compensated Employees for the Plan Year shall not exceed the Actual Deferral Percentage for Participants who are Non-highly Compensated Employees for the same Plan Year multiplied by 2.0, provided that the Actual Deferral Percentage for Participants who are Highly Compensated Employees does not exceed the Actual Deferral Percentage for Participants who are Non-highly Compensated Employees by more than two (2) percentage points.

(b) Qualified Matching Contributions and Qualified Non-elective Contributions (if any) may be taken into account as Elective Deferrals for purposes of calculating the Actual Deferral Percentages under this Plan or any other plan of the Employer, as provided by regulations under the Code.

(c) The amount of Qualified Matching Contributions made and/or Qualified Non-elective Contributions made under Sections 4.11 or 4.14 of this Plan and taken into account as Elective Deferrals for purposes of calculating the Actual Deferral Percentage, subject to such other requirements as maybe prescribed by the Secretary of the Treasury, shall be that amount necessary to meet the Actual Deferral Percentage test stated in Section 4.7 of the Plan.

(d) Special Rules:

(1) The Actual Deferral Percentage for any Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to have Elective Deferrals (and Qualified

Non-elective Contributions or Qualified Matching Contributions, or both, if treated as Elective Deferrals for purposes of the Actual Deferral Percentage test) allocated to the Participant's accounts under two or more arrangements described in Section 401(k) of the Code, that are maintained by the Employer, shall be determined as if such Elective Deferrals (and, if applicable, such Qualified Non-elective Contributions or Qualified Matching Contributions, or both) were made under a single arrangement. If a Highly Compensated Employee participates in two or more cash or deferred arrangements that have different Plan Years, all cash or deferred arrangements ending with or within the same calendar year shall be treated as a single arrangement.

(2) In the event that this Plan satisfies the requirements of Sections 401(k), 401(a)(4), or 410(b) of the Code only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of such Sections of the Code only if aggregated with this Plan, then this Section shall be applied by determining the Actual Deferral Percentage of Employees as if all such plans were a single plan. For Plan Years beginning after December 31, 1989, plans may be aggregated in order to satisfy Section 401(k) of the Code only if they have the same Plan Year.

(i) For purposes of determining the Actual Deferral Percentage of a Participant who is a 5-percent owner or one of the ten most highly-paid Highly Compensated Employees, the Elective Deferrals (and Qualified Non-elective Contributions or Qualified Matching Contributions, or both, if treated as Elective Deferrals for purposes of the Actual Deferral Percentage test) and Compensation of such Participant shall include the Elective Deferrals (and, if applicable, Qualified Non-elective Contributions and Qualified Matching Contributions, or both) and Compensation for the Plan Year of Family Members (as defined in Section 414(q)(6) of the Code). Family Members, with respect to such Highly Compensated Employees, shall be disregarded as separate Employees in determining the Actual Deferral Percentage both for Participants who are Non-highly Compensated Employees and for Participants who are Highly Compensated Employees.

(ii) For purposes of determining the Actual Deferral Percentage test, Elective Deferrals, Qualified Non-elective Contributions and Qualified Matching Contributions must be made before the last day of the twelve-month period immediately following the Plan Year to which contributions relate.

(iii) The Employer shall maintain records sufficient to demonstrate satisfaction of the Actual Deferral Percentage test and the amount of Qualified Non-elective Contributions or Qualified Matching Contributions, or both, used in such test.

(iv) The determination and treatment of the Actual Deferral Percentage amounts of any Participant shall satisfy such other requirements as may be prescribed by the Secretary of the Treasury.

(v) Section 4.12(b) Multiple Use of Alternative Limitation and Correction of Multiple Use shall apply at the discretion of the Plan Administrator.

(e) Definitions:

(1) "Actual Deferral Percentage" shall mean, for a specified group of Participants for a Plan Year, the average of the ratios (calculated separately for each Participant in such group) of (1) the amount of Employer contributions actually paid over to the Trust on behalf of such Participant for the Plan Year to (2) the Participant's Compensation for such Plan Year (whether or not the Employee was a Participant for the entire Plan Year). Employer contributions on behalf of any Participant shall include: (1) any Elective Deferrals made pursuant to the Participant's deferral election, including Excess Elective Deferrals, but excluding Elective Deferrals that are taken into account in the Contribution Percentage test (provided the Actual Deferral Percentage test is satisfied both with and without exclusion of these Elective Deferrals); and (2) at the election of the Employer, Qualified Non-elective Contributions and Qualified Matching Contributions. For purposes of computing Actual Deferral Percentages, an Employee who would be a Participant but for the failure to make Elective Deferrals shall be treated as a Participant on whose behalf no Elective Deferrals are made.

4.8 DISTRIBUTION OF EXCESS CONTRIBUTIONS

(a) Notwithstanding any other provision of this Plan, Excess Contributions, plus any income and minus any loss allocable thereto, shall be distributed no later than the last day of each Plan Year to Participants to whose accounts such Excess Contributions were allocated for the preceding Plan Year. If such excess amounts are distributed more than 2-1/2 months after the last day of the Plan Year in which such excess amounts arose, a ten (10) percent excise tax will be imposed on the Employer maintaining the Plan with respect to such excess contribution. Such distributions shall be made to Highly Compensated Employees on the basis of the respective portions of the Excess Contributions attributable to each of such Employees. Excess Contributions shall be allocated to Participants who are subject to the family member

aggregation rules of Section 414(q)(6) of the Code in the manner prescribed by the regulations.

(b) Excess Contributions (including the amounts recharacterized) shall be treated as Annual Additions under the Plan. Excess Contributions shall be adjusted for any income or loss up to the date of distribution. The income or loss allocable to Excess Contributions is the sum of: (1) income or loss allocable to the Participant's Elective Deferral account (and, if applicable, the Qualified Non-elective Contribution Account or the Qualified Matching Contributions Account or both) for the Plan Year multiplied by a fraction, the numerator of which is such Participant's Excess Contributions for the year and the denominator is the Participant's account balance attributable to Elective Deferrals (and Qualified Non-Elective Contributions or Qualified Matching Contributions, or both, if any of such contributions are included in the Actual Deferral Percentage test) without regard to any income or loss occurring during such Plan Year; and (2) ten percent of the amount determined under (1) multiplied by the number of whole calendar months between the end of the Plan Year and the date of distribution, counting the month of distribution if distribution occurs after the 15th of such month.

(c) Accounting for Excess Contributions: Excess Contributions shall be distributed from the Participant's Elective Deferral Account and Qualified Hatching Contribution Account (if applicable) in proportion to the Participant's Elective Deferrals and Qualified Hatching Contributions (to the extent used in the Actual Deferral Percentage test) for the Plan Year. Excess Contributions shall be distributed from the Participant's Qualified Non-elective Contribution Account only to the extent that such Excess Contributions exceed the balance in the Participant's Elective Deferral Account and Qualified Matching Contribution Account.

(d) Definition:

"Excess Contributions" shall mean, with respect to any Plan Year, the excess of:

(i) The aggregate amount of Employer contributions actually taken into account in computing the Actual Deferral Percentage of Highly Compensated Employees for such Plan Year, over

(ii) The maximum amount of such contributions permitted by the Actual Deferral Percentage test (determined by reducing contributions made on behalf of Highly Compensated Employees in order of the Actual Deferral Percentages, beginning with the highest of such percentages).

4.9 RECHARACTERIZATION

(a) A Participant may treat his or her Excess Contributions as an after-tax contribution to the Plan. Recharacterized amounts will

remain nonforfeitable and subject to the same distribution requirements as Elective Deferrals. Subject to the option chosen in Section 1.3(e), amounts may not be recharacterized by a Highly Compensated Employee to the extent that such amount in combination with other Employee Contributions made by that Employee would exceed any stated limit under the Plan on Employee Contributions.

(b) Recharacterization must occur no later than two and one-half months after the last day of the Plan Year in which such Excess Contributions arose and is deemed to occur no earlier than the date the last Highly Compensated Employee is informed in writing of the amount recharacterized and the consequences thereof. Recharacterized amounts will be taxable to the Participant for the Participant's tax year in which the Participant would have received them in cash.

4.10 EMPLOYER MATCHING CONTRIBUTIONS

If elected by the Employer in the Plan, the Employer may make Matching Contributions to the Plan. Matching Contributions shall be vested in accordance with Section 1.4(b) of the Plan. In any event, Matching Contributions shall be fully vested at Normal Retirement Age, death, Total Disability, upon the complete or partial termination of the Plan, or upon the complete discontinuance of Employer contributions.

Forfeitures of Matching Contributions, other than Excess Aggregate Contributions, shall be made in accordance with Section 1.3(c)(5).

4.11 QUALIFIED MATCHING CONTRIBUTIONS

(a) The Matching Contribution, if any, made by the Employer according to Section 1.3(c)(l) and Section 4.10 above, may (at the direction of the Plan Administrator) become a Qualified Matching Contribution in part or in whole in the event that the Plan fails to meet the Code Section 401(k) nondiscrimination tests as described in Section 4.12 of the Plan or the Employer may elect to make an additional contribution as a Qualified Matching Contribution based on a discretionary percentage, subject to the limitations of Section 4.12 and Code Section 401(m) and corresponding regulations.

(b) Definition:

"Qualified Matching Contributions" shall mean Matching Contributions which are subject to the distribution and nonforfeitability requirements under Section 401(k)(2)(B)(ii) of the Code when made.

4.12 LIMITATIONS ON EMPLOYEE CONTRIBUTIONS AND MATCHING CONTRIBUTIONS (effective for Plan Years beginning on or after January 1,1987)

(a) The Average Contribution Percentage for Participants who are Highly Compensated Employees for each Plan Year and the Average Contribution Percentage for Participants who are Non-highly

Compensated Employees for the same Plan Year must satisfy one of the following tests:

(1) The Average Contribution Percentage for Participants who are Highly Compensated Employees for the Plan Year shall not exceed the Average Contribution Percentage for Participants who are Non-highly Compensated Employees for the same Plan Year multiplied by 1.25; or

(2) The Average Contribution Percentage for Participants who are Highly Compensated Employees for the Plan Year shall not exceed the Average Contribution Percentage for Participants who are Non-highly Compensated Employees for the same Plan Year multiplied by two (2), provided that the Average Contribution Percentage for Participants who are Highly Compensated Employees does not exceed the Average Contribution Percentage for Participants who are Non-highly Compensated Employees by more than two (2) percentage points.

(b) Special Rules:

(1) Multiple Use of Alternative Limitation and Correction of Multiple Use:

(i) There is a Multiple Use of the Alternative Limitation, if one or more Highly Compensated Employees participate in both a cash or deferred arrangement and a plan subject to the Average Contribution Percentage test maintained by the Employer and the sum of Actual Deferral Percentage and Average Contribution Percentage of those Highly Compensated Employees subject to either or both tests exceeds the Aggregate Limit. The amount by which each Highly Compensated Employee's Contribution Percentage Amounts is reduced shall be treated as an Excess Aggregate Contribution. The Actual Deferral Percentage and Average Contribution Percentage of the Highly Compensated Employees are determined after any corrections required to meet the Actual Deferral Percentage and Average Contribution Percentage tests. Multiple use does not occur if either the Actual Deferral Percentage or the Average Contribution Percentage of the Highly Compensated Employees does not exceed 1.25 multiplied by the Actual Deferral Percentage or the Average Contribution Percentage of the Non-highly Compensated Employees, respectively.

(ii) A Multiple Use shall be corrected by reducing the Actual Deferral Percentage of the entire group of Highly Compensated Employees eligible for the cash or deferred arrangement in the manner described in Regulation Section 1.401(k)-l(f)(1)(ii) [Regulation Section 1.401(k)-1(f)(2)] and/or by reducing the actual contribution

percentage of the entire group of Highly Compensated Employees eligible to make Employee Contributions in the manner described in Regulation Section 1.401(m)-1(e)(2), as described in Section 4.5, so that there is no Multiple Use of the Alternative Limitation. The Employer may elect to reduce the Actual Deferral Ratios and/or the Actual Contribution Ratios, either for all Highly Compensated Employees under this Plan and/or the cash or deferred arrangement subject to the reduction or for only those Highly Compensated Employees who are eligible in both this Plan and the Code Section 401(k) cash or deferred arrangement.

(iii) The required reduction for correction for Multiple Use shall be treated as an excess contribution or excess aggregate contribution under this Plan.

(2) For purposes of this Section, the Contribution Percentage for any Participant who is a Highly Compensated Employee and who is eligible to have Contribution Percentage Amounts allocated to his or her account under two or more plans described in Section 401(a) of the Code, or arrangements described in Section 401(k) of the Code that are maintained by the Employer, shall be determined as if the total of such Contribution Percentage Amounts was made under each plan. If a Highly Compensated Employee participates in two or more cash or deferred arrangements that have different plan years, all cash or deferred arrangements ending with or within the same calendar year shall be treated as a single arrangement.

(3) In the event that this Plan satisfies the requirements of Sections 401(m), 401(a)(4) or 410(b) of the Code only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of such Sections of the Code only if aggregated with this Plan, then this Section shall be applied by determining the Contribution Percentage of Employees as if all such plans were a single plan. For plan years beginning after December 31, 1989, plans may be aggregated in order to satisfy Section 401(m) of the Code only if they have the same plan year.

(4) For purposes of determining the Contribution Percentage of a Participant who is a five-percent owner or one of the ten most highly-paid Highly Compensated Employees, and is thereby subject to the family aggregation rules of Code Section 414(q)(6), the Contribution Percentage Amounts for the family group (which is treated as one Highly Compensated Employee) is the greater of (1) the Contribution Percentage determined by combining the contributions and Compensation of all eligible family members who are highly compensated without regard to family aggregation, and the Contribution Percentage Amounts determined by combining the contributions and compensation of all eligible family members. Except to the extent taken into

account in the preceding sentence, the contributions and compensation of all family members are disregarded in determining the Contribution Percentage for the groups of Highly Compensated Employees and Non-highly Compensated Employees.

(5) For purposes of determining the Contribution Percentage test, Employee Contributions are considered to have been made in the Plan Year in which contributed to the Trust. Matching Contributions and Qualified Non-elective Contributions will be considered made for a Plan Year if made no later than the end of the twelve-month period beginning on the day after the close of the Plan Year.

(6) The Employer shall maintain records sufficient to demonstrate satisfaction of the Average Contribution Percentage test and the amount of qualified Non-elective Contributions or Qualified Matching Contributions, or both, used in such test.

(7) The determination and treatment of the Contribution Percentage of any Participant shall satisfy such other requirements as may be prescribed by the Secretary of the Treasury.

(8) In the event that the contribution of a full Matching Contribution would cause the Plan to fail the Contribution Percentage test, or the multiple use test the Matching Contribution may be reduced in a manner which would permit the Plan to satisfy the nondiscrimination requirements of this Section 4.12.

(c) Definitions:

(1) "Aggregate Limit" shall mean the greater of:

(A) the sum of: (i) 1.25 times the greater of the Relevant Actual Deferral Percentage of the non-highly compensated or the Relevant, Average Contribution Percentage of the non-highly compensated, and (ii) two percentage points plus the lesser of the Relevant Actual Deferral Percentage or the Relevant Actual Contribution Percentage. In no event, however, shall this amount exceed twice the lesser of the Relevant Actual Deferral Percentage or the Relevant Actual Contribution Percentage; or

(B) the sum of: (i) 1.25 times the lesser of the Relevant Actual Deferral Percentage or the Relevant Actual Contribution Percentage, and (ii) two percentage points plus the greater of the Relevant Actual Deferral Percentage or the Relevant Actual Contribution Percentage. In no event, however, shall this amount exceed twice the greater of the Relevant Actual

Deferral Percentage or the Relevant Actual Contribution Percentage.

(2) "Alternative Limitation" shall mean the alternative methods of compliance with Code Sections 401(k) and (m) contained in Code Sections 401(k)(3)(A)(ii)(I) and 401(m)(2)(ii) respectively.

(3) "Average Contribution Percentage" shall mean the average of the Contribution Percentages of the Eligible Participants in a group.

(4) "Compensation" for purposes of Code Section 401(m) and the determination of Excess Aggregate Contributions shall mean compensation, other than qualified or previously qualified deferred compensation, that is currently includible in gross income; and, for a Self-Employed Individual, as earned income (within the meaning of Code Section 401(c)(1) derived from the individual's trade or business. The Employer may elect to include in this definition elective deferrals provided this election is made on a uniform and consistent basis with respect to all Employees and all plans of the Employer.

Notwithstanding the foregoing, the Employer may elect to define "Compensation" in an alternative manner by using the definition of compensation provided in Code Section 414(s) provided this election is made on a uniform and consistent basis with respect to all Employees and all plans of the Employer.

(5) "Contribution Percentage" shall mean the ratio (expressed as a percentage) of the Participant's Contribution Percentage Amounts to the Participant's Compensation for the Plan Year (whether or not the Employee was a Participant for the entire Plan Year).

(6) "Contribution Percentage Amounts" shall mean the Employee Contributions, Matching Contributions, Qualified Matching Contributions (to the extent not taken into account for purposes of the ADP test), Qualified Non-elective Contributions and Elective Deferrals (as long as the ADP test is met before the Elective Deferral are used in the ACP test and continues to be met following the exclusion of those Elective Deferrals that are used to meet the ACP test) made under the Plan on behalf of the Participant for the Plan Year. Such Contribution Percentage Amounts shall include forfeitures of Excess Aggregate Contributions or Matching Contributions allocated to the Participant's account which shall be taken into account in the year in which such forfeiture is allocated.

(7) "Eligible Participant" shall mean any Employee who is eligible to make an Employee Contribution, or an Elective Deferral (if the Employer takes such contributions into account in the

calculation of the Contribution Percentage), or to receive a Matching Contribution (including forfeitures) or a Qualified Matching Contribution. If an Employee Contribution is required as a condition of participation in the Plan, any Employee who would be a Participant in the Plan if such Employee made such a contribution shall be treated as an eligible Participant on behalf of whom no Employee Contributions are made.

(8) "Employee Contribution" shall mean any contribution made to the Plan by or on behalf of a Participant that is included in the Participant's gross income in the year in which made and that is maintained under a separate account to which earnings and losses are allocated.

(9) "Matching Contribution" shall mean an Employer Contribution made to this or any other defined contribution plan on behalf of a Participant on account of an Employee Contribution made by such Participant, or on account of a Participant's elective deferral, under a cash or deferred plan maintained by the Employer.

(10) "Relevant Actual Deferral Percentage And Relevant Actual Contribution Percentage" shall mean the Actual Deferral Percentage of the group of Non-Highly Compensated Employees eligible under the cash or deferred arrangement subject to Code Section 401(k) for the Plan Year, and/or the Actual Contribution Percentage of the group of Non-Highly compensated Employees eligible under the plan subject to Code Section 401(m) for the Plan Year beginning with or within the Plan Year of the cash or deferred arrangement subject to Code Section 401(k).

4.13 DETERMINATION OF EXCESS AGGREGATE CONTRIBUTIONS

(a) In computing the Average Contribution Percentage, the Employer shall take into account, and include as Contribution Percentage Amounts, Qualified Non-elective Contributions under this Plan or any other plan of the Employer, as provided by regulations.

(b) The amount of Qualified Non-elective Contributions that are made under Section 4.14 of this Plan and taken into account as Contribution Percentage Amounts for purposes of calculating the Average Contribution Percentage, subject to such other requirements as may be prescribed by the Secretary of the Treasury, shall be such Qualified Non-elective Contributions that are needed to meet the Average Contribution Percentage test stated in Section 4.12(a) of the Plan.

(c) The amount of Elective Deferrals made under Section 4.4(a) of the Plan and taken into account as Contribution Percentage Amounts for purposes of calculating the Average Contribution Percentage, subject to such other requirements as may be prescribed by the

Secretary of the Treasury, shall be all Elective Deferrals available after satisfying the Actual Deferral Percentage test or such Elective Deferrals that are needed to meet the Average Contribution Percentage test stated in Section 4.12(a) of the Plan and/or the 1.25 rule or a combination of the foregoing.

(d) By written election of the Employer, Forfeitures of Excess Aggregate Contributions shall either be applied to reduce Employer contributions or allocated, after all other forfeitures under the Plan to each Participant's Matching Contribution Account in the ratio which each Participant's Compensation for the Plan Year bears to the total Compensation of all Participants for such Plan Year.

(e) The amount of excess aggregate contributions for a Highly Compensated Employee under the Plan shall be subject to the requirements of Code Section 401(m) and shall be determined in the following manner:

(i) First, the actual contribution ratio of the of the Highly Compensated Employee with the highest actual contribution ratio is reduced to the extent necessary to satisfy the actual contribution percentage test or cause such ratio to equal the actual contribution ratio of the Highly Compensated Employee with the next highest ratio.

(ii) Second, this process shall be repeated until the actual contribution percentage test is satisfied. The amount of excess aggregate contributions for a Highly Compensated Employee is then equal to the total of the Employee Contributions, and other contributions taken into account for the actual contribution percentage test minus the product of the Employee's contribution ratio as determined above the Employee's Compensation.

(f) In the case of a Highly Compensated Employee whose actual contribution ratio is determined under the family aggregation rules, the determination of the amount of excess aggregate contribution shall be made as follows:

(i) If the Highly Compensated Employee's actual contribution ratio is determined by combining the contributions and Compensation of all family members, then the actual contribution ratio is reduced in accordance with the "leveling" method described in Section 4.5(e) and the excess aggregate contributions for the family unit are allocated among the family member in proportion to the contribution of each family member that have been combined.

(ii) If the Highly Compensated Employee's actual contribution ratio is determined by combining the contribution and compensation of only those family members who are highly compensated without regard to family aggregation, then the actual contribution ratio is reduced in accordance with the

"leveling" method but not below the actual contribution ratio of eligible non-highly compensated family members. Excess aggregate contributions are determined by taking into account the contributions of the eligible family members who are highly compensated without regard to family aggregation and are allocated among such members in proportion to their contributions. If further reduction of the actual contribution ratio is required, excess aggregate contributions resulting from this reduction are determined by taking into account the contributions of all eligible family members and are allocated among such family members in proportion to their contributions.

(g) Notwithstanding any other provision of this Plan, Excess Aggregate Contributions, plus any income and minus any loss allocable thereto, shall be forfeited, if forfeitable. Or if not forfeitable, shall be distributed no later than the last day of each Plan Year to Participants to whose accounts such Excess Aggregate Contributions were allocated for the preceding Plan Year. Excess Aggregate Contributions shall be allocated to Participants who are subject to the family member aggregation rules of Section 414(q)(6) of the Code in the manner prescribed by the Regulations. If such Excess Aggregate Contributions are distributed more than 2-1/2 months after the last day of the Plan Year in which such excess amounts arose, a ten (10) percent excise tax will be imposed on the Employer maintaining the Plan with respect to those amounts. Excess Aggregate Contributions shall be treated as Annual Additions under the Plan. Furthermore, the distribution (or forfeiture, if applicable) of excess aggregate contributions shall be made on the basis of the respective portions of such amounts attributable to each Highly Compensated Employee.

(h) Determination of Income or Loss: Excess Aggregate Contributions shall be adjusted for any income or loss up to the date of distribution. The income or loss allocable to Excess Aggregate Contributions is the sum of: (1) income or loss allocable to the Participant's Employee Contribution account, Matching Contribution account (if any, and if all amounts therein are not used in the Actual Deferral Percentage test) and, if applicable, Qualified Non-elective Contribution account and Elective Deferral account of the Plan Year multiplied by a fraction, the numerator of which is such Participant's Excess Aggregate Contributions for the year and the denominator is the Participant's account balance(s) attributable to Contribution Percentage Amounts without regard to any income or loss occurring during such Plan Year; and (2) ten percent of the amount determined under (1) multiplied by the number of whole calendar months between the end of the Plan Year and the date of distribution, counting the month of distribution if distribution occurs after the 15th of such month.

(i) Forfeitures of Excess Aggregate Contributions: Forfeitures of Excess Aggregate Contributions may either be reallocated to the accounts of Employees or applied to reduce Employer contributions.

(j) Accounting for Excess Aggregate Contributions: Excess Aggregate Contributions shall be forfeited, if forfeitable or distributed on a pro rata basis from the Participant's Employee Contribution Account, Matching Contribution Account, and Qualified Matching Contribution Account (and, if applicable, the Participant's Qualified Non-elected Contribution Account or Elective Deferral Account, or both).

(k) Definitions:

"Excess Aggregate Contributions" shall mean, with respect to any Plan Year, the excess of:

(i) The aggregate Contribution Percentage Amounts taken into account in computing the numerator of the Contribution Percentage actually made on behalf of Highly Compensated Employees for such Plan Year, over

(ii) The maximum Contribution Percentage Amounts permitted by the Average Contribution Percentage test (determined by reducing contributions made on behalf of Highly Compensated Employees in order of their Contribution Percentages beginning with the highest of such percentages).

4.14 QUALIFIED NON-ELECTIVE CONTRIBUTIONS

(a) The Non-elective Contribution, if any, made by the Employer according to Section 1.3(d) above, may (at the direction of the Plan Administrator) become a Qualified Non-elective Contribution in part or in whole.

(b) In addition, in lieu of distributing Excess Contributions as provided in Section 4.8(a) of the Plan, or Excess Aggregate Contributions as provided in Section 4.13(a) of the Plan, and to the extent elected by the Employer in the Plan, the Employer may make Qualified Non-elective Contributions on behalf of Non-highly Compensated Employees that are sufficient to satisfy either the Actual Deferral Percentage test or the Average Contribution Percentage Test, or both, pursuant to regulations under the Code.

(c) Definition: "Qualified Non-elective Contributions" shall mean contributions (other than Matching Contributions or Qualified Matching Contributions) made by the Employer and allocated to Participants' accounts that the Participants may not elect to receive in cash until distributed from the Plan; that are nonforfeitable when made; and that are distributable only in accordance with the distribution provisions that are applicable to Elective Deferrals and Qualified Matching Contributions.

4.15 NONFORFEITABILITY AND VESTING

The Participant's account balance derived from Elective Deferrals, Qualified Non-elective Contributions, Employee Contributions, and

Qualified Matching Contributions is nonforfeitable. Separate accounts for Elective Deferrals, Qualified Non-elective Contributions, Employee Contributions, Matching Contributions, and Qualified Matching Contributions will be maintained for each Participant. Each account will be credited with the applicable contributions and earnings thereon.

4.16 DISTRIBUTION REQUIREMENTS

(a) Elective Deferrals, Qualified Non-elective Contributions, and Qualified Matching Contributions, and income allocable to each are not distributable to a Participant or his or her Beneficiary or Beneficiaries, in accordance with such Participant's or Beneficiary or Beneficiaries election, earlier than upon separation from service, death, or Total Disability.

(b) Such amounts may also be distributed upon:

(1) Termination of the Plan without the establishment of another defined contribution plan.

(2) The disposition by a corporation to an unrelated corporation of substantially all of the assets (within the meaning of Section 409(d)(2) of the Code) used in a trade or business of such corporation if such corporation continues to maintain this Plan after the disposition, but only with respect to Employees who continue employment with the corporation acquiring such assets.

(3) The disposition by a corporation to an unrelated entity of such corporation's interest in a subsidiary (within the meaning of Section 409(d)(3) of the Code) if such corporation continues to maintain this Plan, but only with respect to Employees who continue employment with such subsidiary.

(4) The attainment of age 59-1/2.

(5) The hardship of the Participant as described in Section 11.9.

(c) All distributions that may be made pursuant to one or more of the forgoing distributable events are subject to the Spousal and Participant consent requirements (if applicable) contained in Sections 401(a)(11) and 417 of the Code.

4.17 PARTICIPANTS' ACCOUNTS

(a) The Committee shall open and maintain a Employer Contribution Account and, if applicable, an Employer Matching Account for each Participant to which it shall credit the proper allocated share of the annual contributions made to the Trust by the Employer (not including contributions pursuant to Section 4.2(a), herein,) and the earnings, losses, increases or decreases of the total Trust Fund as herein provided.

(b) The Committee shall open and maintain a separate and distinct Employee Contribution Account for each Participant to which it shall credit the amount of the contributions made to the Trust by the Participant and the earnings, losses, increases or decreases thereon. The value of the Participant's Employee Contribution Account shall be entirely nonforfeitable.

(c) The Committee shall open and maintain a separate and distinct Employee Deferral Account for each Participant to which it shall credit amounts equal to the Compensation deferred by the Participant pursuant to Section 4.2(a), and the earnings, losses, increases or decreases therein. The value of the Participant's Employee Deferral Account shall be entirely nonforfeitable.

(d) The maintenance of individual accounts is only for accounting purposes and, unless otherwise specifically provided herein or in the Trust Agreement, a segregation of the assets of the Trust Fund to each account shall not be required. The allocations, credits and notifications shall not vest in any Participant any right, title or interest in the Trust, except at the time or times and upon the terms and conditions herein provided.

(e) If the Plan permits Participant directed accounts in Section 1.6(a), each Participant will direct the Trustee(s) as to the type of investment to be purchased with the Participant's account. The Trustee(s) may decline to implement participant instructions which would generate income that would be taxable to the Plan. The Trustee(s) may charge a Participant's Account for the reasonable expenses of carrying out the Participant's instructions. Otherwise, each Employee will have a ratable interest in all assets of the Trust. To the extent that the Participant directs the investment of his Account(s), the Plan Administrator shall not have any fiduciary responsibility with respect to such investments.

In the event that the Plan permits Participants to direct the investment of their Accounts in some limited fashion (i.e. Plan Administrator offers a selection of four investment funds in which Participants may determine what percentage of their Account(s) shall be invested in each of the four investments), such limited investment direction shall not release the Plan Administrator or other Plan Fiduciary from liability or responsibility for such investments.

4.18 ALLOCAT1ONS TO PARTICIPANTS' ACCOUNTS

(a) Employer Contributions under Section 4.2(a) shall be allocated to the respective Deferred Income Accounts in an amount equal to Participant deferrals under Section 4.4(a), credited with Trust Fund gains, losses, increases or decreases therein. Allocations shall not be dependent upon participation in the Plan as of any date subsequent to the date of allocation.

(b) Employer Contributions and other amounts described in Section 4.2(b) for each Plan Year shall be allocated to the Employer Contribution Account and, if applicable, the Employer Matching Account of each Participant who is eligible to receive a contribution under Section 1.3. The Employer Contribution shall be allocated as provided for in Section 1.3 or Section 4.18(c).

Notwithstanding the foregoing or any provisions in Article One or this Plan to the contrary, if the Plan would fail to meet the coverage requirements under Code Section 410(b) for the Plan Year and the correction procedures described in Section 1.3 of Article One shall be implemented in regard to Matching or Non-elective contributions, then the following rules shall apply in operation of this section:

(1) The specific Non-Highly Compensated Participants who shall become eligible under the terms of the last paragraph of Section 1.3(c)(4) and/or Section 1.3(d)(3)(ii) shall be those who are actively employed on the last day of the Plan Year.

(2) If after application of paragraph (1) above, Code Section 410(b) is still not satisfied, then the group of Participants eligible to share in the Employer's contribution and Forfeitures for the Plan Year shall be further expanded to include the minimum number of Non-Highly Compensated Participants who are not actively employed on the last day of the Plan Year.

(c) If the Employer has chosen to allow permitted disparity in the Plan (i.e. integrate the Plan) as specified in Section 1.3(d), Employer Contributions for the Plan Year will be allocated to Participants' accounts as follows:

STEP ONE: Contributions and forfeitures will be allocated to each Participant's account in the ratio that the sum of each Participant's total Compensation bears to all Participants' total Compensation, but not in excess of 3% of each Participant's Compensation.

STEP TWO: Any contributions and forfeitures remaining after the allocation in Step One will be allocated to each Participant's Account in the ratio that each Participant's Compensation for the Plan Year in excess of the integration level bears to the excess Compensation of all Participants, but not in excess of 3%.

STEP THREE: Any contributions and forfeitures remaining after the allocation in Step Two will be allocated to each Participant's Account in the ratio that the sum of each Participant's total Compensation and Compensation in excess of the Integration Level bears to the sum of all Participants total Compensation and Compensation in excess of the Integration Level, but not in excess of the maximum profit sharing disparity rate.

STEP FOUR: Any remaining Employer Contributions or forfeitures will be allocated to each Participant's account in the ratio that each Participant's total Compensation for that year bears to all Participants' total Compensation for that year.

The integration level shall be equal to the taxable wage base or such lesser amount elected by the Employer in Section 1.3(d). The taxable wage base ("TWB") is the maximum amount of earnings which may be considered wages for a year under Section 3121 (a)(1) of the Code in effect as of the beginning of the Plan Year.

Compensation shall mean Compensation as defined in Section 2.9 of the Plan.

The maximum profit sharing disparity rate is equal to the lesser of:

(1) 2.7%; or

(2) the applicable percentage determined in accordance with the table below -

If the Integration Level:

is more than	but not more than	the applicable percentage is:
$0	X*	2.7%
X* of TWB	80% of TWB	1.3%
80% of TWB	Y**	2.4%

*X = the greater of $10,000 or 20 percent of the TWB.

**Y = any amount more than 80% of the TWB but less than 100% of the TWB.

If the Integration Level used is equal to the taxable wage base, the applicable percentage is 2.7%.

If the Plan is Top-heavy for any Plan Year, Employer Contributions for the Plan Year plus any forfeitures must be allocated to Participants' accounts so that each Participant receives the percentage of Compensation as indicated in Section 1.3(d) or the highest percentage allocated to a Key Employee, if less.

For Plan Years in which the Plan is not Top-Heavy, Step One and Step Two above shall not apply and the applicable percentage shown above as the maximum profit-sharing disparity rate shall be increased by 3% (e.g. the applicable percentage for an integration

level equal to the taxable wage base shall be 5.7%, instead of 2.7%).

In the event that the Employer sponsors more than one plan which involves permitted disparity (integration), then the maximum disparity allowance shall not exceed one hundred percent (100%). In the alternative an Employer may elect to only allow permitted disparity in one of the plans sponsored by such Employer.

(d) As of each allocation date, the Committee shall determine the fair market value of the net Trust Fund assets, excluding the Employer's contribution due to the Trustee as of that date and any amounts which are distributable to Participants whose participation has terminated on or before such allocation date. Any increase or decrease in the fair market value of such assets as of the preceding allocation date shall be allocated to the Participant's Account(s) of each Employee who is a party-in-interest on such allocation date. The Employer and the Committee do not to any extent warrant or represent that the value of a Participant's Account at any time will equal the amount previously allocated thereto.

(e) The Participant's Account(s) of a Participant whose participation is terminated on other than an allocation date shall be valued as provided for in Section 1.5(g). The percentage thus determined shall be applied to the Accounts of all Participants who terminate following the selected valuation date and before the next valuation date.

(f) Subject to Sections 1.3(c)(8) and 1.3(d)(5), all amounts held by the Trustee representing the forfeited interest of a former Participant shall be retained in the Trust Fund and allocated in accordance with Sections 1.3(c)(6) and 1.3(d)(4) hereof. Such allocation of the forfeited interest shall be made on the allocation date following the date that such nonvested interest is forfeited. A nonvested interest shall be forfeited (become a Forfeiture) for purposes of this Section 4.18(f) on one of the following dates: (1) the date upon which the Participant terminates employment; (2) the date upon which a terminated Participant incurs a one-year Break in Service; (3) the date upon which a terminated Participant incurs five consecutive one-year Breaks in Service; or (4) the Anniversary Date following or coincident with the date upon which the Participant terminates employment. In the event that the former Participant is rehired by the Employer and makes repayment in accordance with Section 11.11, the forfeited amount shall be restored to such Participant's Account from current Forfeitures or from contributions by the Employer.

(g) If through mistake a Participant either receives an allocation or does not receive an allocation, the mistake shall be rectified upon the next allocation following the discovery of the mistake. If an allocation was not made, the Participant's account shall receive an allocation which shall include the amount which should have been

allocated plus an amount which will make the Participant's account whole. If an allocation was made in an amount which exceeds the amount which should have been made, the Participant's account will be reduced by the appropriate amount.

4.19 LIMITATIONS OF BENEFITS AND CONTRIBUTIONS

(a) If the Participant does not participate in, and has never participated in another qualified plan maintained by the Employer or a welfare benefit fund, as defined in Section 419(e) of the Code maintained by the Employer, or an individual medical account, as defined in Section 415(l)(2) of the Code, maintained by the Employer, which provides an annual addition as defined in Section 2.5, the amount of Annual Additions which may be credited to the Participant's account for any Limitation Year will not exceed the lesser of the maximum permissible amount or any other limitation contained in this Plan. If the Employer contribution that would otherwise be contributed or allocated to the Participant's account would cause the Annual Additions for the Limitation Year to exceed the maximum permissible amount, the amount contributed or allocated will be reduced so that the Annual Additions for the Limitation Year will equal the maximum permissible amount.

(b) Prior to determining the Participant's actual 415 Compensation for the Limitation Year, the Employer may determine the maximum permissible amount for a Participant on the basis of a reasonable estimation of the Participant's 415 Compensation for the Limitation Year, uniformly determined for all Participants similarly situated.

(c) As soon as is administratively feasible after the end of the Limitation Year, the maximum permissible amount for the Limitation Year wi11 be determined on the basis of the Participant's actual 415 Compensation for the Limitation Year.

(d) If pursuant to Section 4.19(c) or as a result of the allocation of forfeitures, there is an excess Annual Addition amount, the excess will be disposed of as follows:

(1) Any nondeductible voluntary Employee contributions, to the extent they would reduce the excess amount, will be returned to the Participant;

(2) If after the application of Section 4.19(d)(1) an excess amount still exists, and the Participant is covered by the Plan at the end of the Limitation Year: (i) Employee Deferrals relating to the present Plan Year shall be returned within a one year period following the relevant Plan Year end; and/or (ii) the excess Annual Addition amount in the Participant's account will be used to reduce Employer Contributions (including any allocation of forfeitures) for such Participant in the next Limitation Year, and each succeeding Limitation Year if necessary.

(3) If after the application of Section 4.19(d)(l) an excess amount still exists, and the Participant is not covered by the Plan at the end of a Limitation Year, the excess amount will be held unallocated in a suspense account. The suspense account will be applied to reduce future Employer Contributions (including allocation of any forfeitures) for all remaining Participants in the next Limitation Year, and each succeeding Limitation Year if necessary;

(4) If a suspense account is in existence at any time during a Limitation Year pursuant to this Section, the suspense account will not participate in the allocation of the Trust's investment gains and losses. If a suspense account is in existence at any time during a particular Limitation Year, all amounts in the suspense account must be allocated and reallocated to Participants' accounts before any Employer Contributions or any Employee contributions may be made to the Plan for that Limitation Year. Excess amounts may not be distributed to Participants or former Participants.

(e) This Section applies, if in addition to this Plan, the Participant is covered under another qualified defined contribution plan maintained by the Employer, a welfare benefit fund, as defined in Section 419(e) of the Code maintained by the Employer, or an individual medical account, as defined in Section 415(l)(2) of the Code, maintained by the Employer, which provides an annual addition as defined in Section 2.5, during any Limitation Year. The Annual Additions which may be credited to a Participant's account under this Plan for any such Limitation Year will not exceed the maximum permissible amount reduced by the Annual Additions credited to a Participant's account under the other plans and welfare benefit funds for the same Limitation Year. If the Annual Addition exceeds the maximum permissible amount, the annual addition will be limited in accordance with Sections 4.19(i) through 4.19(k).

(f) The Annual Addition to a Participant's Account shall be automatically frozen to preclude the possibility that the limitations imposed by Section 415(c) of the Code are exceeded.

(g) Prior to determining the Participant's actual 415 Compensation for the Limitation Year, the Employer may determine the maximum permissible amount for a Participant in the manner described in Section 4.19(b).

(h) As soon as is administratively feasible after the end of the Limitation Year, the maximum permissible amount for the Limitation Year wi11 be determined on the basis of the Participant's actual 415 Compensation for the Limitation Year.

(i) If, pursuant to Section 4.19(h) or as a result of the allocation of forfeitures, a Participant's Annual Additions under this Plan and such other plans would result in an excess amount for a Limitation Year, the excess amount will be deemed to consist of the Annual

Additions last allocated, except that Annual Additions attributable to a welfare benefit fund or individual medical account wi11 be deemed to have been allocated first regardless of the actual allocation date.

(j) If an excess amount was allocated to a Participant on an allocation date of this Plan which coincides with an allocation date of another plan, the excess amount attributed to this Plan will be the product of,

(1) the total excess amount allocated as of such date, times

(2) the ratio of (i) the Annual Additions allocated to the Participant for the Limitation Year as of such date under this Plan to (ii) the total Annual Additions allocated to the Participant for the Limitation Year as of such date under this and all the other qualified defined contribution plans.

(k) Any excess amount attributed to this Plan will be disposed of in the manner described in Section 4.19(d).

(l) If the Employer maintains, or at any time maintained, a qualified defined benefit plan covering any Participant in this Plan, the sum of the Participant's Defined Benefit Plan Fraction and Defined Contribution Plan Fraction will not exceed 1.0 in any Limitation Year. The Annual Additions which may be credited to the Participant's account under this Plan for any Limitation Year will be limited in accordance with Section 1.3(i).

(1) If the sum of such fractions exceeds 1.0 and neither plan has either been terminated at any time including the last day of the Limitation Year in which the fractions exceed 1.0 or determined to be a multi-Employer plan (within the meaning of Section 414(f) of the Code), the Employer may elect, in a manner determined by the Commissioner of Internal Revenue Service, the plan that is to be disqualified. Where a controlled group of businesses exist (within the meaning of Section 414(b), (c) and (m) of the Code), the Employers within the controlled or affiliated group may elect, in a manner determined by the Commissioner of Internal Revenue Service, the plan that is disqualified. However, such election is not effective unless made by all of the Employers within the controlled or affiliated group. For purposes of this Section, the elected plan is deemed disqualified in the year in which the fractions exceed 1.0.

(m) Definitions. The following definitions shall apply for purposes of limitations of Benefits and Contributions:

(1) 415 Compensation or 415 Safe Harbor Compensation: A Participant's earned income, wages, salaries, and fees for professional services and other amounts received for personal services actually rendered in the course of employment with

the Employer maintaining the Plan (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, reimbursements and expense allowances) and excluding the following:

(i) Employer Contributions to a plan of deferred compensation which are not includible in the Employee's gross income for the taxable year in which contributed, or Employer Contributions under a simplified Employee pension plan to the extent such contributions are deductible by the Employee, or any distributions from a plan of deferred compensation;

(ii) Amounts realized from the exercise of a nonqualified stock option, or when restricted stock (or property) held by the Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

(iii) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

(iv) Other amounts which received special tax benefits, or contributions made by the Employer (whether or not under a salary reduction agreement) towards the purchase of an annuity described in Section 403(b) of the Code (whether or not the amounts are actually excludible from the gross income of the Employee).

For Limitation Years beginning after December 31, 1991, for the purposes of applying the limitations of this Article, Compensation for a Limitation Year is the Compensation actually paid or includible in gross income during such Limitation Year.

Notwithstanding the preceding sentence, Compensation for a Participant in a defined contribution plan who is permanently and totally disabled (as defined in Section 22(e)(3) of the Code) is the Compensation such Participant would have received for the Limitation Year if the Participant had been paid at the rate of Compensation paid immediately before becoming permanently and totally disabled; such imputed Compensation for the disabled Participant may be taken into account only if the Participant is not a Highly Compensated Employee (as defined in Section 414(q) of the Code) and contributions made on behalf of such Participant are nonforfeitable when made.

(2) Defined contribution dollar limitation: $30,000 or if greater, one-fourth of the defined benefit dollar limitation set forth in Section 415(b)(1) of the Code as in effect for the Limitation Year.

(3) Employer: For purposes of this Article, Employer shall have the same meaning as in Section 2.21.

(4) Excess amount: The excess of the Participant's Annual Additions for the Limitation Year over the maximum permissible amount.

(5) Highest Average Compensation: The average Compensation for the three consecutive Years of Service with the Employer that produces the highest average. A Year of Service with the Employer is the twelve (12) consecutive month period defined in Section 2.52.

(6) Limitation Year: A calendar year, or the twelve (12) consecutive month period elected by the Employer in Section 1.1(e). All qualified plans maintained by the Employer must use the same Limitation Year. If the Limitation Year is amended to a different twelve (12) consecutive month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

(7) Master or Prototype Plan: A plan the form of which is the subject of a favorable opinion letter from the Internal Revenue Service.

(8) Maximum permissible amount: The maximum annual addition that may be contributed or allocated to a Participant's account under the Plan for any Limitation Year shall not exceed the lesser of:

(i) the defined contribution dollar limitation, or

(ii) 25 percent of the Participant's Compensation for the Limitation Year.

The Compensation limitation referred to in Section 4.19(m)(8)(ii) shall not apply to any contribution for medical benefits (within the meaning of Section 401(h) or Section 419A(f)(2) of the Code) which is otherwise treated as an annual addition under Section 415(l)(1) or 419A(d)(2) of the Code.

If a short Limitation Year is created because of an amendment changing the Limitation Year to a different twelve (12) consecutive month period, the maximum permissible amount for such year will not exceed the defined contribution dollar limitation multiplied by the following fraction:

$$\frac{\text{Number of months in the short Limitation Year}}{\text{twelve (12)}}$$

(9) Projected Annual Benefit: The annual retirement benefit (adjusted to an actuarially equivalent straight life annuity

if such benefit is expressed in a form other than a straight life annuity or Qualified Joint and Survivor Annuity) to which the Participant would be entitled under the terms of the Plan assuming:

(i) the Participant will continue employment until Normal Retirement Age under the Plan (or current age, if later), and

(ii) the Participant's Compensation for the current Limitation Year and all other relevant factors used to determine benefits under the Plan will remain constant for all future Limitation Years.

4.20 ROLLOVER CONTRIBUTIONS

If permitted in Article One, Section 1.3(f), the Plan may accept any amounts received by a Participant from another qualified plan, either directly within sixty (60) days after such receipt or through the medium of an individual retirement account, provided that such individual retirement account contains no assets other than those allowed by law for a tax-free rollover contribution. Such amounts shall be held by the Trustee and a separate accounting shall be made for them. All such amounts shall be fully vested and their value shall be paid to the Participant in the manner the Participant elects at the time the Participant is entitled to a distribution of benefits hereunder. Amounts so received by the Plan shall not be counted when determining whether the limitations on contributions and benefits set forth in Section 4.19 has been exceeded. Rollover or transferred assets and the income or other property derived therefrom may be held and administered by the Trustee in a segregated Trust account. All such amounts may be withdrawn by the Participant at any time.

4.21 DIRECT TRANSFERS

If permitted In Article One, Section 1.3(g), the Plan may accept any amounts transferred directly to it by another qualified retirement plan qualified pursuant to Code Section 401, or through the medium of an individual retirement account provided that such individual retirement account contains no assets other than those allowed by law for a tax free rollover or transfer of assets. All such amounts may be withdrawn by the Participant at any time. Notwithstanding the foregoing sentence, elective deferrals [as defined in Code Section 402(g)] transferred into this Plan directly from another qualified Code Section 401(k) cash or deferred arrangement may not be withdrawn until a distributable event occurs pursuant to the requirements of Section 4.16 of the Plan.

ARTICLE FIVE
VESTING OF EMPLOYER CONTRIBUTIONS

5.1 FULL VESTING

The full amount credited to a Participant's Account shall be nonforfeitable when the Participant attains Normal Retirement Age or when the Participant's participation terminates by death, a judicial declaration of the Participant's incompetence, Total Disability, or upon termination or partial termination of the Plan. Any amount credited to a Participant's Account attributable to the Employer's Contribution for the Plan Year in which occurs termination for one of the reasons enumerated in the foregoing sentence shall also be completely nonforfeitable at the time of such contribution. Employee contributions and earnings thereon will be nonforfeitable at all times. Any amount credited to a Participant's Deferred Income Account, if any, will be nonforfeitable. In the event of a complete discontinuance of contributions under the Plan, the Account Balance of each affected Participant will be nonforfeitable.

A Participant shall not fail to attain Normal Retirement Age on the earlier of: (a) the time a Plan Participant attains Normal Retirement Age as specified in Section 1.5(a) of the Plan, or (b) the later of: (i) the time a Plan Participant attains age 65, or (ii) the fifth anniversary of the time a Plan Participant commenced participation in the Plan.

5.2 INCREMENTAL VESTING

Except as otherwise provided herein, a Participant's Account shall vest in accordance with the vesting schedule set forth in Section 1.4(b).

For Plan Years in which the Plan is deemed to be a Top-Heavy Plan, a Participant's Account shall vest in accordance with the Top-Heavy Vesting Schedule provided for under Section 1.4(b)(4).

5.3 YEAR OF SERVICE RULES -- VESTING

Subject to the provisions of Section 1.2(d), when computing the period of service under the Plan for purposes of determining a Participant's vested interest in the Participant's account, all of the Participant's Years of Service with the Employer shall be taken into account except as follows:

(a) A Year of Service which is not required to be taken into account by reason of a Break in Service shall be disregarded.

(b) In the case of a Participant who has incurred a one (1) year Break in Service, Years of Service before such break will not be taken

into account until the Participant has completed a Year of Service after such Break in Service.

(c) In the case of a Participant who has five (5) or more consecutive one (1) year Breaks in Service all service after such Breaks in Service will be disregarded for the purpose of vesting the Employer-derived Account Balance that accrued before such Breaks in Service. Such Participant's pre-break service will count in vesting the post-break Employer-derived Account Balance only if either:

(1) such Participant has any nonforfeitable interest in the Account Balance attributable to Employer Contributions at the time of separation from service; or

(2) upon returning to service the number of consecutive one (1) year Breaks in Service is less than the number of Years in Service.

Separate accounts will be maintained for the Participant's pre-break and post-break Employer-derived Account Balance. Both accounts will share in the earnings and losses of the fund.

(d) If the Plan makes a distribution to a Participant at a time when the Participant is less than one hundred percent (100%) vested in the Participant's Employer-derived benefits and there is no five (5) consecutive one (1) year Breaks in Service prior to a "relevant time" subsequent to such distribution,

(1) A separate account will be established for the Participant's interest in the Plan as of the time of distribution, and

(2) At any relevant time the Participant's vested portion of the separate account will not be less than an amount ("x") determined by the following formula:

X = P(AB + (R X D)) - (R X D), where

P = vested percentage at the relevant time

AB = Account Balance at the relevant time

D = amount of distribution

R = ratio of the Account Balance at the relevant time to the Account Balance after distribution.

(e) In the case of a Participant who has no vested right in Employer-derived benefits at the time the Participant incurs a Break in Service, Years of Service completed by such Participant before such break shall not be taken into account for purposes of determining the nonforfeitable percentage of the Participant's

right to Employer-derived benefits if at such time the number of consecutive one-year Breaks in Service included in the Participant's most recent Break in Service equals or exceeds the greater of five (5) or the aggregate number of the Participant's Years of Service, whether or not consecutive, completed before such break. In computing the aggregate number of Years of Service prior to the Break in Service, Years of Service which are disregarded under this Section by reason of any prior Break in Service shall be disregarded.

5.4 EFFECT OF CERTAIN CASH-OUTS

(a) For purposes of determining the Participant's Account Balance under the Plan, the Plan shall disregard Years of Service performed by the Participant with respect to which the Participant has received a distribution of the present value of the Participant's entire nonforfeitable benefit if such distribution was no more than Three Thousand Five Hundred Dollars ($3,500.00) (or an amount permitted under regulations prescribed by the Secretary of Treasury) or a distribution of the present value of the Participant's nonforfeitable benefit attributable to such service which the Participant elected to receive.

Any distribution under this Section 5.4(a) which exceeds $3,500.00 shall be subject to the consent of the Participant and, if any, the Participant's Spouse. If the Account Balance at the time of any distribution exceeds $3,500.00, then the Account Balance at any subsequent time shall be deemed to exceed $3,500.00 and such subsequent distribution shall be subject to the written consent of the Participant and the Participant's Spouse, if applicable.

(b) In order for a distribution to be considered a "cash out" under this Plan, a Participant receiving such distribution must have terminated employment with the Employer. All Participants who have been "cashed-out" under the provision of Section 5.4(a) above, shall have the opportunity to repay the full amount of the distribution upon resumption of employment with the Employer in accordance with the provisions of Section 11.11 herein.

(c) If a distribution is made at a time when a Participant has a nonforfeitable right to less than 100 percent of the Account Balance derived from Employer Contributions and the Participant may increase the nonforfeitable percentage in the account:

(1) A separate account will be established for the Participant's interest in the Plan as of the time of the distribution, and

(2) At any relevant time the Participant's nonforfeitable portion of the separate account will be equal to an amount ("X") determined by the formula:

$$X\ P(AB + (R \times D)) - (R \times D)$$

For purposes of applying the formula: P is the nonforfeitable percentage at the relevant time, AB is the Account Balance at the relevant time, D is the amount of the distribution, and R is the ratio of the Account Balance at the relevant time to the Account Balance after distribution.

5.5 VESTING COMPUTATION PERIOD

The Vesting Computation Period shall mean the twelve consecutive-month period (or its equivalent) as defined in Article One. Hours of Service completed within each Vesting Computation Period shall be used when determining whether a Participant has completed a Year of Service or has incurred a Break in Service for purposes of this Article.

Nothwithstanding the foregoing, in the event that a Year of Service for Eligibility or Vesting is based on Elapsed Time using a 365-day period of service, then the Vesting Computation Period shall mean Year of Service as defined in Article One, Section 1.1.

In the event of a short Plan Year, there shall be overlapping Vesting Computation Periods. The first Vesting Computation Period shall begin on the first day of the short Plan Year and end twelve months thereafter and the overlapping Vesting Computation Period shall begin on the first day of the new Plan Year and end on the last day of the new Plan Year.

5.6 AMENDMENT TO VESTING SCHEDULE

(a) If the vesting schedule of this Plan is amended, the new vesting schedule shall satisfy the requirements set forth in Code Section 411(a)(2)(A), (B) or (C) for all Years of Service.

(b) If the vesting schedule of this Plan is amended, then in the case of an Employee who is a Participant on the date the amendment is adopted or the date the amendment is effective, if later, the vested percentage of the Participant's right to the Participant's Employer-derived benefit, determined as of such date, shall not be less than the Participant's percentage computed under the Plan without regard to such amendment.

(c) If the Plan's vesting schedule is amended, or the Plan is amended in any way that directly or indirectly affects the computation of the Participant's nonforfeitable percentage or if the Plan is deemed amended by an automatic change to or from a top-heavy vesting schedule, each Participant with at least three (3) Years of Service with the Employer may elect, within a reasonable period after the adoption of the amendment or change, to have the nonforfeitable percentage computed under the Plan without regard to such amendment or change. For Participants who do not have at least one (1) Hour of Service in any Plan Year beginning after December 31, 1988, the preceding sentence shall be applied by substituting "five (5) Years of Service" for "three (3) Years of Service" where such language appears.

The period during which the election may be made shall commence with the date the amendment is adopted or deemed to be made and shall end on the latest of:

(1) 60 days after the amendment is adopted;

(2) 60 days after the amendment becomes effective; or

(3) 60 days after the Participant is issued written notice of the amendment by the Employer or Committee.

(d) No amendment to the Plan shall be effective to the extent that it has the effect of decreasing a Participant's Account Balance. Notwithstanding the preceding sentence, a Participant's Account Balance may be reduced to the extent permitted under Section 412(c)(8) of the Code. For purposes of this Section 5.6(c), a Plan amendment which has the effect of decreasing a Participant's Account Balance or eliminating an optional form of benefit, with respect to benefits attributable to service before the amendment shall be treated as reducing an Account Balance. Furthermore, if the vesting schedule of this Plan is amended, in the case of an Employee who is a Participant as of the later of the date such amendment is adopted or the date it becomes effective, the nonforfeitable percentage (determined as of such date) of such Employee's Employer-derived Account Balance wi11 not be less than the percentage computed under this Plan without regard to such amendment.

ARTICLE SIX

THE ADMINISTRATIVE COMMITTEE

6.1 COMMITTEE MEMBERSHIP

The Plan shall be administered by an Administrative Committee appointed by and serving at the pleasure of the Employer. Any Employee may serve as a member of the Committee, although members need not be Employees. Any member of the Committee may be removed by the Employer, and members shall hold office until resignation, death, removal or disqualification. Vacancies in the Committee arising for whatever reason shall be filled by the Employer as soon as is reasonably possible after the vacancy occurs, and until a new appointment is made the remaining member or members shall have full authority to act. The Employer shall file with the Trustee written notice of the names of the members of the Committee together with specimen signatures, and as changes take place in membership, that fact and the names and specimen signatures of the new members shall be filed by the Employer with the Trustee.

6.2 COMMITTEE ACTION

The Committee shall choose a Secretary who shall keep minutes of the Committee's proceedings and all data, records and documents pertaining to the Committee's administration of the Plan. The Committee shall act by a majority of its members at the time in office and such action may be taken by a vote either at a meeting or in writing without a meeting. The Committee may by such majority action authorize its Secretary or any one or more of its members to execute any document or documents on behalf of the Committee, in which event the Committee shall notify the Trustee in writing of such action and the name or names of those so designated. The Trustee thereafter shall accept and rely conclusively upon any direction or document executed by such Secretary, member or members as representing action by the Committee until the Committee files with the Trustee a written revocation of such designation.

6.3 ADMINISTRATIVE RULES

The Committee shall exercise all discretionary powers in the administration of any matters which come under its functions and may, from time to time, formulate such rules for the administration of the Plan as it may deem necessary so long as such rules are not inconsistent with the terms of the Plan itself.

6.4 POWERS OF THE COMMITTEE

The Committee, on behalf of the Participants and their Beneficiaries, is hereby designated as the Named Fiduciary referred to in Section 402(a) of ERISA. The Committee shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish those objectives,

including, but not by way of limitation, the following:

(a) To determine all questions relating to the eligibility of Employees to participate;

(b) To compute and certify to the Trustee the amount and kind of benefit payable to Participants and their Beneficiaries;

(c) To authorize a11 disbursements by the Trustee from the Trust Fund;

(d) To maintain all the records necessary for the administration of the Plan other than those maintained by the Trustee;

(e) To make and publish such rules for the regulation of the Plan as are not inconsistent with the terms hereof;

(f) To authorize the Trustee to purchase contracts of life insurance on the lives of Key Employees whose death might adversely affect the earnings of the Employer. Any such contract shall be owned by the Trustee, and any and all benefits, including any amounts payable upon the death of the insured Employee, shall be payable to the Trustee and considered as an investment for the benefit of the Trust as a whole;

(g) To authorize the Trustee to purchase, for the benefit of the individual Participants, contracts of life insurance or annuities on an annual or single premium basis at retirement or prior thereto, and on such terms and conditions as the Committee may prescribe.

(h) To direct the Trustee to sell any assets held in the Trust and to direct the Trustee in all respects concerning investments to be made with funds available to the Trust for that purpose.

(i) To accept service of legal process on behalf of the Plan.

(j) To file with the appropriate government agency (or agencies) the annual report, plan description, summary plan description, and other pertinent documents which may be duly requested.

(k) To furnish each Employee and each beneficiary receiving benefits hereunder a summary plan description explaining the Plan.

(1) To file such terminal and supplementary reports as may be necessary in the event of termination of the Plan; and to allocate the assets of the Plan available to provide benefits to Employees in the event the Plan should terminate.

6.5 EMPLOYMENT OF ADVISERS

The Committee may, in its discretion, employ agents, brokers, attorneys (including attorneys for the Employer), accountants, investment counsel,

or such other assistants as it may deem proper to discharge its responsibilities, and the Employer agrees to pay all fees and expenses incurred in connection therewith. However, such fee may be paid by the Trustee upon written direction of the Committee.

6.6 INFORMATION TO BE COMMUNICATED

In order to enable the Committee to perform its functions, the Employer shall supply full and timely information to the Committee, including all pertinent facts as the Committee may require. The Committee shall advise the Trustee of such of the foregoing facts as may be pertinent to the Trustee's administration of the Plan.

6.7 COMPENSATION AND INDEMNITY

(a) The members of the Committee shall serve without compensation for their services thereunder. All expenses of the Committee shall be paid by the Employer or by the Plan, and the Employer shall furnish the Committee with such clerical and other assistance as is necessary in the performance of its duties.

(b) The Employer shall indemnify and hold harmless the members of the Committee from and against any and all liabilities, claims, demands, costs and expenses (including attorneys' fees), arising out of an alleged breach in the performance of their fiduciary duties under the Plan and under ERISA, other than such liabilities, claims, demands, costs and expenses as may result from the gross negligence or willful misconduct of such persons. The Employer shall have the right, but not the obligation, to conduct the defense of such persons in any proceeding to which this Paragraph applies. In lieu of the foregoing, the Employer may satisfy its obligations under this Paragraph through the purchase of a policy or policies of insurance providing equivalent protection.

6.8 DUTY OF CARE

In discharging each of the duties and responsibilities assigned to it under this Plan, the Committee shall act solely in the interests of the Participants and Beneficiaries of the Plan and with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. In the exercise of any discretion, the Committee shall not discriminate in favor of Participants who are officers, stockholders or Highly Compensated Employees. No member of the Committee may participate in any decision which involves solely the member's interest as a Participant separate and distinct from the member's status as a member of the group of Participants.

6.9 ESTABLISHMENT OF FUNDING POLICY

The Committee from time to time shall establish a funding policy and method for the Plan which is consistent with the objectives of the Plan

and the requirements of ERISA. The funding policy and method, as established and amended from time to time, shall be communicated to the Trustee in order that the Trustee may coordinate the investment policies of the Trust Fund consistent with such funding policy and method.

ARTICLE SEVEN
THE TRUST AGREEMENT

7.1 TRUST AGREEMENT

The Employer shall enter into a Trust Agreement to effectuate the purposes of the Plan as it may be in force from time to time. The duties, responsibilities and powers of the Trustee shall be limited as specifically provided in the Plan and the Trust Agreement.

7.2 RELATIONSHIP OF COMMITTEE AND TRUSTEE

(a) The Committee shall direct the administration of the Plan and the Trustee shall follow the written directions of the Committee, or any member of the Committee who shall be designated from time to time, which are communicated to the Trustee. The Committee shall notify the Trustee of any changes in the membership of the Committee. The Trustee shall follow directions of the member whose authority to act on behalf of the Committee was last certified to the Trustee, regardless of changes in membership of the Committee. Any direction or notification by the Committee or member thereof to the Trustee shall be effective upon delivery in writing to the Trustee.

(b) If it is necessary to perform some act hereunder and there is neither direction in this Plan nor direction of the Committee on file with the Trustee, and no such direction can be obtained after reasonable inquiry, the Trustee shall have full power and direction to act.

(c) The Employer will indemnify and hold harmless the Trustee of and from any liability, loss, cost or expense arising from or in any way connected with its acting upon a direction of the Committee, or failing to act because of the lack of any direction from the Committee where the Trustee has no duty to act in the absence of direction from the Committee.

(d) The Trustee shall have no duty to enforce collection or payment to it of any contribution nor to determine or verify the accuracy thereof.

7.3 RULE AGAINST PERPETUITIES

Unless sooner terminated in accordance with other provisions of this Plan, the Plan and Trust Agreement shall in any event terminate upon the death of the last survivor of such of the Participants who are living on the day of execution of this Plan.

ARTICLE EIGHT
THE INSURANCE COMPANY

8.1 INSURER NOT A PARTY HERETO

No Insurer issuing a life insurance policy in connection with this Plan shall be deemed to be a party hereto.

8.2 NOTIFICATION OF CHANGES IN PLAN

The Insurer may assume, in dealing with the Trustee, that no modification or alteration has been made in the terms of the Plan until notice of such modification or alteration has been given to the Insurer.

8.3 OWNERSHIP OF POLICIES

The Insurer shall deal with the Trustee as owner of all policies and shall accept the signature of the Trustee in connection with any application, changes or any action under the policies. The Insurer is authorized at all times to deal with the Trustee of the Plan.

8.4 ACTION OF INSURER

No such Insurer shall be required to concern itself with the terms of this Plan or question any action of the Trustee and/or of the Committee, or be responsible to see that any action of the Trustee and/or the Committee is authorized by the terms of this Plan.

8.5 EXECUTION OF DOCUMENTS

Any and all certificates or other documents requiring signature of the Trustee shall be executed in its name as Trustee. Any documents which may require the signature of the Committee shall be executed in its name by a majority of its members thereof or by any member thereof who has been authorized to sign on its behalf under the terms of this Plan. When so executed, any such documents may be received by the Insurer as conclusive evidence of any of the matters mentioned in this Plan, and the Insurer shall be fully protected in taking or permitting any action to be taken on the strength thereof and shall incur no liability or responsibility for so doing.

ARTICLE NINE
TYPE OF INSURANCE CONTRACT

9.1 PURCHASE OF CONTRACT

(a) If permitted by the provisions of Section 1.6(c), and in the event that the Committee elects life insurance as a Plan investment, the Trustee, as directed by the Committee, shall purchase at standard rates individual level-premium whole life insurance or term insurance contracts.

(b) The Trustee shall apply for and will be the owner of any insurance contract purchased under the terms of this Plan. The insurance contract(s) must provide that proceeds will be payable to the Trustee, however the Trustee shall be required to pay over all proceeds of the contract(s) to the Participant's designated Beneficiary in accordance with the distribution provisions of this Plan. A Participant's spouse will be the designated Beneficiary of the proceeds in a11 circumstances unless a qualified election has been made in accordance with Section 12.2(a), Joint and Survivor Annuity Requirements, if applicable. In the event of any conflict between the terms of this Plan and the terms of any insurance contract purchased hereunder, the Plan provisions shall control.

9.2 UNINSURABLE PARTICIPANTS

For each Participant who is found by the Insurer to be uninsurable or not insurable at standard rates, the Trustee, as directed by the Committee, shall purchase either a similar life insurance contract for the same amount of premium but containing a lesser death benefit as specified in a schedule attached to the contract, or a retirement annuity contract on the life of such Participant with a death benefit on death before Normal Retirement Date in an amount equal to the total of premiums paid or the cash surrender value of such contract, whichever is greater.

9.2.1 VOLUNTARY WAIVER OF INSURANCE CONTRACT

Once eligible, a Participant may voluntarily elect to waive his right to purchase or to have insurance purchased on his life in the Plan. A Participant shall be deemed to waived his right to insurance in the event that he (or his spouse, if applicable) refuses to execute a waiver form and fails to comply with the requirements of the insurer for issuance of an insurance contract.

Upon the death of a Participant who has waived (or deemed to have waived) his right under this section, the designated Beneficiary shall only be entitled to receive an amount equal to the Participant's Accounts.

9.3 APPLICATION FOR CONTRACTS

The original applications for contract or contracts to be issued hereunder shall be made to the Insurer as designated by the Employer. The Employer, in its sole discretion, may thereafter designate any insurance company to which subsequent applications may be made. The type of such contracts or any features thereof or supplements or additions thereto shall be determined by the Committee. The failure of the Employer to obtain any contract applied for shall not give rise to any right, claim or benefit to any Employee. The contract or contracts shall be applied for by the Employer at or on the Effective Date and by the Trustee at any Anniversary Date as directed by the Committee.

9.4 PAYMENT OF PREMIUMS

The Trustee shall be under no duty to pay premiums on contracts of life insurance or annuities held by the Trustee as an investment hereunder unless adequate funds are available therefor, and only upon direction by the Committee. When the Committee directs the Trustee to make such premium payments, the Committee shall direct the Trustee with respect to the source of funds for such payment.

9.5 APPLICATION OF DIVIDENDS

(a) If the Plan is a fully insured Plan, any dividends or credits earned on insurance contracts will be applied, within the taxable year of the Employer in which received or within the next succeeding taxable year, toward the next premium due before any further Employer Contributions are so applied.

(b) If the Plan is a Trusteed Plan, any dividends or credits earned on insurance contracts will be allocated to the Participant's account derived from Employer Contributions for whose benefit the contract is held.

9.6 PARTICIPANT'S ELECTION

Subject to Section 1.6(c) and Section 9.1, each Participant may direct the Committee with respect to the amount, if any, of each contribution made by the Employer on behalf of said Participant which shall be applied to the purchase, as an investment and for the benefit of said Participant, of a life insurance contract or contracts. Upon such direction, the Committee shall direct the Trustee to pay premiums and apply for and secure said life insurance contract or contracts, subject to the restrictions provided herein and provided that the total premiums paid or due for life insurance on the life of any Participant shall not exceed the amounts stated in Section 9.8 of this Plan. A new Participant may give direction in writing upon entry into the Plan, and an existing Participant shall give direction in writing within the thirty (30) day period preceding the Anniversary Date of the Plan. These directions may be changed, amended or revoked only by a further direction in writing in the same manner as the initial direction aforesaid and the initial direction shall remain in effect until

changed, amended or revoked. Upon the failure of said Participant to give direction, the Committee shall make its own determination as to the amount, if any, of the Employer's Contribution made on behalf of said Participant which shall be so applied.

9.7 DISTRIBUTION OF INSURANCE CONTRACTS

Subject to Article Twelve, Joint and Survivor Annuity Requirements, the contracts on a Participant's life will be converted to cash or an annuity or distributed to the Participant upon commencement of benefits.

9.8 LIMITATIONS

(a) The Administrator shall limit the premiums invested in ordinary life insurance on the life of each Participant to less than fifty percent (50%) of the aggregate of all contributions and Forfeitures allocated to each such Participant's Accounts.

(b) The Administrator shall limit the premiums invested in term life insurance on the life of each Participant to less than twenty-five percent (25%) of the aggregate of all contributions and Forfeitures allocated to each such Participant's Accounts.

ARTICLE TEN
APPLICATIONS FOR BENEFITS

10.1 APPLICATION PROCEDURE

Participants should submit applications for benefits under the Plan to the Committee at the principal office of the Employer. Applications for benefits should be in writing on the forms prescribed by the Committee and must be signed by the Participant and the Participant's spouse (if applicable), or in the case of a death benefit, by the Beneficiary or legal representative of the deceased Participant. The Committee reserves the right to require that the Participant furnish proof of his age and that of his joint annuitant, if any, prior to processing any application. Each application shall be acted upon and approved or disapproved within sixty (60) days following its receipt by the Committee. In the event any application for benefits is denied in whole or in part, the Committee shall notify the applicant in writing of such denial and of the applicant's right to a review of such denial, and shall set forth in a manner calculated to be understood by the applicant specific reasons for such denial, specific references to pertinent Plan provisions on which the denial is based, a description of any additional material or information necessary for the applicant to perfect the application, an explanation of why such material or information is necessary, and an explanation of the Plan's review procedure.

10.2 REVIEW PROCEDURE

Any person or duly authorized representative whose application for benefits is denied in whole or in part may appeal from such denial to the Committee for a review of the decision by submitting to the Committee, within sixty (60) days after receiving written notice of the denial of the application for benefits, a written statement requesting a review of the application for benefits by the Committee, setting forth all of the grounds upon which the request for a review is based and any facts in support thereof, and setting forth any issues or comments which the applicant deems pertinent to the application.

10.3 COMMITTEE ACTION

(a) The Committee shall meet from time to time to review applications for benefits submitted pursuant to this Article. The Committee shall act upon each application within sixty (60) days following receipt of the applicant's request for review by the Committee, unless special circumstances require an extension. Such extension cannot extend beyond one hundred twenty (120) days after receipt of the appeal by the Committee. If the Committee fails to act within sixty (60) days or, if special circumstances

extend it to one hundred twenty (120) days, the application will be treated as denied and the applicant may appeal for a review.

(b) The Committee shall make a full and fair review of each such application and any written materials submitted by the applicant or the Employer in connection therewith, and may require the Employer or the applicant to submit such additional facts, documents, or other evidence as the Committee, in its sole discretion, deems necessary or advisable in making such a review. On the basis of this review, the Committee shall make an independent determination of the applicant's eligibility for benefits under the Plan. The decision of the Committee on any application for benefits shall be final and conclusive upon all persons if supported by the substantial evidence in the record.

(c) In the event the Committee denies an application in whole or in part, the applicant shall be given written notice of the decision setting forth in a manner calculated to be understood by the applicant the specific reasons for such denial and specific references to the pertinent Plan provisions upon which the Committee based its decision.

ARTICLE ELEVEN
DISTRIBUTION OF BENEFITS

11.1 RETIREMENT BENEFITS

When a Participant reaches his Early Retirement Date or Normal Retirement Date, the Participant shall be entitled to retirement income and benefits which shall be based upon the value of the Participant's Account(s). Participants who meet the service requirement for Early Retirement but who separate from service prior to satisfying the age requirement, shall be entitled to receive the benefit when the age requirement is satisfied.

11.2 MODES OF DISTRIBUTION

The Trustee, when so directed by the Committee, shall make distribution in a form provided for in Section 1.5(e), provided that each such mode shall have the same present value. The alternative modes of settlement are:

(a) A cash lump sum. However, a Participant's benefit may not be cashed out without the Participant's written consent if the present value of any Participant's nonforfeitable Account Balance exceeds Three Thousand Five Hundred Dollars ($3,500.00), and if such benefits are paid in the form of a cash lump sum, the provisions of Section 11.12 hereof shall apply. The Three Thousand Five Hundred Dollars ($3,500.00) shall be determined by using both employer and employee contributions, but not accumulated deductible contributions.

Any distribution under Section 5.4(a) which exceeds $3,500.00 shall be subject to the consent of the Participant and, if any, the Participant's Spouse. If the Account Balance at the time of any distribution exceeds $3,500.00, then the Account Balance at any subsequent time shall be deemed to exceed $3,500.00 and such subsequent distribution shall be subject to the written consent of the Participant and the Participant's Spouse, if applicable.

(b) Substantially equal installments with or without a period certain, payable not less frequently than annually. However, the benefits to which the Participant is entitled must be paid over a period not exceeding the life expectancy of the Participant determined at the date of the Participant's retirement or the joint life expectancy of the Participant and a designated Beneficiary. If the distribution is to be made in the form of installments, the Committee may direct the Trustee to segregate in a separate account an amount equal to the lump sum value and to invest it in United States obligations or to deposit it in an interest-bearing savings account of any bank, including the Trustee's own banking department, or to deposit it in an

interest-bearing savings account of a federal savings and loan association. If a separate segregated account is established, any interest received thereon shall be distributed with the final installment of benefits. In the event a Participant dies prior to complete distribution of the Participant's installments, the Participant's Beneficiary shall be entitled to the balance.

(c) An annuity payable over the life of the Participant or the joint lives of the Participant and a designated Beneficiary with or without a period certain.

(d) A nontransferable deferred annuity contract purchased from a legal reserve life insurance company selected by the Committee, which provides for annuity payments to commence at the Participant's Normal Retirement Date. Any annuity contract distributed herefrom must be nontransferable and the terms of any annuity contract purchased and distributed by this Plan to a Participant or spouse shall comply with the requirements of this Plan.

(e) Upon written request of the Participant or the Participant's Beneficiary, shares issued by a regulated investment company registered under the Investment Company Act of 1940, or shares of stock listed on a national stock exchange.

(f) Upon written request of the Participant or the Participant's Beneficiary, approved by the Committee, in kind or any assets held by the Trustee as an investment, or partly in cash and partly in kind.

11.3 LATE RETIREMENT

A Participant may remain in the employ of the Employer and, if he remains in the employ of the Employer, shall continue to be entitled to benefits/contributions according to the terms of this Plan beyond the Normal Retirement Date. If a Participant elects, he may commence distribution from the Plan at Normal Retirement Age.

11.4 TERMINATION PRIOR TO RETIREMENT

(a) If a Participant ceases to be employed by the Employer for any reason other than retirement, military service, or death, the Committee shall certify that fact to the Trustee, giving the date of such termination. In this event, the Participant shall have a vested right in the account held for the Participant's benefit as determined under Article Five hereof. The benefits to which the Participant is entitled shall be provided by the value of the Participant's Account. The benefits shall only be distributed to the Participant under the provisions of Section 1.5(h). The cash surrender value of any insurance contracts insuring the Participant's life must be included in the value of the Participant's account.

(b) The Trustee shall, as directed by the Committee, assign, transfer and set over to such Participant a11 contracts on the Participant's life in such form or with such endorsements, if any, as the Committee may, in its discretion, direct, restricting the Participant to surrender, assign or otherwise realize cash on the contract or contracts prior to the Participant's Normal Retirement Date.

(c) If the Participant and the Participant's spouse elect not to receive benefits in a form having the effect of a Qualified Joint and Survivor Annuity or a Qualified Pre-retirement Annuity, the Committee shall direct the Trustee to distribute the amount required from the Participant's Account, subject to the provisions of Sections 1.5(e) and 11.2 of this Plan.

11.5 LEAVE OF ABSENCE AND NILITARY SERVICE

(a) A Participant on temporary absence from the service of the Employer may, for purposes of this Article, be deemed to have continued in the employ of the Employer during such absence, provided such absence does not continue for a period longer than one (1) year, and further provided that such Participant shall pay all premiums necessary to keep policies in the Participant's account effective during such absence, if any are required. In granting temporary leaves of absence, the Employer shall not discriminate between the various Participants.

(b) A Participant on temporary absence from the service of the Employer because of service in the Armed Forces of the United States shall be deemed to be continued in the employ of the Employer during such absence, provided that such Participant shall pay all premiums necessary to keep policies in the Participant's account effective during such absence, if any are required.

(c) If any Employee or Participant on military leave voluntarily fails to return to employment within ninety (90) days after the Employee's or the Participant's discharge from the service, such facts shall be treated as though the Employee or the Participant had voluntarily left the employment of the Employer as of the date of discharge. In the event of death during such military service leave, it shall be treated as though the Employee or the Participant had died during employment with the Employer, and in the event of any Total Disability arising from military service, such disability shall be treated as though it were a Total Disability arising during employment, and all of the Participant's rights under the Plan shall become fully vested as of the date of inability to return to employment.

11.6 VALUE OF BENEFITS

Any payment to any Participant, the Participant's Beneficiary or legal representative, in accordance with the provisions of the Plan, shall

to the extent thereof be in full satisfaction of all claims hereunder against the Trustee, the Committee and the Employer, any of whom may require such Participant, Beneficiary or legal representative, as a condition precedent to such payment, to execute a receipt therefor in such form as shall be determined by the Trustee, the Committee or the Employer, as the case may be. The Employer does not guarantee the Trustee, the Participants, former Participants or their Beneficiaries against loss of or depreciation in the value of any right or benefit that any of them may acquire under the terms of this Plan. All the benefits payable hereunder shall be paid or provided for solely from the Trust and the Employer does not assume any liability or responsibility therefor.

11.7 COMMENCEMENT OF BENEFITS

Unless the Participant elects otherwise, distribution of benefits will begin as soon as administratively feasible but no later than the 60th day after the latest of the close of the Plan Year in which:

(1) the Participant attains age 65 (or Normal Retirement Age, if earlier);

(2) occurs the 10th anniversary of the year in which the Participant commenced participation in the Plan; or,

(3) the Participant terminates service with the Employer.

Notwithstanding the foregoing, the failure of a Participant and spouse to consent to a distribution while a benefit is immediately distributable, within the meaning of Section 12.8 of the Plan, shall be deemed to be an election to defer commencement of payment of any benefit sufficient to satisfy this Section.

A Participant who elects to defer receipt of benefits may not do so to the extent that such deferral creates a death benefit that is more than incidental.

11.8 DISTRIBUTION OF BENEFIT RULES

(a) General Rules.

(1) Subject to Article Twelve, Joint and Survivor Annuity Requirements, the requirements of this Article shall apply to any distribution of a Participant's interest and will take precedence over any inconsistent provisions of this Plan. Unless otherwise specified, the provisions of this Article apply to calendar years beginning after December 31, 1984.

(2) All distributions required under this Article shall be determined and made in accordance with the proposed regulations under Section 401(a)(9), including the minimum

distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the proposed regulations.

(b) Required beginning date. The entire interest of a Participant must be distributed or begin to be distributed no later than April 1st of the calendar year following the calendar year in which the Participant attains age 70-1/2.

(c) Limits on Distribution Periods. As of the first distribution calendar year, distributions, if not made in a single-sum, may only be made over one of the following periods (or a combination thereof):

(1) the life of the Participant,

(2) the life of the Participant and a designated Beneficiary,

(3) a period certain not extending beyond the life expectancy of the Participant, or

(4) a period certain not extending beyond the joint and last survivor expectancy of the Participant and a designated Beneficiary.

(d) Death Distribution Provisions.

(1) Distribution beginning before death. If the Participant dies after distribution of the Participant's interest has begun, the remaining portion of such interest will continue to be distributed at least as rapidly as under the method of distribution being used prior to the Participant's death.

(2) Distribution beginning after death. If the Participant dies before distribution of the Participant's interest begins, distribution of the Participant's entire interest shall be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death except to the extent that an election is made to receive distributions in accordance with 11.8(d)(2)(i) or 11.8(d)(2)(ii) below:

(i) if any portion of the Participant's interest is payable to a designated Beneficiary, distributions may be made over the life or over a period certain not greater than the life expectancy of the designated Beneficiary commencing on or before December 31st of the calendar year immediately following the calendar year in which the Participant died;

(ii) if the designated Beneficiary is the Participant's surviving spouse, the date distributions are required to begin in accordance with Section 11.8(d)(2)(i) above shall not be earlier than the later of (1)

December 31st of the calendar year immediately following the calendar year in which the Participant died and (2) December 31st of the calendar year in which the Participant would have attained age 70-1/2.

(iii) If the Participant has not made an election pursuant to this Section 11.8(d)(2) by the time of the Participant's death, the Participant's designated Beneficiary must elect the method of distribution no later than the earlier of (1) December 31st of the calendar year in which distributions would be required to begin under this Section, or (2) December 31st of the calendar year which contains the fifth anniversary of the date of death of the Participant. If the Participant has no designated Beneficiary, or if the designated Beneficiary does not elect a method of distribution, distribution of the Participant's entire interest must be completed by December 31st of the calendar year containing the fifth anniversary of the Participant's death.

(3) For purposes of Section 11.8(d)(2) above, if the surviving spouse dies after the Participant, but before payments to such spouse begin, the provisions of Section 11.8(d)(2), with the exception of Section 11.8(d)(2)(ii) therein, shall be applied as if the surviving spouse were the Participant.

(4) For purposes of this Section 11.8(d), any amount paid to a child of the Participant will be treated as if it had been paid to the surviving spouse if the amount becomes payable to the surviving spouse when the child reaches the age of majority.

11.9 HARDSHIP WITHDRAWALS

Subject to the options chosen in Article One, Section 1.5(k) in the event a Participant incurs a "hardship" prior to the occurrence of an event allowing distribution from this Plan, he may request a withdrawal from his Employee Deferral Account for the following reasons:

a) Medical expenses (not covered by insurance) incurred by the Participant, the Participant's spouse, or any dependents of the Participant.

b) Purchase (excluding mortgage payments) of a principal residence for the Participant.

c) Payment of tuition for the next semester or quarter of post-secondary education for the Participant, the Participant's spouse, or any dependents of the Participant.

d) Payment of a sum of money in order to prevent the eviction of the Participant from his principal residence or foreclosure on the mortgage of the Participant's principal residence.

e) Funeral expenses.

A Participant must file a written request for a withdrawal and establish, to the satisfaction of the Administrator, that he has a financial need. A financial need shall be deemed established if the following conditions exist:

a) The distribution is not in excess of the amount of the immediate and heavy financial need of the Participant; and,

b) The Participant has borrowed a11 funds available through the provisions relating to Participants loans, if permitted in Article One of the Plan; and

c) The Participant agrees that a11 Employee Deferral Contributions shall be suspended for a 12-month period after the receipt of the hardship distribution; and

d) The Participant agrees that Employee Deferral Contributions during the tax year immediately following the taxable year of the withdrawal may not exceed the $7,000 limit (as adjusted by the Secretary of the Treasury) less the amount of the Participant's Employee Savings Contributions made during the taxable year of the hardship distribution.

11.10 In-Service Distributions -- Withdrawal of Employer Contributions

(1) If permitted by Section 1.5(i), the Committee may at any time permit any Participant to request in writing a withdrawal from the Participant's Account.

(a) A request For a withdrawal shall be made, in writing, to the Administrator. The Administrator shall have absolute discretion in approving or denying the request and shall act in a uniform, and non-discriminatory manner. Any such request received by the Administrator shall be acted upon within sixty (60) days of actual receipt.

(b) The withdrawal shall not exceed the vested amount of the Participant's Account. Any amount withdrawn must have been in the Participant's Account and in the Trust for at least two (2) full years. If a Participant has sixty (60) months of Plan participation, he may withdraw monies in the Trust that have been in the Trust for less than a two (2) year period.

(c) In the event the Administrator grants a request for such withdrawal, the Participant shall continue his participation in the Plan uninterupted.

(d) If an in-service distribution shall only be permitted in the event of a hardship, the requirements set forth in Section 11.9 shall apply.

(2) If permitted by Section 1.5(j), a Participant may request a distribution subject to the provisions of Section 1.5(j) notwithstanding the provisions of Section 11.10(l).

11.11 LOANS TO PARTICIPANTS

(a) If loans to Participants are permitted by the provisions of Section 1.6(b), loans shall be made available to all Participants and beneficiaries on a reasonably equivalent basis. Loans to Participants shall be governed by the written policies and procedures adopted by the Employer.

(b) Loans shall not be made available to Highly Compensated Employees (as defined in Section 414(q) of the Code) in an amount greater than the amount made available to other Employees.

(c) Loans must be adequately secured and bear a reasonable interest rate.

(d) A Participant must obtain the written consent of the Participant's spouse, if any, to use of the Account Balance as security for the loan. Spousal consent shall be obtained no earlier than the beginning of the 90-day period that ends on the date on which the loan is to be so secured. The consent must be in writing, must acknowledge the effect of the loan, and must be witnessed by a Plan representative or notary public. Such consent shall thereafter be binding with respect to the consenting spouse or any subsequent spouse with respect to that loan. A new consent shall be required if the Account Balance is used for renegotiation, extension, renewal, or other revision of the loan.

(e) If a valid spousal consent has been obtained in accordance with Section 11.10(d), then, notwithstanding any other provision of this Plan, the portion of the Participant's vested Account Balance used as a security interest held by the Plan by reason of a loan outstanding to the Participant shall be taken into account for purposes of determining the amount of the Account Balance payable at the time of death or distribution, but only if the reduction is used as repayment of the loan.

(f) No loan to any Participant or Beneficiary can be made to the extent that such loan when added to the outstanding balance of all other loans to the Participant or Beneficiary would exceed the lesser of (a) $50,000 reduced by the excess (if any) of the highest outstanding balance of loans during the one-year period ending on the day before the loan is made, over the outstanding balance of loans from the Plan on the date the loan is made, or (b) one-half the present value of the nonforfeitable Account

Balance of the Participant or, if greater, the total Account Balance up to $10,000.

(1) For the purpose of the above limitation, all loans from all plans of the Employer and other members of a group of Employers described in Sections 414(b), 414(c), and 414(m) of the Code are aggregated.

(2) Furthermore, any loan shall by its terms require that repayment (principal and interest) be amortized in level payments, not less frequently than quarterly. All loans must be repaid over a period not extending beyond five years from the date of the loan, unless such loan is used to acquire dwelling unit which within reasonable time (determined at the time the loan is made) will be used as the principal residence of the Participant.

(3) An assignment or pledge of any portion of the Participant's interest in the Plan and a loan, pledge, or assignment with respect to any insurance contract purchased under the Plan, will be treated as a loan under this Paragraph.

(4) Notwithstanding the foregoing, the Plan may make a loan for more than $50,000, however, such a loan will be deemed a taxable distribution.

(g) The Committee shall be responsible for administering the loan program and shall establish written procedures for the application process for loans, the basis on which loans will be approved or denied, the procedure for determining a reasonable rate of interest, the limitations on amount or type of loans offered, the types of collateral which may secure a loan, and the events constituting default and the steps that will be taken to preserve the Plan assets in the event of default.

11.12 REPAYMENT OF DISTRIBUTED BENEFITS

(a) Any Participant who has received a distribution of the vested interest in his account due to the termination of employment with the Employer may repay the full amount of such distribution to the Plan if:

(1) the distribution was received in a Plan Year which commenced after December 31, 1975;

(2) the distribution was less than the present value of the Participant's Account Balance when distributed;

(3) the Participant resumes employment with the Employer covered under the Plan; and

(4) the Participant repays the full amount of distribution before the earlier of five (5) years after the first date on

which the Participant is subsequently re-employed by the Employer, or the close of the first period of five (5) consecutive one-year Breaks in Service commencing after the distribution.

Upon repayment of the distributed benefits, the Participant's Account Balances shall be recomputed by taking into account service performed by the Participant to which the repaid benefits are attributable, to the extent such service had been disregarded in determining the Account Balances because of the distribution.

(c) No repayments under this Section shall be subject to the limitation on contributions stated in Section 4.19 of this Plan.

(d) In the event of any other withdrawal, the repayment period shall be five (5) years after the date of the withdrawal.

11.13 Total Disability

If a Participant suffers a Total Disability, said Participant shall be fully vested in his Participant Account and the Committee may either make a distribution in any mode described in Section 1.5(e) or may defer payment until the Participant's Normal Retirement Date.

ARTICLE TWELVE

ANNUITY ELECTION

12.1 APPLICATION OF ARTICLE

The provisions of this Article shall apply to any Participant who is credited with at least one Hour of Service with the Employer on or after August 23, 1984, and such other Participants as provided in Section 12.7.

12.2 QUALIFIED JOINT AND SURVIVOR ANNUITY

If annuities are permitted as a form of benefit pursuant to Section 1.5(e) and unless an optional form of benefit is selected within the election period described in the second paragraph of Section 12.4(a), a married Participant's vested Account Balance will be paid in the form of a Qualified Joint and Survivor Annuity and an unmarried Participant's vested Account Balance will be paid in the form of a life annuity. The Participant may elect to have such annuity distributed upon attainment of the earliest retirement age under the Plan. Notwithstanding the foregoing, if this Plan accepts a transfer from another qualified plan which must be paid in the form of an annuity, such transferred amount will be paid as an annuity.

12.3 QUALIFIED PRE-RETIREMENT SURVIVOR ANNUITY

Unless an optional form of benefit has been selected within the election period pursuant to a qualified election, if a Participant dies before the annuity starting date then the Participant's vested Account Balance shall be applied toward the purchase of an annuity for the life of the surviving spouse. The surviving spouse may elect to have such annuity distributed within a reasonable period after the Participant's death.

12.4 DEFINITIONS FOR PURPOSES OF SURVIVOR ANNUITIES

(a) Election period: For purposes of the Pre-retirement Survivor Annuity, the period which begins on the first day of the Plan Year in which the Participant attains age 35 and ends on the date of the Participant's death. If a Participant separates from service prior to the first day of the Plan Year in which age 35 is attained, with respect to the Account Balance as of the date of separation, the election period shall begin on the date of separation.

For purposes of the Qualified Joint and Survivor Annuity, the election period shall mean the ninety (90) day period prior to the Annuity Starting Date.

Pre-age 35 waiver: A Participant who will not yet attain age 35 as of the end of any current plan year may make a special qualified election to waive the Qualified Pre-retirement Survivor Annuity for the period beginning on the date of such election and ending on the first day of the Plan Year in which the Participant will attain age 35. Such election shall not be valid unless the Participant receives a written explanation of the Qualified Pre-retirement Survivor Annuity in such terms as are comparable to the explanation required under Section 12.5(a). Qualified Pre-retirement Survivor Annuity coverage will be automatically reinstated as of the first day of the Plan Year in which the Participant attains age 35. Any new waiver on or after such date shall be subject to the full requirements of this Article.

(b) Earliest retirement age: The earliest date on which, under the Plan, the Participant could elect to receive retirement benefits.

(c) Qualified election: A waiver of a Qualified Joint and Survivor Annuity or a Qualified Pre-retirement Survivor Annuity. Any waiver of a Qualified Joint and Survivor Annuity or a Qualified Pre-retirement Survivor Annuity shall not be effective unless: (1) the Participant's spouse consents in writing to the election; (2) the Participant has designated a specific Beneficiary, including any class of beneficiaries or any contingent beneficiaries, which may not be changed without spousal consent (or the spouse expressly permits designations by the Participant without any further spousal consent); (3) the spouse's consent acknowledges the effect of the election; and (4) the spouse's consent is witnessed by a Plan representative or notary public. Additionally, a Participant's waiver of the Qualified Joint and Survivor Annuity shall not be effective unless the election designates a form of benefit payment which may not be changed without spousal consent (or the spouse expressly permits designations by the Participant without any further spousal consent). If it is established to the satisfaction of a Plan representative that there is no spouse or that the spouse cannot be located, a waiver will be deemed a qualified election.

Any consent by a spouse obtained under this provision (or establishment that the consent of a spouse may not be obtained) shall be effective only with respect to such spouse. A consent that permits designations by the Participant without any requirement of further consent by such spouse must acknowledge that the spouse has the right to limit consent to a specific Beneficiary, and a specific form of benefit where applicable, and that the spouse voluntarily elects to relinquish either or both of such rights. A revocation of a prior waiver may be made by a Participant without the consent of the spouse at any time before the commencement of benefits. The number of revocations shall not be limited. No consent obtained under this provision shall be valid unless the Participant has received notice as provided in Section 12.5 below.

(d) Spouse (surviving spouse): The spouse or surviving spouse of the Participant, provided that a former spouse will be treated as the spouse or surviving spouse and a current spouse will not be treated as the spouse or surviving spouse to the extent provided under a qualified domestic relations order as described in Section 414(p) of the Code.

(1) Notwithstanding the above, a Qualified Joint and Survivor Annuity, or a Qualified Pre-retirement Survivor Annuity, will not be provided unless the Participant and spouse had been married throughout the one (1) year period ending on the earlier of (i) the Participant's "annuity starting date," or (ii) the date of the Participant's death; provided, however, that if a Participant marries within one (1) year before the "annuity starting date," and the Participant and the Participant's spouse in such marriage have been married for at least a one (1) year period ending on or before the date of the Participant's death, such Participant and such spouse shall be treated as having been married throughout the one (1) year period ending on the Participant's "annuity starting date."

(e) Annuity starting date: The first day of the first period for which an amount is paid as an annuity or any other form.

(f) Vested Account Balance: The aggregate value of the Participant's vested Account Balances derived from Employer and Employee contributions (including rollovers), whether vested before or upon death, including the proceeds of insurance contracts, if any, on the Participant's life. The provisions of this Article shall apply to a Participant who is vested in amounts attributable to Employer Contributions, Employee contributions (or both) at the time of death or distribution.

(g) Applicable Election Period: In the case of an election to waive the Qualified Joint and Survivor Annuity form of benefit, the Annuity Election Period, or in the case of an election to waive the Qualified Pre-retirement Survivor Annuity form of benefit, the Survivor Annuity Election Period.

12.5 NOTICE REQUIREMENTS

(a) In the case of a Qualified Joint and Survivor Annuity, the Committee shall, no less than 30 days and no more than 90 days prior to the annuity starting date, provide each Participant a written explanation of: (i) the terms and conditions of a Qualified Joint and Survivor Annuity; (ii) the Participant's right to make and the effect of an election to waive the Qualified Joint and Survivor Annuity form of benefit; (iii) the rights of a Participant's spouse; and (iv) the right to make, and the effect of, a revocation of a previous election to waive the Qualified Joint and Survivor Annuity.

(b) In the case of a Qualified Pre-retirement Survivor Annuity as described in Section 12.3 of this Article, the Committee shall provide each Participant within the applicable period for such Participant, a written explanation of the Qualified Pre-retirement Survivor Annuity in such terms and in such manner as would be comparable to the explanation provided for meeting the requirements of Section 12.5(a) applicable to a qualified Joint and Survivor Annuity.

(c) The applicable period for a Participant is whichever of the following periods ends last: (i) the period beginning with the first day of the Plan Year in which the Participant attains age 32 and ending with the close of the Plan Year preceding the Plan Year in which the Participant attains age 35; (ii) a reasonable period ending after the individual becomes a Participant; (iii) a reasonable period ending after the Annuity is no longer fully subsidized; (iv) a reasonable period ending after this Article first applies to the Participant. Notwithstanding the foregoing, notice must be provided within a reasonable period ending after separation from service in the case of a Participant who separates from service before attaining age 35.

(d) For purposes of applying the preceding Section 12.5(c), a reasonable period ending after the enumerated events described in (ii), (iii) and (iv) is the end of the two-year period beginning one year prior to the date the applicable event occurs, and ending one year after that date. In the case of a Participant who separates from service before the Plan Year in which age 35 is attained, notice shall be provided within the two-year period beginning one year prior to separation and ending one year after separation. If such a Participant thereafter returns to employment with the Employer, the applicable period for such Participant shall be redetermined.

(e) Notwithstanding the other requirements of this Section 12.5, the respective notices prescribed by this Section need not be given to a Participant if (1) the Plan "fully subsidizes: the costs of a Qualified Joint and Survivor Annuity or Qualified Pre-retirement Survivor Annuity and does not allow a married Participant to designate a nonspouse beneficiary. For purposes of this Section, a plan fully subsidizes the costs of a benefit if no increase in cost, or decrease in benefits to the Participant may result from the Participant's failure to elect another benefit.

12.6 SAFE HARBOR RULES

(a) This Section shall apply to a Participant in a profit sharing plan, and to any distribution, made on or after the first day of the first Plan Year beginning after December 31, 1988, from or under a separate account attributable solely to accumulated deductible Employee contributions, as defined in Section 72(o)(5)(B) of the Code, and maintained on behalf of a

Participant in a money purchase pension plan, (including a target benefit plan) if the following conditions are satisfied: (1) the Participant does not or cannot elect payments in the form of a life annuity; and (2) on the death of a Participant, the Participant's vested account balance will be paid to the Participant's surviving spouse, but if there is no surviving spouse, or if the surviving spouse has consented in a manner conforming to a qualified election, then to the Participant's designated Beneficiary. The surviving spouse may elect to have distribution of the vested account balance commence within the 90-day period following the date of the Participant's death. The account balance shall be adjusted for gains or losses occurring after the Participant's death in accordance with the provisions of the Plan governing the adjustment of account balances for other types of distributions. This Section shall not be operative with respect to a Participant in a profit sharing plan if the plan is a direct or indirect transferee of a defined benefit plan, money purchase plan, a target benefit plan, stock bonus, or profit sharing plan which is subject to the survivor annuity requirements of Section 401(a)(11) and Section 417 of the Code. If this Section is operative, then the provisions of this Article, other than Section 12.7, shall be inoperative.

(b) The Participant may waive the spousal death benefit described in this Section at any time provided that no such waiver shall be effective unless it satisfies the conditions (described in Section 12.4(c)) that would apply to the Participant's waiver of the Qualified Pre-retirement Survivor Annuity.

(c) For purposes of this Section, vested account balance shall mean, in the case of a money purchase pension plan or a target benefit plan, the Participant's separate account balance attributable solely to accumulated deductible Employee contributions within the meaning of Section 72(o)(5)(B) of the Code. In the case of a profit sharing plan, vested account balance shall have the same meaning as provided in Section 12.4(f).

12.7 TRANSITIONAL RULES

(a) Any living Participant not receiving benefits on August 23, 1984, who would otherwise not receive the benefits prescribed by the previous Sections of this Article must be given the opportunity to elect to have the prior Sections of this Article apply if such Participant is credited with at least one Hour of Service under this Plan or a predecessor plan in a Plan Year beginning on or after January 1, 1976, and such Participant had at least ten (10) years of vesting service when the Participant separated from service.

(b) Any living Participant not receiving benefits on August 23, 1984, who was credited with at least one Hour of Service under this Plan or a predecessor plan on or after September 2, 1974, and who is not otherwise credited with any service in a Plan Year

beginning on or after January 1, 1976, must be given the opportunity to have the Participant's benefits paid in accordance with Section 12.7(d) of this Article.

(c) The respective opportunities to elect (as described in Section 12.7(a) and Section 12.7(b) above) must be afforded to the appropriate Participants during the period commencing on August 23, 1984, and ending on the date benefits would otherwise commence to said Participants.

(d) Any Participant who has elected pursuant to Section 12.7(b) of this Article and any Participant who does not elect under Section 12.7(a) or who meets the requirements of Section 12.7(a) except that such Participant does not have at least ten (10) years of vesting service when the Participant separates from service, shall have the Participant's benefits distributed in accordance with all of the following requirements if benefits would have been payable in the form of a life annuity:

(1) Automatic joint and survivor annuity. If benefits in the form of a life annuity become payable to a married Participant who:

(i) begins to receive payments under the Plan on or after Normal Retirement Age; or

(ii) dies on or after Normal Retirement Age while still working for the Employer; or

(iii) begins to receive payments on or after the qualified early retirement age; or

(iv) separates from service on or after attaining Normal Retirement Age (or the qualified early retirement age) and after satisfying the eligibility requirements for the payment of benefits under the Plan and thereafter dies before beginning to receive such benefits;

then such benefits will be received under this Plan in the form of a Qualified Joint and Survivor Annuity, unless the Participant has elected otherwise during the election period. The election period must begin at least 6 months before the Participant attains qualified early retirement age and end not more than 90 days before the commencement of benefits. Any election hereunder will be in writing and may be changed by the Participant at any time.

(2) Election of early survivor annuity. A Participant who is employed after attaining the qualified early retirement age will be given the opportunity to elect, during the election period, to have a survivor annuity payable on death. If the Participant elects the survivor annuity, payments under such

annuity must not be less than the payments which would have been made to the spouse under the Qualified Joint and Survivor Annuity if the Participant had retired on the day before the Participant's death. Any election under this provision will be in writing and may be changed by the Participant at any time. The election period begins on the later of (1) the 90th day before the Participant attains the qualified early retirement age, or (2) the date on which participation begins, and ends on the date the Participant terminates employment.

(3) For purposes of this Section 12.7(d):

(i) Qualified early retirement age is the latest of:

(a) the earliest date, under the Plan, on which the Participant may elect to receive retirement benefits,

(b) the first day of the 120th month beginning before the Participant reaches Normal Retirement Age, or

(c) the date the Participant begins participation.

(ii) Qualified Joint and Survivor Annuity is an annuity for the life of the Participant with an survivor annuity for the life of the spouse as described in Section 2.41 of Article Two.

12.8 CASH-OUTS

(a) If the value of a Participant's vested account balance derived From Employer and Employee contributions exceeds (or at the time of any prior distribution exceeded) $3,500, and the account balance is immediately distributable, the Participant and the Participant's spouse (or where either the Participant or the spouse has died, the survivor) must consent to any distribution of such account balance. The consent of the Participant and the Participant's spouse shall be obtained in writing within the 90-day period ending on the annuity starting date. The annuity starting date is the first day of the first period for which an amount is paid as an annuity or any other form. The Committee shall notify the Participant and the Participant's spouse of the right to defer any distribution until the Participant's account balance is no longer immediately distributable. Such notification shall include a general description of the material features, and an explanation of the relative values of, the optional forms of benefit available under the Plan in a manner that would satisfy the notice requirements of Section 417(a)(3) of the Code, and shall be provided no less than 30 days and no more than 90 days prior to the annuity starting date.

(b) Notwithstanding the foregoing, only the Participant need consent to the commencement of a distribution in the form of a Qualified Joint and Survivor Annuity while the account balance is immediately distributable. (Furthermore, if payment in the form of a Qualified Joint and Survivor Annuity is not required with respect to the Participant pursuant to Section 12.2 of the Plan, only the Participant need consent to the distribution of an account balance that is immediately distributable.) Neither the consent of the Participant nor the Participant's spouse shall be required to the extent that a distribution is required to satisfy Section 401(a)(9) or Section 415 of the Code. In addition, upon termination of this Plan if the Plan does not offer an annuity option (purchased from a commercial provider), the Participant's account balance may, without the Participant's consent, be distributed to the Participant or transferred to another defined contribution plan (other than an Employee stock ownership plan as defined in Section 4975(e)(7) of the Code) within the same controlled group.

(c) An account balance is immediately distributable if any part of the account balance could be distributed to the Participant (or surviving spouse) before the Participant attains (or would have attained if not deceased) the later of Normal Retirement Age or age 62.

(d) For purposes of determining the applicability of the foregoing consent requirements to distribution made before the first day of the first Plan Year beginning after December 31, 1988, the Participant's vested account balance shall not include amounts attributable to accumulated deductible Employee contributions within the meaning of Section 72(o)(5)(B) of the Code.

ARTICLE THIRTEEN

PAYMENTS UPON DEATH

13.1 SELECTION OF BENEFICIARY

If the Participant does not designate a Beneficiary, then the Committee shall select a Beneficiary in accord with the provisions of Section 2.6 to receive proceeds payable upon the death of such Participant and shall select any available method of payment. If the Beneficiary designated by the Participant is other than the Participant's spouse, the Participant must furnish to the Committee the written consent of the Participant's spouse in accordance with Section 12.4(c) of the Plan.

13.2 PROCEDURE UPON DEATH

(a) Subject to Article One, upon the death of a Participant, or a terminated or retired Participant for whom benefits are still held hereunder by the Trustee, the Beneficiary or legal representative of the decedent shall make an application for benefits to the Committee. If the application for benefits is granted, the Committee shall cooperate with the Beneficiary so that the Beneficiary may receive the benefits so held by the Trustee for such present or former Participant and shall suitably direct the Trustee as to the action to be taken by the Trustee hereunder. If the death of a Participant occurs prior to the Participant's Normal Retirement Date and before receipt of any payment hereunder, the benefit payable to the surviving spouse or other Beneficiary designated in accordance with the terms of the Plan shall be (i) the amount payable under any insurance and annuity contracts, and (ii) an amount equal to the Participant's Account and Employee Contribution Account not attributable to such insurance or annuity contracts. Such death benefit shall be incidental and shall take into account amounts paid as a Qualified Pre-Retirement Survivor Annuity or a Qualified Joint and Survivor Annuity, if applicable under the Plan.

(b) The Committee shall direct the Trustee to distribute the benefits so determined to the Beneficiary designated, if any, otherwise to the surviving spouse of the deceased Participant, if any, otherwise to the executor or administrator of the Participant's estate in a form equivalent to a Qualified Pre-retirement Survivor Annuity, unless otherwise elected in accordance with Article Twelve hereof. If so elected, then such distribution shall be in the form of an optional mode in accordance with Section 11.2 of the Plan.

(c) If the Participant dies after distribution of the Participant's interest has commenced, the remaining portion of such interest will continue to be distributed at least as rapidly as under the

method of distribution being used prior to the Participant's death.

(d) If the Participant dies before distribution of the Participant's interest commences, the Participant's entire interest will be distributed no later than five (5) years after the Participant's death unless distribution is made in accordance with the following options:

(i) if any portion of the Participant's interest is payable to a designated Beneficiary, distributions may be made in substantially equal installments over the life or life expectancy of the designated Beneficiary commencing no later than one (1) year after the Participant's death;

(ii) if the designated Beneficiary is the Participant's surviving spouse, the date distributions are required to begin in accordance with (i) above shall not be earlier than the date on which the Participant would have attained age seventy and one-half (70-1/2), and, if the spouse dies before payments begin, subsequent distributions shall be made as if the spouse had been the Participant.

(e) For purposes of Section 13.2(d) above, payments will be calculated by use of the return multiples specified in Section 1.72-9 of the Regulations under the Code. Life expectancy of a surviving spouse may be recalculated annually, however, in the case of any other designated Beneficiary, such life expectancy will be calculated at the time payment first commences without further recalculation.

(f) For purposes of this Section, any amount paid to a child of the Participant will be treated as if it had been paid to the surviving spouse if the amount becomes payable to the surviving spouse when the child reaches the age of majority.

13.3 PAYMENT OF TAXES

If the whole or any portion of the Trust Fund shall become liable for the payment of any income, estate, inheritance or other tax, charge or assessment which the Trustee may be required to pay, the Trustee is hereby authorized to pay any such tax, charge or assessment from any money or other property held for the account of the person whose interest in the Trust Fund is still liable. At least ten (10) days prior to any such payment, the Trustee shall notify the Committee in writing of its intention to make such payment, and the Trustee may require such receipts, releases or other document from the taxing authority as it may deem necessary.

ARTICLE FOURTEEN

SPECIAL RULES FOR TOP-HEAVY PLANS

14.1 CONTINGENT RULES

If the Plan is or becomes top-heavy in any Plan Year beginning after December 31, 1983, the provisions of Sections 14.1(a), 14.1(d) and 14.1(h) will supersede any conflicting provisions in the Plan.

(a) For any Plan Year in which this Plan is top-heavy, the minimum vesting schedule of Section 1.4(c) will automatically apply to the Plan. In no event shall the vesting schedule in Section 1.4(c) fail to satisfy the requirements of Code Section 416(b). The minimum vesting schedule applies to all benefits within the meaning of Section 411(a)(7) of the Code except those attributable to Employee contributions, including benefits accrued before the Effective Date oF Section 416 and benefits accrued before the Plan became top-heavy. Further, no decrease in a Participant's nonforfeitable percentage may occur in the event the Plan's status as top-heavy changes for the Plan Year. However, this Section does not apply to the account balances of any Employee who does not have an Hour of Service after the Plan has initially become top-heavy and such Employee's vested account balance attributable to Employer Contributions and forfeitures will be determined without regard to this Paragraph.

(b) Except to the extent inconsistent with the provisions of this Section, the rules of Article Five shall apply for purposes of this Section. All Account Balances must be subject to the minimum vesting schedule including benefits accrued before January 1, 1984 and benefits accrued before the Plan becomes a Top-Heavy Plan.

(c) In any Plan Year in which the Plan ceases to be a Top-Heavy Plan, the vesting schedule may change to the vesting schedule set forth in Section 1.4(b) herein. However, any portion of the Account 6balance that was nonforfeitable before the Plan ceased to be a Top-Heavy Plan must remain nonforfeitable and any Participant with three (3) or more Years of Service must be given the option of remaining under the prior minimum vesting schedule set forth in this Article. An election by the Participant will be in accordance with the period provided under Section 5.6 of this Plan.

(d) Except as otherwise provided in Sections 14.1(f) and 14.1(g) below, the Employer Contributions and forfeitures allocated on behalf of any Participant who is not a Key Employee shall not be less than the lesser of the amount set forth in Section 1.3(j) or in the case where the Employer has no defined benefit plan which designates this Plan to satisfy Section 401 of the Code, the largest percentage of Employer Contributions and forfeitures,

which is allocated on behalf of any Key Employee for that year. The minimum allocation is determined without regard to any Social Security contribution. This minimum allocation shall be made even though, under other Plan provisions, the Participant would not otherwise be entitled to receive an allocation, or would have received a lesser allocation for the year because of (i) the Participant's failure to complete 1,000 Hours of Service (or any equivalent provided in the Plan), or (ii) the Participant's failure to make mandatory Employee contributions to the Plan, or (iii) Compensation less than a stated amount.

(e) For purposes of computing the minimum allocation, Compensation shall mean 415 Compensation as defined in Section 4.19(m)(l) of the Plan. However, the Employer may elect, on a uniform, consistent and nondiscriminatory basis, to define Compensation for purposes of this Section 14.1(e) as W-2 Compensation.

For purposes of determining who is a Key Employee, Compensation shall be defined as Code Section 415(c)(3) compensation, including within such compensation amounts contributed by the Employer pursuant to a cash or deferred arrangement.

(f) The provision in Section 14.1(d) above shall not apply to any Participant who was not employed by the Employer on the last day of the Plan Year unless otherwise required by Section 1.3(c)(5) and Section 1.3(d)(3).

(g) The provision in 14.1(d) above shall not apply to any Participant to the extent the Participant is covered under any other plan or plans of the Employer and the Employer has provided in Section 1.3(e) that the minimum allocation or benefit requirement applicable to Top-Heavy Plans will be met in the other plan or plans.

(1) For purposes of this subsection, all defined contribution plans required to be included in an Aggregation Group shall be treated as one plan.

(2) This Paragraph shall not apply if the Plan is required to be included in an Aggregation Group and the Plan enables a defined benefit plan required to be included in such group to meet the requirements of Section 401(a)(4) or Section 410 of the Code.

(3) All Employer Contributions attributable to salary reduction, Participant deferral or similar arrangement shall be taken into account in determining minimum contributions under this Section.

(h) With respect to limitation on Compensation, the Plan meets the requirements of this Paragraph if the Compensation of each Participant taken into account under the Plan does not exceed the

first Two Hundred Thousand Dollars ($200,000.00) for each Top-Heavy Plan Year.

(i) The limitation on Compensation shall be automatically adjusted in accordance with Regulations under Section 416 of the Code.

(j) The minimum allocation required (to the extent required to be nonforfeitable under Section 416(b) of the Code) may not be forfeited under Section 411(a)(3)(D) or 411(a)(3)(D) of the Code.

14.2 NO IMPUTED SOCIAL SECURITY BENEFITS

A Top-Heavy Plan shall not be treated as meeting the minimum vesting and benefit requirements under this Article unless such Plan meets the requirements without taking into account contributions or benefits under Chapters 2 or 21 of the Code, Title II of the Social Security Act, or any other Federal or State law.

14.3 COORDINATION OF TWO OR MORE PLANS OF EMPLOYER

A minimum contribution equal to the amount stated in Section 1.3(k) shall be made for all eligible Non-Key Employees. In the event that no election has been made under Section 1.3(k), where the Employer maintains a defined benefit plan and a defined contribution plan, Non-Key Employees who participate under both plans will be entitled to a guaranteed minimum contribution equal to five percent (5%) of Compensation from the defined contribution plan on a non-integrated basis; however, if no defined contribution plan is maintained by the Employer, or if the required defined contribution plan contribution is less than five percent (5%) of Compensation, then Non-Key Employees will be entitled to guaranteed minimum benefits from the Employer's defined benefit pension plan.

14.4 BENEFITS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DETERMINING WHETHER SUCH PLAN IS A TOP-HEAVY PLAN

In determining whether such Plan is a Top-Heavy Plan (or whether any Aggregation Group which includes such Plan is a Top-Heavy Group), the following benefits shall not be taken into account:

(a) Except to the extent provided in Regulations under the Code, any rollover contribution (or similar transfer) initiated by the Participant and made after December 31, 1983, to a Plan shall not be taken into account with respect to the transferee Plan; and

(b) If any Participant is a Non-Key Employee with respect to the Plan for any Plan Year, but such Participant was a Key Employee with respect to such Plan for any prior Plan Year, the account of such Participant shall not be taken into account.

14.5 ADJUSTMENT TO SECTION 415 LIMITATIONS FOR TOP-HEAVY PLANS

In any Plan Year in which the Plan is a Top-Heavy Plan, and the Employer maintains both a defined benefit and a defined contribution plan, the Plan fractions, as set forth in the definitions of Defined Benefit Plan Fraction and Defined Contribution Plan Fraction hereof, shall be applied by substituting "1.0" for "1.25".

14.6 EXCEPTION WHERE BENEFITS FOR KEY EMPLOYEES DO NOT EXCEED 90% OF TOTAL BENEFITS AND ADDITIONAL CONTRIBUTIONS ARE MADE FOR NON-KEY EMPLOYEES

Plan Section 14.5 shall not apply with respect to any Plan Year in which the Plan is a Top-Heavy Plan if the requirements of Sections 14.6(a) and 14.6(b) below are met with respect to this Plan:

(a) With respect to minimum benefit requirements, the Employer Contributions for the Plan Year for each Participant who is a Non-Key Employee shall not be less than four percent (4%) of such Participant's Compensation.

Except to the extent inconsistent with the provisions of this subsection, the rules of Section 14.1 of this Plan shall apply for purposes of this subsection.

(b) With respect to minimum total benefits for Key Employees, the Plan will meet the requirements of this Section if the Plan would not be a Top-Heavy Plan if "90%" were substituted for "60%" each place it appears in the definition of Top-Heavy Plan herein.

14.7 TRANSITIONAL RULE

If, but for this Section, Section 14.5 would begin to apply with respect to any Plan Year in which the Plan is a Top-Heavy Plan, the application of Section 14.5 shall be suspended with respect to any Participant so long as there are no Employer Contributions, forfeitures or voluntary nondeductible contributions allocated to such Participant.

14.8 TOP-HEAVY DEFINITIONS

(a) Top-heavy ratio:

(1) If the Employer maintains one or more defined contribution plans (including any simplified employee pension plan) and the Employer has not maintained any defined benefit plan which during the 5-year period ending on the Determination Date(s) has or has had accrued benefits, the top-heavy ratio for this Plan alone or for the required or permissive Aggregation Group as appropriate is a fraction, the numerator of which is the sum of the account balances of all Key Employees as of the Determination Date(s) (including any part of any account balance distributed in the 5-year period ending on the Determination Date(s)), and the

denominator of which is the sum of all account balances (including any part of any account balance distributed in the 5-year period ending on the Determination Date(s)), both computed in accordance with Section 416 of the Code and the regulations thereunder. Both the numerator and denominator of the top-heavy ratio are increased to reflect any contribution not actually made as of the Determination Date, but which is required to be taken into account on that date under Section 416 of the Code and the regulations thereunder.

(2) If the Employer maintains one or more defined contribution plans (including any simplified employee pension plan) and the Employer maintains or has maintained one or more defined benefit plans which during the 5-year period ending on the Determination Date(s) has or has had any accrued benefits, the top-heavy ratio for any required or permissive Aggregation Group as appropriate is a fraction, the numerator of which is the sum of account balances under the aggregated defined contribution plan or plans for all Key Employees, determined in accordance with (a) above, and the present value of accrued benefits under the aggregated defined benefit plan or plans for all Key Employees as of the Determination Date(s), and the denominator of which is the sum of the account balances under the aggregated defined contribution plan or plans for all Participants, determined in accordance with (a) above, and the present value of accrued benefits under the defined benefit plan or plans for all Participants as of the Determination Date(s), all determined in accordance with Section 416 of the Code and the regulations thereunder. The accrued benefits under a defined benefit plan in both the numerator and denominator of the top-heavy ratio are increased for any distribution of an accrued benefit made in the five-year period ending on the Determination Date.

(3) For purposes of (a) and (b) above the value of account balances and the present value of accrued benefits will be determined as of the most recent valuation date that falls within or ends with the twelve (12) month period ending on the Determination Date, except as provided in Section 416 of the Code and the Regulations thereunder for the first and second plan years of a defined benefit plan. The account balances and accrued benefits of a Participant (1) who is not a Key Employee but who was a Key Employee in a prior year, or (2) who has not been credited with at least one Hour of Service with any Employer maintaining the Plan at any time during the 5-year period ending on the Determination Date will be disregarded. The calculation of the top-heavy ratio, and the extent to which distributions, rollovers, and transfers are taken into account will be made in accordance with Section 416 of the Code and the Regulations thereunder. Deductible Employee contributions will not be taken into account for purposes of computing the top-heavy ratio. When

aggregating Plans the value of account balances and accrued benefits will be calculated with reference to the Determination Dates that fall within the same calendar year.

The accrued benefit of a Participant other than a Key Employee shall be determined under (a) the method, if any, that uniformly applies for accrual purposes under all defined benefit plans maintained by the Employer, or (b) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule of Section 411(b)(1)(C) of the Code.

(4) Permissive Aggregation Group: The required Aggregation Group of Plans plus any other plan or plans of the Employer which, when considered as a group with the required Aggregation Group, would continue to satisfy the requirements of Sections 401(a)(4) and 410 of the Code.

(5) Required Aggregation Group: (1) Each qualified plan of the Employer in which at least one Key Employee participates or participated at any time during the determination period (regardless of whether the Plan has terminated), and (2) any other qualified plan of the Employer which enables a plan described in (1) to meet the requirements of Sections 401(a)(4) or 410 of the Code.

(6) Determination Date: For any Plan Year subsequent to the first Plan Year, the last day of the preceding Plan Year. For the first Plan Year of the Plan, the last day of that year.

(7) Top-Heavy Group: Any Aggregation Group if the sum (as of the Determination Date) of (i) the present value of the cumulative accrued benefits for Key Employees under all defined benefit plans included in such group, and (ii) the aggregate of the accounts of Key Employees under all defined contribution plans included in such group, exceed sixty percent (60%) of a similar sum determined for all Employees, excluding former Key Employees. For purposes of determining the present value of the cumulative benefit for any Participant, or the amount of the account of any Participant, such present value or amount shall be determined in accordance with Regulations issued by the Department of Treasury and such present value or amount shall be increased by the aggregate distributions made with respect to such Participant under the Plan during the five (5) year period ending on the Determination Date.

Account balances shall be determined as of the most recent valuation date occurring within a twelve (12) month period ending on the Determination Date and shall be adjusted for contributions due or made as of the Determination Date.

If an Aggregation Group includes two (2) or more defined benefit plans, the same actuarial assumptions must be used with respect to all such plans and must be specified in such plans.

(8) Top-heavy Plan shall mean for any Plan Year beginning after December 31, 1983, this Plan is top-heavy if any of the following conditions exists:

(i) if the top-heavy ratio for this Plan exceeds 60 percent and this Plan is not part of any required Aggregation Group or permissive Aggregation Group of plans, or

(ii) if this Plan is part of a required Aggregation Group of plans but not part of a permissive Aggregation Group and the top-heavy ratio for the group or plans exceeds sixty (60) percent, or

(iii) if this Plan is part of a required Aggregation Group and part of a permissive Aggregation Group of plans and the top-heavy ratio for the permissive Aggregation Group exceeds 60 percent.

ARTICLE FIFTEEN

AMENDMENT, TERMINATION AND MERGER

15.1 AMENDMENT OF PLAN

The Employer shall have the right to amend this Plan from time to time, and to amend or cancel any amendments. Such amendments shall be stated in an instrument in writing, executed by the Employer in the same manner as this Plan. This Plan shall be amended in the manner and at the time therein set forth, and all Participants shall be bound thereby, subject to the following:

(a) No amendment shall cause any of the assets of the Trust to be used for or diverted to purposes other than for the exclusive benefit of Participants or their Beneficiaries.

(b) No amendment shall have any retroactive effect which deprives any Participant of any benefit already vested, except that such changes, if any, as may be required to permit the Plan to meet the requirements of the Code, or of the corresponding provisions of any subsequent revenue law, may be made to assure the deductibility for tax purposes of any Employer Contributions.

(c) No amendment shall have the effect of reducing early retirement benefits or other optional retirement benefits under the Plan accrued to the date of the amendment for any Participant who at any time on or after the amendment satisfied the pre-amendment conditions for such benefits.

(d) No amendment shall have the effect of eliminating "Code Section 411(d)(6) protected benefits" without preserving such benefits as of the later of the adoption or effective date of such amendment.

(e) No amendment shall create or effect any discrimination in favor of Participants who are officers, shareholders or Highly Compensated Employees.

(f) No amendment shall increase the duties or liabilities of the Trustee without the Trustee's written consent.

(g) No amendment shall decrease a Participant's Account balance or eliminate an optional mode of distribution except to the extent permitted under Section 412(c)(8) of the Code.

15.2 DISCONTINUANCE AND TERMINATION

(a) This Plan is irrevocable and it is the expectation of the Employer that this Plan and the payment of contributions hereunder will be continued indefinitely, but continuance of the Plan is not assumed

as a contractual obligation of the Employer, and the right is reserved at any time to reduce, suspend or discontinue contributions hereunder. In the event of a complete discontinuance of Employer Contributions, each Participant shall have a one hundred percent (100%) vested interest in his Account.

(b) The Employer may terminate this Plan at any time upon fifteen (15) days' written notice to the Trustee. Upon termination, or partial termination, of the Plan or upon complete discontinuance of contributions to the Plan, the entire interest of each of the Participants shall immediately vest one hundred percent (100%). The Trustee shall, with reasonable promptness, liquidate all assets remaining in the Trust. Upon the liquidation of all assets and after deducting estimated expense for liquidation and distribution, the Committee shall make the allocations required under Article Four, where applicable, with the same effect as though the date of completion of liquidation was an Anniversary Date of the Plan. Following these allocations, the Trustee shall promptly distribute to each former Participant a benefit equal to the amount credited to the Participant's accounts as of the date of completion of liquidation, after receipt of appropriate instructions from the Committee.

15.3 MERGER AND CONSOLIDATION

In the event that this Plan merges or consolidates with, or transfers its assets or liabilities to, any other qualified plan of deferred compensation, no Participant shall, solely on account of such merger, consolidation or transfer, be entitled to a benefit on the day following such event which is less than the benefit to which the Participant was entitled on the day preceding such event. For the purpose of this Section, the benefit to which a Participant is entitled shall be calculated based upon the assumption that a Plan termination and distribution of assets occurred on the day as of which the amount of the Participant's entitlement is being determined.

ARTICLE SIXTEEN

MISCELLANEOUS PROVISIONS

16.1 LIMITATION ON EMPLOYEES' RIGHTS

Participation in this Plan shall not give any Employee the right to be retained in the Employer's employ or any right or interest in the Plan or Trust other than as herein provided. The Employer reserves the right to dismiss any Employee without any liability for any claim either against the Plan or Trust, except to the extent provided herein, or against the Employer.

16.2 NON-ASSIGNABILITY

(a) The policies and benefits hereunder are intended for the protection of the Participants and their Beneficiaries. No retirement income insurance or annuity policy or Trust property shall be transferable except by the Trustee as directed by the Committee. No part of or interest in or under this Trust shall be transferable or assignable in any manner, either by voluntary or involuntary act of such Employee or Beneficiary or by operation of law, nor shall the same be liable or be taken for any debt, liability, contract or any other obligation of any such Employee or Beneficiary, except that the Committee may permit the voluntary, revocable assignment of up to ten percent (10%) of any benefit payment by any Participant who is receiving benefits under the Plan.

(b) No benefit or interest available hereunder will be subject to assignment or alienation, either voluntarily or involuntarily. The preceding sentence shall also apply to the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant pursuant to a domestic relations order, unless such order is determined to be a qualified domestic relations order, as defined in Section 414(p) of the Code, or any domestic relations order entered before January 1, 1985.

16.3 QUALIFIED DOMESTIC RELATIONS ORDERS

In the case of any domestic relations order, regardless of whether such order is a "qualified domestic relations order", within the meaning of Section 414(p) of the Code, received by the Plan, the Committee shall notify the Participant to whom the order relates and any "alternate payee" of the receipt of such order and the Plan's procedures for determining whether such order is a "qualified domestic relations order", within the meaning of Section 414(p) of the Code. Within eighteen 18 months after receipt of such order, the Committee shall determine whether such order is a "qualified domestic relations order", within the meaning of Section 414(p) of the Code, and shall notify the

Participant to whom the order relates and each "alternate payee" of such determination.

(b) During any period in which the issue of whether a domestic relations order is a "qualified domestic relations order", within the meaning of Section 414(p) of the Code, is being determined (by the Committee, by a court of competent jurisdiction or otherwise), the Committee shall direct the Trustee to segregate in a separate account in the Plan or in an escrow account the amounts which would have been payable to the "alternate payee" during such period if the order had been determined to be a "qualified domestic relations order", within the meaning of Section 414(p) of the Code. Such segregation is not required for amounts that would not otherwise be paid during the period of the determination.

(c) If, within eighteen (18) months after receipt by the Plan of a domestic relations order, the order (or modification thereof) is determined to be a "qualified domestic relations order", within the meaning of Section 414(p) of the Code, the Committee shall direct the Trustee to pay the amounts segregated pursuant to Section 16.3(b) (plus any interest thereon) to the person or persons entitled thereto. If, however, within such eighteen (18) month period (i) it is determined that such order is not a "qualified domestic relations order", within the meaning of Section 414(p) of the Code, or (ii) the issue as to whether such order is a "qualified domestic relations order" is not resolved, the Committee may direct the Trustee: (1) to return the segregated amounts to the Participant's (Non-alternate payee) Account(s) --in the case of an active Participant; (2) to set up an account for the benefit of the alternate payee for such money until such time the issue is resolved ; or, (3) to pay the amounts segregated pursuant to Section 16.3(b) (plus any interest thereon) to the person or persons who would have been entitled to such amounts if there had been no order, subject to the payee executing a release exempting the Plan and Trust from any future obligations resulting from the domestic relations proceedings. Any determination that an order is a "qualified domestic relations order" which is made after the close of such eighteen (18) month period shall be applied prospectively only.

(d) The Committee shall establish reasonable procedures to determine whether domestic relations orders are "qualified domestic relations orders", within the meaning of Section 414(p) of the Code, and to administer distributions under "qualified domestic relations orders". Such procedures (i) shall be in writing, (ii) shall provide for the notification, at the address included in the domestic relations order, of each person specified in a domestic relations order as entitled to payment of benefits under the Plan of such procedures promptly upon receipt of the Plan of the domestic relations order and (iii) shall permit an "alternative payee" to designate a representative for receipt of copies of notices that are sent to the "alternate payee" with respect to a domestic relations order.

(e) To the extent provided in any "qualified domestic relations order", within the meaning of Section 414(p) of the Code, the former spouse of a Participant shall be treated as a surviving spouse of such Participant for purposes of Sections 12.2 through Section 12.7 of this Plan (relating to Qualified Pre-retirement Survivor Annuities and Qualified Joint and Survivor Annuities) and, if married to the Participant for at least one (1) year, the surviving spouse shall be treated as meeting the requirements of Section 12.4(d) of this Plan.

(f) Special Definitions- For purposes of this Section 16.3, the following terms are defined as follows:

(1) "Alternate payee" shall mean any spouse, former spouse, child or other dependent of a Participant who is recognized by a domestic relations order as having a right to receive all, or a portion, of the Account Balances payable under this Plan with respect to such Participant.

(2) "Domestic relations order" shall mean any judgment, decree or order (including approval of a property settlement agreement) which (A) relates to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child, or other dependent of a Participant and (B) is made pursuant to a State domestic relations law (including a community property law).

(3) "Qualified domestic relations order" shall mean a domestic relations order which creates or recognizes the existence of an alternate payee's right to, or assigns to an alternate payee the right to, receive all or a portion of the Account Balances payable with respect to a Participant under this Plan and which meets the requirements set forth in Sections 414(p)(2) and (3) of the Code.

16.4 CONTINUATION OF BUSINESS

In the event of the termination of the business conducted by the Employer for any reason, this Trust may be terminated unless a successor to such business, by whatever form or manner results, notifies the Trustee and all of the Participants that it elects to continue this Plan and Trust, in which event it shall continue without the necessity of executing a supplemental agreement. The successor shall thereupon succeed to all rights, powers and duties of the Employer hereunder, and the employment of any Participant who is continued in the employ of such successor shall not be deemed to have terminated or severed for any purpose hereunder. Notwithstanding the foregoing, the Trustee shall have the right at any time to require any such successor to execute a supplemental agreement continuing the Plan and Trust.

16.5 CONTRIBUTIONS NOT RECOVERABLE

(a) It shall be impossible at any time prior to the satisfaction of all liabilities with respect to Participants and their Beneficiaries for any part of the principal or income to be used for, or diverted to, purposes other than the exclusive benefit of Participants or their Beneficiaries. Under no circumstances or conditions whatsoever shall any Trust revert to or inure to the Employer's interest prior to the satisfaction of all liabilities under this Plan. Any cash or property of any kind in this Trust which is not payable to a Participant or to the Participant's Beneficiary or estate shall be applied by the Trustee toward the payment of the next succeeding premiums as they may become due.

(b) Any contribution made by the Employer because of a mistake of fact may be returned to the Employer within one year of the contribution.

(c) The Employer reserves the right to recover at termination of the Plan and Trust any balance remaining in the Trust which is due to erroneous actuarial computation. Further, amounts properly allocated to a suspense account may be returned to the Employer upon termination.

(d) In the event that the Commissioner of Internal Revenue determines that the Plan is not initially qualified under the Code, any contribution made incident to that initial qualification by the Employer must be returned to the Employer within one year after the date the initial qualification is denied, but only if the application for the qualification is made by the time prescribed by law for filing the Employer's return for the taxable year in which the Plan is adopted, or such later date as the Secretary of the Treasury may prescribe.

16.6 PAYMENTS TO DISABLED PERSONS

The Trustee may make payments or assign policies to Participants or Beneficiaries under disability by making said payment or assigning said policies to the conservator or guardian of the persons of such Employees or Beneficiaries without the intervention of any Court, and the Trustee is hereby exonerated of and from all liability or responsibility for or by reason thereof.

16.7 FIDUCIARY RESPONSIBILITY

(a) Each Fiduciary of the Plan shall discharge the Fiduciary's duties solely in the interests of the Participants and their Beneficiaries. Each Fiduciary of the Plan shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in conducting an enterprise of like character and with like aims. Fiduciaries shall diversify

Plan assets to minimize risk of large losses, unless under the circumstances it is clearly prudent not to do so.

(b) A Fiduciary of the Plan shall be liable for the breach of the Fiduciary standard of conduct by another Fiduciary if the Fiduciary knowingly participates in a breach of such standard committed by the other Fiduciary. A Fiduciary of the Plan shall be liable for breach of the Fiduciary standard of conduct by another Fiduciary of the Plan if the Fiduciary knowingly undertakes to conceal a breach committed by the other.

(c) Except as otherwise allowed by law or provided in this Plan, a Fiduciary shall not cause the Plan to engage in a transaction if such transaction is not exempt from the prohibited transaction rules of ERISA and if the Fiduciary knows or should know that such transaction constitutes a direct or indirect:

(1) Sale or exchange, or leasing, of any property between the Plan and a Party-in-Interest;

(2) Lending of money or other extension of credit between the Plan and a Party-in-Interest;

(3) Furnishing of goods, services, or facilities between the Plan and a Party-in-Interest;

(4) Transfer to, or use by or for the benefit of, a Party-in Interest, of any assets of the Plan; or

(5) Acquisition, on behalf of the Plan, of any Employer security or Employer real property in violation of Section 407(a) of ERISA.

(d) Except as otherwise allowed by law or provided in this Plan, a Fiduciary shall not:

(1) Deal with the assets of the Plan in the Fiduciary's own interest or for the Fiduciary's own account;

(2) In the fiduciary, individual or in any other capacity, act in any transaction involving the Plan on behalf of a party (or represent a party) whose interests are adverse to the interests of the Plan or the interests of the Plan's Participants or Beneficiaries; or

(3) Receive any consideration for the Fiduciary's personal account from any party dealing with the Plan in connection with a transaction involving the assets of the Plan.

16.8 CONDITIONAL CONTRIBUTIONS

Notwithstanding anything to the contrary herein contained, as of July 1, 1976, contributions of the Employer shall be, and hereby are,

made subject to the conditions that (i) the Plan and Trust qualify as a tax exempt Plan under Section 401 of the Code and (ii) such contributions are deductible under Section 404 of the Code. In the event that it is determined that the Plan and Trust shall not so qualify, any contribution of the Employer made while the Plan and Trust shall not have qualified shall be repaid to the Employer, in whole or in part, by the Trustee within one (1) year after the date of the denial of qualification of the Plan and Trust. In the event that there is a determination that a deduction for the Employer's contribution shall be disallowed, the excess of such contribution over the amount that would have been contributed had there not occurred a mistake in determining the deductibility of the contribution shall be repaid to the Employer, in whole or in part, by the Trustee, within one (1) year after the disallowance of the deduction. In the case of a contribution of the Employer which is made by reason of mistake of fact, the excess of such contribution over the amount that would have been contributed had there not occurred a mistake of fact shall be repaid to the Employer, in whole or in part, by the Trustee, within one (1) year after the payment of the contribution. With respect to contributions for which a deduction is disallowed (or could be disallowed) or made by reason of mistake of fact, (i) earnings attributable to the excess contribution shall not be returned to the Employer, (ii) losses attributable thereto shall reduce the amount to be repaid and (iii) if the repayment of the excess would cause the balance of a Participant's account to be reduced to less than the amount of the Participant's account had the excess contributions not been made, the amount of the repayment shall be limited to the excess of the excess contribution over the amount of the Participant's account had the excess contribution not been made. Any amounts repaid to the Employer by the Trustee pursuant to this Paragraph shall be repaid without liability therefor on the part of the Trustee, to any Participant, Beneficiary or any other person whomsoever.

16.9 FORFEITURE OF BENEFITS UPON FAILURE TO LOCATE RECIPIENT

In the event that the Committee, after reasonable effort, is unable to locate a Participant or Beneficiary entitled to a distribution of benefits hereunder, the Committee shall direct the Trustee that the amount that would otherwise be distributable be treated as a forfeiture. Should such Participant or Beneficiary subsequently notify the Committee of such individual's location and apply for benefits in accordance with Article Ten of the Plan, said Participant or Beneficiary may reclaim the amount which had been treated as a forfeiture hereunder. When said application to reclaim benefits is approved, the Committee shall direct that such amount, not including gains and losses that would otherwise be attributable thereto, be reinstated on behalf of such Participant or Beneficiary from Employer Contributions for the first Plan Year following such reclaim for which Employer Contributions are made. Distribution of such amount shall be made in accordance with Article Eleven of the Plan.

16.10 PARTICIPATING EMPLOYERS

Notwithstanding anything herein to the contrary, with the consent of the Employer and Trustee, any other corporation or entity, whether an Affiliated Employer or not, may adopt this Plan and all of the provisions hereof, and participate herein and be known as a Participating Employer, by properly executing a document evidencing said intent and will of such Participating Employer to participate and by meeting the requirements set forth herein:

(a) Each Participating Employer shall be required to select the same provisions as those selected by the Employer other than the Plan Year, the Fiscal Year, and such other items that must, by necessity, vary among employers.

(b) Each such Participating Employer shall be required to use the same Trustee as provided in this Plan, or amendments thereto.

(c) The transfer of any Participant from or to an Employer participating in this Plan, whether he be an Employee of the Employer or a Participating Employer, shall not affect such Participant's rights under the Plan, and all amounts credited to such Participant's Accounts as well as his accumulated service time with the transferor or predecessor, and his length of participation in the Plan, shall continue to his credit. The Participating Employer to which the Employee is transferred shall thereupon become obligated hereunder with respect to such Employee in the same manner as was the Participating Employer from whom the Employee was transferred.

(d) Any expenses of the Plan which are to be paid by the Employer or reimbursed to the Trust by the Employer shall be paid by each Participating Employer in the same proportion that the total amount standing to the credit of all Participants employed by such Employer bears to the total standing to the credit of all Participants.

(e) Each Participating Employer shall be deemed to be a part of this Plan and, unless indicated to the contrary, shall authorize the initial adopting Employer to act as its agent.

(f) Amendment of this Plan by the Employer at any time when there shall be a Participating Employer hereunder shall only be by the written action of each and every Participating Employer and with the consent of the Trustee where such consent is necessary in accordance with the terms of the Plan.

(g) Any Participating Employer shall be permitted to discontinue or revoke its participation in the Plan at any time. The Participating Employer must deliver such notice of discontinuance or revocation in writing to the Trustee. The Trustee shall thereafter take such action as shall be necessary to transfer the

Trust assets allocable to the Participants of such Participating Employer to the new retirement Trust established for such assets. No such transfer of assets shall be made in the event the newly established plan would eliminate or reduce any "Section 411(d)(6) protected benefits". In the event that the Participating Employer has not established a successor retirement trust, the assets allocable to the Participants of such Participating Employer shall be maintained in this Trust and distributed in accordance with Article Eleven hereof.

(h) In the event a Participating Employer, which is a member of an affiliated group (as defined in Code Section 1504), is prevented from making a contribution which it would otherwise would have made under the Plan, then pursuant to Code Section 404(a)(3)(B), so much of the contribution of such Participating Employer may be made up by other Participating Employers, as may be decided by such other Employers. The Participating Employer(s) on whose behalf a contribution shall be made under this Section 16.10(h) shall not be required to reimburse the contributing Participating Employer(s).

16.11 HEADINGS NO PART OF AGREEMENT

Headings and subheadings in this Plan are inserted for convenience of reference only. They constitute no part of the Plan.

16.12 INSTRUMENT IN COUNTERPARTS

This Agreement has been executed in several counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument, which may be sufficiently evidenced by any one counterpart.

16.13 SUCCESSORS AND ASSIGNS

This Plan shall inure to the benefit of, and be binding upon, the parties hereto and their successors and assigns.

16.14 GENDER

The masculine gender shall include the feminine, and where appropriate, the singular shall include the plural or the plural may be read as the singular.

16.15 STATE LAW GOVERNS

This Plan, and its corresponding Trust shall be construed, administered and governed in all respects under and by the laws of the State or Commonwealth in which the Employer's principal office is located, to the extent not pre-empted by federal law. If any provisions are susceptible to more than one interpretation, such interpretation shall be given thereto as is consistent with this Plan being a qualified Plan of deferred compensation within the meaning of the Code, or

corresponding provisions of subsequent revenue laws. If any provisions of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

EXECUTION

To record the adoption of this Plan, the Employer has caused this Plan to be executed on this 19th day of December, of 1991.

Mitek Systems, Inc.

By: /s/ ??? ILLEGIBLE NAME ???

By:

- ---
Counsel for the Company

CERTIFICATE OF

MITEK SYSTEMS, INC.

MITEK SYSTEMS, INC., the Sponsoring Employer of MITEK SYSTEMS, INC. 401(K) SAVINGS PLAN ("Plan"), hereby adopts the attached Amendments to the Plan and through this Certificate and Amendments modifies the Plan in accordance with (1) Revenue Procedure 94-13 by adding the model language for the $150,000 annual compensation limit under Internal Revenue Code Section 401(a)(17) as amended by the Omnibus Budget Reconciliation Act of 1993 ("OBRA '93"); (2) Revenue Procedure 93-47, by adding the model language for waiver of the 30-day notice requirement by participants with respect to certain plan distributions to which Internal Revenue Code Sections 401(a)(11) and 417 do not apply; (3) Revenue Procedure 92-41, for the final regulations issued under Internal Revenue Code Sections 401(a)(30), 401(k), 401(m), 402(g) 414(s), and 415; and (4) such other provisions as have been added or clarified by the sponsor of the Plan's volume submitter specimen plan for compliance with applicable law and regulations and for the efficient administration of the Plan.

For the Employer:

By: /s/ JOHN F. KESSLER Date: 12/24/94

Approved by the Plan Administrator:

By: /s/ DIANA DEWALT Date: 12/24/94

Approved by Attorney:

By: Date:

AMENDMENT

TO THE

PLAN

Upon the execution of the Certificate adopting the following Amendment, said Amendment shall become part (and amend related sections) of the Plan document, and any attachments thereto affecting such related provisions.

l. Article 2 shall be amended by the addition of the following paragraph before the last paragraph of Section 2.9 as Follows:

"In addition to other applicable limitations set forth in the Plan, and notwithstanding any other provision of the Plan to the contrary, for Plan Years beginning on or after January 1, 1994, the annual Compensation of each Employee taken into account under the Plan shall not exceed the OBRA '93 annual compensation limit. The OBRA '93 annual compensation limit is $150,000, as adjusted by the Commissioner for increases in the cost of living in accordance with Code Section 401(a)(17)(B). The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which Compensation is determined (determination period) beginning in such calendar year. If a determination period consists of fewer than 12 months, the OBRA '93 annual compensation limit shall be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is 12.

"For Plan Years beginning on or after January 1, 1994, any reference in this Plan to the limitation under Code Section 401(a)(17) shall mean the OBRA '93 annual compensation limit set forth in this provision.

"If Compensation for any prior determination period is taken into account in determining an Employee's benefits accruing in the current Plan Year, the Compensation for that prior determination period is subject to the OBRA '93 annual compensation limit in effect for that prior determination period. For this purpose, for determination periods beginning before the first day of the first Plan Year beginning on or after January 1, 1994, the OBRA '93 annual compensation limit is $150,000."

2. Effective January 1, 1994, a subsection (f) shall be added to Section 12.5 of Article 12 to read as follows:

"(f) If a distribution is one to which Code Sections 401(a)(11) and 417 do not apply, such distribution may commence less than 30 days after the notice required under IRS Reg. Section 1.411(a)-ll(c) is given, provided that:

(1) the Plan Administrator clearly informs the Participant that the Participant has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution

(and, if applicable, a particular distribution option), and

(2) the Participant, after receiving the notice, affirmatively elects a distribution."

92-41 AMENDMENT

Upon the execution of the Certificate adopting the following Amendment, said Amendment shall become part (and amend related sections) of the Plan document, and any attachments thereto affecting such related provisions.

l. If Section 1.3(a)'s definition of Compensation is defined as "W-2 earnings," then Section 1.3(a) of the Plan shall be amended as follows:

> "COMPENSATION shall mean the W-2 earnings [paid and/or accrued, as previously defined] unless the Employer has made the election to use the alternate definition described in Section 2.9."

2. Section 2.9 of the Plan is hereby amended by adding thereto a new paragraph four which incorporates the "Model Compensation Amendment" of Revenue Ruling 92-41, Section 4 and Section 5.05(1), into the Plan as follows:

> "As an alternative to the definition of "W-2 earnings" as stated above, an Employer may, by written resolution or certificate, elect to use the definition contained in Internal Revenue Regulation 1.415-2(d)(11)(i) which means that Compensation shall be defined as wages within the meaning of Section 3401(a) of the Code and all other payments of Compensation to an Employee by his Employer (in the course of the Employer's trade or business) for which the Employer is required to furnish the Employee with a written statement under Code Sections 6041(d), 6051(a)(3), and 6052. The Employer may choose to modify the definition further by excluding amounts paid or reimbursed by the Employer for moving expenses incurred by an Employee, but only to the extent that at the time of the payment it is reasonable to believe that that these amounts are deductible by the Employee under Code Section 217. Compensation shall be determined without regard to any rules under Code Section 3401(a) that limit the remuneration included in wages based on the nature or the location of the employment or the services performed. This is the amount which is shown on the "W-2" as earnings."

3. Section 2.9 is further amended by the insertion of a new paragraph five which incorporates the amendment described in Revenue Ruling 92-41, Section 5.05(7) into the Plan as follows:

> "For Plan Years beginning after December 31, 1986, for purposes of the Code Sections 401(k) and 401(m) testing in Sections 4.7 and 4.12 of the Plan, an Employer may limit the amount of Compensation taken into consideration to that portion of the Plan Year or calendar year in which the Employee was an eligible Employee, provided that this limit is applied uniformly to all eligible Employees under the Plan for the Plan Year."

4. Section 3.5 of the Plan is amended by deleting sub-section (b) and making sub-section (c) the new sub-section (b) for ease of administration as follows:

"3.5 BREAK IN SERVICE RULES - ELIGIBILITY

(a) Except as otherwise provided in this Section, all of an Employee's Years of Service with the Employer shall be taken into account when determining whether such Employee is an Eligible Employee.

(b) In the case of a Participant who does not have any nonforfeitable right under the Plan to the Participant's Account Balance derived from Employer Contributions, Years of Service prior to a period of consecutive one (1) year Breaks in Service shall be disregarded when determining the Employee's Years of Service for purposes of eligibility if the number of the Participant's consecutive one (1) year Breaks in Service equals or exceeds the greater of five (5) or the aggregate number of Years of Service prior to such period of consecutive Breaks in Service. When computing the aggregate number of Years of Service prior to such Break in Service, Years of Service which could have been disregarded under this Paragraph by reason of any prior Break in Service shall be disregarded.

(1) If a Participant's Years of Service are disregarded pursuant to Section 3.5(b), such Participant will be treated as a new Employee for eligibility purposes. If a Participant's Years of Service may not be disregarded pursuant to Section 3.5(b), such Participant shall continue to participate in the Plan, or, if terminated, shall participate immediately upon reemployment."

5. Sections 4.6(a), (b)(1) and first paragraph of (2) are amended by the insertion of the underlined language described in Section V. of the "Listing of Required Modifications" prepared by the Internal Revenue Service in December of 1991 and also incorporates the amendments described in Revenue Ruling 92-41, Sections 5.05(5), and (3) into the Plan as follows:

"4.6 DISTRIBUTION OF EXCESS ELECTIVE DEFERRALS

(a) A Participant may assign to this Plan any Excess Elective Deferrals made during a taxable year of the Participant by notifying the Plan Administrator on or before April 1st of the following year of the amount of the Excess Elective Deferrals to be assigned to the Plan. A PARTICIPANT IS DEEMED TO NOTIFY THE PLAN ADMINISTRATOR OF ANY EXCESS ELECTIVE DEFERRALS THAT ARISE BY TAKING INTO ACCOUNT ONLY THOSE ELECTIVE DEFERRALS MADE TO THIS PLAN AND ANY OTHER PLANS OF THIS EMPLOYER.

Notwithstanding any other provisions of the Plan, Excess Elective Deferrals, plus any income and minus any loss allocable thereto, shall be distributed no later than April 15th to any Participant to whose account Excess Elective Deferrals were assigned for the preceding year and who claims Excess Elective Deferrals for such taxable year.

(b) Definitions:

(1) "Elective Deferrals" shall mean any Employer contributions made to the Plan at the election of the Participant, in lieu

of cash compensation, and shall include contributions made pursuant to a salary reduction agreement or other deferral mechanism. With respect to any taxable year, a Participant's Elective Deferral is the sum of all Employer contributions made on behalf of such Participant pursuant to an election to defer under any qualified plan as described in Section 401(k) of the Code, any simplified employee pension cash or deferred arrangement as described in Section 402(h)(1)(B), any eligible deferred compensation plan under Section 457, any plan as described under Section 501(c)(18), and any Employer contributions made on the behalf of a Participant for the purchase of an annuity contract under Section 403(b) pursuant to a salary reduction agreement. ELECTIVE DEFERRALS SHALL NOT INCLUDE ANY DEFERRALS PROPERLY DISTRIBUTED AS EXCESS ANNUAl ADDITIONS.

(2) "Excess Elective Deferrals" shall mean those Elective Deferrals that are includible in a Participant's gross income under Section 402(g) of the Code to the extent such Participant's Elective Deferrals for a taxable year exceed the dollar limitation under such Code section. Excess Elective Deferrals shall be treated as Annual Additions under the Plan, unless such amounts are distributed no later than the first April 15 following the close of the Participant's taxable year."

6. The second paragraph of Section 4.6(b)(2) et seq. is amended in accordance with the amendments described in Revenue Ruling 92-41, Sections 5.05(4) for calculating income or loss on excess amounts as follows:

"Determination of income or loss: Excess Elective Deferrals shall be adjusted for any income or loss up to the date of distribution. The income or loss allocable to Excess Elective Deferrals shall be determined using (i) or (ii) as a reasonable method. Income or loss allocable to the period between the end of the taxable year and the date of distributions may be disregarded or may be determined using the method described in (iii). The method chosen shall be: (1) nondiscriminatory; (2) used for all the Plan's corrective distributions for the Plan Year; and (3) for purposes of (2)(ii) of this Section, used for allocating income to Participant's Accounts. The reasonable methods are:

(i) The income or loss allocable to Excess Elective Deferrals is the sum of: (1) income or loss allocable to the Participant's Elective Deferral account for the taxable year multiplied by a fraction, the numerator of which is such Participant's Excess Elective Deferrals for the year and the denominator is the Participant's Account Balance attributable to Elective Deferrals without regard to any income or loss occurring during such taxable year.

(ii) The income or loss allocable to Excess Elective Deferrals shall be determined by first calculating the total allocable income for the Plan Year attributable to Elective Deferrals, then multiplying the total allocable income by a fraction.

The numerator of the fraction is the total excess amount distributable to the highly compensated employee and the denominator shall be the sum of the Participant's Account Balance attributable to Elective Deferrals, determined as of the beginning of the Plan Year.

(iii) Safe Harbor Method of Determining Gap Period Income: The Employer may choose to determine the income during the period between the end of the Plan Year and the date of distribution under the methods in this sub-section or sub-sections (i) or (ii) above, or such income may be disregarded in determining income or loss.

Gap Income allocable can be determined by using ten percent (10%) of the income allocable to Excess Elective Deferrals for the Plan Year multiplied by the number of whole calendar months between the end of the Plan Year and the date of distribution, counting the month of distribution if distribution occurs after the 15th of such month.

7. Sections 4.7(d)(1) and (e) are amended by the insertion of the underlined language described in Section VI. of the "Listing of Required Modifications" prepared by the Internal Revenue Service in December of 1991 as follows:

"(d) Special Rules:

(1) The Actual Deferral Percentage for any Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to have Elective Deferrals (and Qualified Non-elective Contributions or Qualified Matching Contributions, or both, if treated as Elective Deferrals for purposes of the Actual Deferral Percentage test) allocated to the Participant's accounts under two or more arrangements described in Section 401(k) of the Code, that are maintained by the Employer, shall be determined as if such Elective Deferrals (and, if applicable, such Qualified Non-elective Contributions or Qualified Matching Contributions, or both) were made under a single arrangement. If a Highly Compensated Employee participates in two or more cash or deferred arrangements that have different Plan Years, all cash or deferred arrangements ending with or within the same calendar year shall be treated as a single arrangement. NOTWITHSTANDING THE FOREGOING, CERTAIN PLANS SHALL BE TREATED AS SEPARATE IF MANDATORILY DISAGGREGATED UNDER REGULATIONS UNDER CODE SECTION 401(K).

(2) In the event that this Plan satisfies the requirements of Sections 401(k), 401(a)(4), or 410(b) of the Code only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of such Sections of the Code only if aggregated with this Plan, then this Section shall be applied by determining the Actual Deferral Percentage of Employees as if all such plans were a single plan. For Plan Years beginning after December 31, 1989, plans may be

aggregated in order to satisfy Section 401(k) of the Code only if they have the same Plan Year.

(i) For purposes of determining the Actual Deferral Percentage of a Participant who is a 5-percent owner or one of the ten most highly-paid Highly Compensated Employees, the Elective Deferrals (and Qualified Non-elective Contributions or Qualified Matching Contributions, or both, if treated as Elective Deferrals for purposes of the Actual Deferral Percentage test) and Compensation of such Participant shall include the Elective Deferrals (and, if applicable, Qualified Non-elective Contributions and Qualified Matching Contributions, or both) and Compensation for the Plan Year of Family Members (as defined in Section 414(q)(6) of the Code). Family Members, with respect to such Highly Compensated Employees, shall be disregarded as separate Employees in determining the Actual Deferral Percentage both for Participants who are Non-highly Compensated Employees and for Participants who are Highly Compensated Employees.

(ii) For purposes of determining the Actual Deferral Percentage test, Elective Deferrals, Qualified Non-elective Contributions and Qualified Matching Contributions must be made before the last day of the twelve-month period immediately following the Plan Year to which contributions relate.

(iii) The Employer shall maintain records sufficient to demonstrate satisfaction of the Actual Deferral Percentage test and the amount of Qualified Non-elective Contributions or Qualified Matching Contributions, or both, used in such test.

(iv) The determination and treatment of the Actual Deferral Percentage amounts of any Participant shall satisfy such other requirements as may be prescribed by the Secretary of the Treasury.

(v) Section 4.12(b) Multiple Use of Alternative Limitation and Correction of Multiple Use shall apply at the discretion of the Plan Administrator.

(e) Definitions:

(1) "Actual Deferral Percentage" shall mean, for a specified group of Participants for a Plan Year, the average of the ratios (calculated separately for each Participant in such group) of (1) the amount of Employer contributions actually paid over to the Trust on behalf of such Participant for the Plan Year to (2) the Participant's Compensation for such Plan Year (whether or not the Employee was a Participant for the entire Plan Year). Employer contributions on behalf of any Participant shall include: (1) any Elective Deferrals made pursuant to

the Participant's deferral election (including Excess Elective Deferrals OF HIGHLY COMPENSATED EMPLOYEES), but excluding (a) EXCESS Elective Deferrals OF NON-HIGHLY COMPENSATED EMPLOYEES THAT ARISE SOLELY FROM ELECTIVE DEFERRALS MADE UNDER THE PLAN OR PLANS OF THIS EMPLOYER AND (b) ELECTIVE DEFERRALS that are taken into account in the Contribution Percentage test (provided the Actual Deferral Percentage test is satisfied both with and without exclusion of these Elective Deferrals); and (2) at the election of the Employer, Qualified Non-elective Contributions and Qualified Matching Contributions. For purposes of computing Actual Deferral Percentages, an Employee who would be a Participant but for the failure to make Elective Deferrals shall be treated as a Participant on whose behalf no Elective Deferrals are made."

8. Section 4.8(a) is amended by the insertion of the underlined language described in Section VII. of the "Listing of Required Modifications" prepared by the Internal Revenue Service in December of 1991 and incorporates the amendment described in Section 5.05(6) of Revenue Procedure 92-41 as follows:

"4.8 DISTRIBUTION OF EXCESS CONTRIBUTIONS

(a) Notwithstanding any other provision of this Plan, Excess Contributions, plus any income and minus any loss allocable thereto, shall be distributed FOLLOWING THE CLOSE OF THE PLAN YEAR IN WHICH THE EXCESS CONTRIBUTIONS AROSE, BUT NO LATER THAN THE LAST DAY OF THE SUCCEEDING PLAN YEAR to Participants to whose accounts such Excess Contributions were allocated for the preceding Plan Year. If such excess amounts are distributed more than 2-1/2 months after the last day of the Plan Year in which such excess amounts arose, a ten (10) percent excise tax will be imposed on the Employer maintaining the Plan with respect to such excess contribution. Such distributions shall be made to Highly Compensated Employees on the basis of the respective portions of the Excess Contributions attributable to each of such Employees. EXCESS CONTRIBUTIONS OF PARTICIPANTS WHO ARE SUBJECT TO THE FAMILY MEMBER AGGREGATION RULES SHALL BE ALLOCATED AMONG THE FAMILY MEMBERS IN PROPORTION TO THE ELECTIVE DEFERRALS (AND AMOUNTS TREATED AS ELECTIVE DEFERRALS) OF EACH FAMILY MEMBER THAT IS COMBINED TO DETERMINE THE COMBINED ADP."

9. Section 4.8(c) is amended in accordance with the amendments described in Revenue Ruling 92-41, Sections 5.05(4) for calculating income or loss on excess amounts as follows:

(c) DETERMINATION OF INCOME OR LOSS: Excess Contributions shall be adjusted for any income or loss up to the date of distribution. The income or loss allocable to Excess Contributions SHALL BE DETERMINED USING (i) OR (ii AS A REASONABLE METHOD. THE GAP INCOME MAY BE DISREGARDED OR DETERMINED IN THE MANNER SET FORTH IN (iii) BELOW. THE METHOD CHOSEN SHALL BE: (1) NONDISCRIMINATORY; (2) USED FOR ALL THE PLAN'S CORRECTIVE DISTRIBUTIONS FOR THE PLAN YEAR; AND (3) FOR PURPOSES OF (c)(ii) OF THIS SECTION, USED FOR ALLOCATING INCOME TO PARTICIPANT'S ACCOUNTS. THE REASONABLE METHODS ARE:

(i) The income or loss allocable to Excess Contributions is the sum of: (1) income or loss allocable to the Participant's Elective Deferral account (and, if applicable, the Qualified Non-elective Contribution Account or the Qualified Matching Contributions Account or both) for the Plan Year multiplied by a fraction, the numerator of which is such Participant's Excess Contributions for the year and the denominator is the Participant's account balance attributable to Elective Deferrals (and Qualified Non-Elective Contributions or Qualified Matching Contributions, or both, if any of such contributions are included in the Actual Deferral Percentage test) without regard to any income or loss occurring during such Plan Year.

(ii) THE INCOME OR LOSS ALLOCABLE TO EXCESS CONTRIBUTIONS SHALL BE DETERMINED BY FIRST CALCULATING THE TOTAL ALLOCABLE INCOME FOR THE PLAN YEAR ATTRIBUTABLE TO ELECTIVE DEFERRALS, THEN MULTIPLYING THE TOTAL ALLOCABLE INCOME BY A FRACTION. THE NUMERATOR OF THE FRACTION IS THE TOTAL EXCESS AMOUNT DISTRIBUTABLE TO THE HIGHLY COMPENSATED EMPLOYEE AND THE DENOMINATOR SHALL BE THE SUM OF THE PARTICIPANT'S ACCOUNT BALANCE ATTRIBUTABLE TO ELECTIVE DEFERRALS, DETERMINED AS OF THE BEGINNING OF THE PLAN YEAR.

(iii) SAFE HARBOR METHOD OF DETERMINING GAP PERIOD INCOME: THE EMPLOYER MAY CHOOSE TO DETERMINE THE INCOME DURING THE PERIOD BETWEEN THE END OF THE PLAN YEAR AND THE DATE OF DISTRIBUTION UNDER THE METHODS IN THIS SUB-SECTION OR SUB-SECTIONS (i) OR (ii) ABOVE, OR SUCH INCOME MAY BE DISREGARDED IN DETERMINING INCOME OR LOSS.

GAP INCOME ALLOCABLE CAN BE DETERMINED BY USING TEN PERCENT (10%) OF THE INCOME ALLOCABLE TO EXCESS CONTRIBUTIONS FOR THE PLAN YEAR MULTIPLIED BY THE NUMBER OF WHOLE CALENDAR MONTHS BETWEEN THE END OF THE PLAN YEAR AND THE DATE OF DISTRIBUTION, COUNTING THE MONTH OF DISTRIBUTION IF DISTRIBUTION OCCURS AFTER THE 15TH OF SUCH MONTH.

10. Section 4.8(c) of the Plan is amended by adding the underlined text for ease of administration as follows:

"(c) Accounting for Excess Contributions: EXCESS CONTRIBUTIONS SHALL BE DISTRIBUTED BY FIRST RETURNING ANY AMOUNT OF UNMATCHED ELECTIVE DEFERRALS WHICH EXCEED THE LIMITATION PERCENTAGE SPECIFIED IN SECTION 1.3(c)(2), IF APPLICABLE. SECONDLY, Excess Contributions shall be distributed from the Participant's Elective Deferral Account and Qualified Matching Contribution Account (if applicable) in proportion to the Participant's remaining Elective Deferrals and Qualified Matching Contributions (to the extent used in the Actual Deferral Percentage test) for the Plan Year. Excess Contributions shall be distributed from the Participant's Qualified Non-elective Contribution Account only to the extent that such Excess Contributions exceed the balance in the Participant's Elective Deferral Account and Qualified Matching Contribution Account."

11. Section 4.9(a) is amended by the insertion of the underlined language described in Section VIII. of the "Listing of Required Modifications" prepared by the Internal Revenue Service in December of 1991 as follows:

4.9 RECHARACTERIZATION

"(a) IN THE EVENT THE PLAN PERMITS PARTICIPANTS TO MAKE EMPLOYEE VOLUNTARY (AFTER-TAX) CONTRIBUTIONS IN SECTION 1.3(e) OF ARTICLE ONE, a Participant may treat his or her Excess Contributions as an after-tax contribution to the Plan. Recharacterized amounts will remain nonforfeitable and subject to the same distribution requirements as Elective Deferrals. Amounts may not be recharacterized by a Highly Compensated Employee to the extent that such amount in combination with other Employee Contributions made by that Employee would exceed any stated limit under the Plan on Employee Contributions."

12. Section 4.12(b)(2) is amended by the insertion of the underlined language described in Section XII. of the "Listing of Required Modifications" prepared by the Internal Revenue Service in December of 1991 and incorporates the amendment described in Section 5.05(8) of Revenue Procedure 92-41 as follows:

"(2) For purposes of this Section, the Contribution Percentage for any Participant who is a Highly Compensated Employee and who is eligible to have Contribution Percentage Amounts allocated to his or her account under two or more plans described in Section 401(a) of the Code, or arrangements described in Section 401(k) of the Code that are maintained by the Employer, shall be determined as if the total of such Contribution Percentage Amounts was made under each plan. If a Highly Compensated Employee participates in two or more cash or deferred arrangements that have different plan years, all cash or deferred arrangements ending with or within the same calendar year shall be treated as a single arrangement. NOTWITHSTANDING THE FOREGOING, CERTAIN PLANS SHALL BE TREATED AS SEPARATE IF MANDATORILY DISAGGREGATED UNDER REGULATIONS UNDER SECTION 401(m) OF THE CODE."

13. Section 4.12(c)(6) is amended by the insertion of the underlined language described in Section XII. of the "Listing of Required Modifications" prepared by the Internal Revenue Service in December of 1991 as follows:

"(6) "Contribution Percentage Amounts" shall mean the Employee Contributions, Matching Contributions, Qualified Matching Contributions (to the extent not taken into account for purposes of the ADP test), Qualified Non-elective Contributions and Elective Deferrals (as long as the ADP test is met before the Elective Deferral are used in the ACP test and continues to be met following the exclusion of those Elective Deferrals that are used to meet the ACP test) made under the Plan on behalf of the Participant for the Plan Year. SUCH CONTRIBUTION PERCENTAGE AMOUNTS SHALL NOT INCLUDE MATCHING CONTRIBUTIONS THAT ARE FORFEITED EITHER TO CORRECT EXCESS AGGREGATE CONTRIBUTIONS OR BECAUSE THE CONTRIBUTIONS TO WHICH THEY RELATE ARE EXCESS DEFERRALS, EXCESS CONTRIBUTIONS,

OR EXCESS AGGREGATE CONTRIBUTIONS. Such Contribution Percentage Amounts shall include forfeitures of Matching Contributions allocated to the Participant's account which shall be taken into account in the year in which such forfeiture is allocated, BUT ONLY IF SUCH FORFEITURES ARE ALLOCATED IN PROPORTION TO DEFERRALS OR MATCHING CONTRIBUTIONS."

14. Section 4.13(g) is amended by the insertion of the underlined language described in Section XIII. of the "Listing of Required Modifications" prepared by the Internal Revenue Service in December of 1991 and amendment in Section 5.05(6) described in Revenue Procedure 92-41 as follows:

(g) DISTRIBUTION OF EXCESS AGGREGATE CONTRIBUTIONS

"Notwithstanding any other provision of this Plan, Excess Aggregate Contributions, plus any income and minus any loss allocable thereto, shall be forfeited, if forfeitable. Or if not forfeitable, shall be distributed no later than the last day of each Plan Year to Participants to whose accounts such Excess Aggregate Contributions were allocated for the preceding Plan Year. Excess Aggregate Contributions OF PARTICIPANTS WHO ARE SUBJECT TO THE FAMILY MEMBER AGGREGATION RULES SHALL BE ALLOCATED AMONG THE FAMILY MEMBERS IN PROPORTION TO THE EMPLOYEE AND MATCHING CONTRIBUTIONS (OR AMOUNTS TREATED AS MATCHING CONTRIBUTIONS) OF EACH FAMILY MEMBER THAT IS COMBINED TO DETERMINE THE COMBINED ACP. If such Excess Aggregate Contributions are distributed more than 2-1/2 months after the last day of the Plan Year in which such excess amounts arose, a ten (10) percent excise tax will be imposed on the Employer maintaining the Plan with respect to those amounts. Excess Aggregate Contributions shall be treated as Annual Additions under the Plan. Furthermore, the distribution (or forfeiture, if applicable) of excess aggregate contributions shall be made on the basis of the respective portions of such amounts attributable to each Highly Compensated Employee."

15. Section 4.13(h) is amended in accordance with the amendments described in Revenue Ruling 92-41, Sections 5.05(4) for calculating income or loss on excess amounts as follows:

"(h) Determination of Income or Loss: Excess Aggregate Contributions shall be adjusted for any income or loss up to the date of distribution. The income or loss allocable to Excess Aggregate Contributions SHALL BE DETERMINED USING (i) OR (ii) AS A REASONABLE METHOD. INCOME OR LOSS ALLOCABLE TO THE PERIOD BETWEEN THE END OF THE TAXABLE YEAR AND THE DATE OF DISTRIBUTIONS MAY BE DISREGARDED OR MAY BE DETERMINED USING THE METHOD DESCRIBE IN (iii). THE METHOD CHOSEN SHALL BE: (1) NONDISCRIMINATORY; (2) USED FOR ALL THE PLAN'S CORRECTIVE DISTRIBUTIONS FOR THE PLAN YEAR; AND (3) FOR PURPOSES OF (2)(ii) OF THIS SECTION, USED FOR ALLOCATING INCOME TO PARTICIPANT'S ACCOUNTS. THE REASONABLE METHODS ARE:

(i) The income or loss allocable to Excess Aggregate Contributions is the sum of: (1) income or loss allocable to the Participant's Employee Voluntary (After-Tax) Contribution

Account, Matching Contribution Account, Qualified Matching Contribution Account (if any, and if all amounts therein are not used in the ADP test) and, if applicable, Qualified non-elective Contribution Account and Elective Deferral Account for the Plan Year multiplied by a fraction, the numerator of which is such Participant's Excess Aggregate Contributions for the year and the denominator is the Participant's Account Balance attributable to Contribution Percentage Amounts without regard to any income or loss occurring during such Plan Year.

(ii) THE INCOME OR LOSS ALLOCABLE TO EXCESS AGGREGATE CONTRIBUTIONS SHALL BE DETERMINED BY FIRST CALCULATING THE TOTAL ALLOCABLE INCOME FOR THE PLAN YEAR ATTRIBUTABLE TO PARTICIPANT'S EMPLOYEE VOLUNTARY (AFTER-TAX) CONTRIBUTION ACCOUNT, MATCHING CONTRIBUTION ACCOUNT, QUALIFIED MATCHING CONTRIBUTION ACCOUNT (IF ANY, AND IF ALL AMOUNTS THEREIN ARE NOT USED IN THE ADP TEST) AND, IF APPLICABLE, QUALIFIED NON-ELECTIVE CONTRIBUTION ACCOUNT AND ELECTIVE DEFERRALS, THEN MULTIPLYING THE TOTAL ALLOCABLE INCOME BY A FRACTION. THE NUMERATOR OF THE FRACTION IS THE TOTAL EXCESS AMOUNT DISTRIBUTABLE TO THE HIGHLY COMPENSATED EMPLOYEE AND THE DENOMINATOR SHALL BE THE SUM OF THE PARTICIPANT'S ACCOUNT BALANCE ATTRIBUTABLE TO ELECTIVE DEFERRALS, DETERMINED AS OF THE BEGINNING OF THE PLAN YEAR.

(iii) SAFE HARBOR METHOD OF DETERMINING GAP PERIOD INCOME: THE EMPLOYER MAY CHOOSE TO DETERMINE THE INCOME DURING THE PERIOD BETWEEN THE END OF THE PLAN YEAR AND THE DATE OF DISTRIBUTION UNDER THE METHODS IN THIS SUB-SECTION OR SUB-SECTIONS (i) OR (ii) ABOVE, OR SUCH INCOME MAY BE DISREGARDED IN DETERMINING INCOME OR LOSS.

GAP INCOME ALLOCABLE CAN BE DETERMINED BY USING TEN PERCENT (10%) OF THE INCOME ALLOCABLE TO EXCESS AGGREGATE CONTRIBUTIONS FOR THE PLAN YEAR MULTIPLIED BY THE NUMBER OF WHOLE CALENDAR MONTHS BETWEEN THE END OF THE PLAN YEAR AND THE DATE OF DISTRIBUTION, COUNTING THE MONTH OF DISTRIBUTION IF DISTRIBUTION OCCURS AFTER THE 15TH OF SUCH MONTH."

16. Section 4.14 of the Plan is amended by adding a new sub-section (d) as shown through the underlined text for ease of administration as follows:

"(d) ELIGIBILITY TO RECEIVE AN ALLOCATION OF QUALIFIED NON-ELECTIVE CONTRIBUTIONS

AN EMPLOYER MAY, THROUGH RESOLUTION OF THE BOARD OR EMPLOYER CERTIFICATION, CHOOSE THE FOLLOWING METHOD OF ALLOCATING QUALIFIED NON-ELECTIVE CONTRIBUTIONS AS AN ALTERNATIVE TO THE METHOD CHOSEN IN SECTION 1.3(d):

THE QUALIFIED NON-ELECTIVE CONTRIBUTION SHALL BE ALLOCATED TO NON-HIGHLY COMPENSATED EMPLOYEES (BASED ON THEIR COMPENSATION CREDITED DURING THE PLAN YEAR, RANKED IN DESCENDING ORDER) IN THE FOLLOWING MANNER: FIRST THE LESSER OF THE AMOUNT NEEDED TO SATISFY THE ACTUAL DEFERRAL PERCENTAGE TEST OR THE AMOUNT WHICH DOES NOT EXCEED CODE SECTION 415 LIMITS SHALL BE ALLOCATED TO THE

PARTICIPANT WITH THE LEAST AMOUNT OF COMPENSATION IN THE PLAN YEAR. SECOND, THIS PROCEDURE SHALL BE REPEATED FOR ONLY AS MANY NON-HIGHLY COMPENSATED EMPLOYEES AS SHALL BE NEEDED TO SATISFY THE ACTUAL DEFERRAL PERCENTAGE TEST."

17. Section 4.15 is amended by the insertion of the underlined language described in Section XV. of the "Listing of Required Modifications" prepared by the Internal Revenue Service in December of 1991:

"4.15 NONFORFEITABILITY AND VESTING

The Participant's account balance derived from Elective Deferrals, Qualified Non-elective Contributions, Employee Contributions, and Qualified Matching Contributions is nonforfeitable. Separate accounts for Elective Deferrals, Qualified Non-elective Contributions, Employee Contributions, Matching Contributions, and Qualified Matching Contributions will be maintained for each Participant. Each account will be credited with the applicable contributions and earnings thereon.

MATCHING CONTRIBUTIONS (INCLUDING QUALIFIED MATCHING CONTRIBUTIONS) MAY BE FORFEITED IF THE CONTRIBUTION TO WHICH THEY RELATE ARE EXCESS DEFERRALS, EXCESS CONTRIBUTIONS, OR EXCESS AGGREGATE CONTRIBUTIONS."

18. Section 4.16 is amended by the insertion of the underlined language described in Section XVI. of the "Listing of Required Modifications" prepared by the Internal Revenue Service in December of 1991:

"4.16 DISTRIBUTION REQUIREMENTS

(a) Elective Deferrals, Qualified Non-elective Contributions, and Qualified Matching Contributions, and income allocable to each are not distributable to a Participant or his or her Beneficiary or Beneficiaries, in accordance with such Participant's or Beneficiary or Beneficiaries election, earlier than upon separation from service, death, RETIREMENT or Total Disability.

(b) Such amounts may also be distributed upon:

(1) Termination of the Plan without the establishment of another defined contribution plan, OTHER THAN AN EMPLOYEE STOCK OWNERSHIP PLAN (AS DEFINED IN SECTION 4975(e)(7) OR SECTION 409 OF THE CODE) OR A SIMPLIFIED EMPLOYEE PENSION PLAN AS DEFINED IN SECTION 408(K).

(2) The disposition by a corporation to an unrelated corporation of substantially all of the assets (within the meaning of Section 409(d)(2) of the Code) used in a trade or business of such corporation if such corporation continues to maintain this Plan after the disposition, but only with respect to Employees who continue employment with the corporation acquiring such assets.

(3) The disposition by a corporation to an unrelated entity of such corporation's interest in a subsidiary (within the meaning of Section 409(d)(3) of the Code) if such corporation

continues to maintain this Plan, but only with respect to Employees who continue employment with such subsidiary.

(4) The attainment of age 59-1/2.

(5) The hardship of the Participant as described in Section 11.9.

(c) All distributions that may be made pursuant to one or more of the forgoing distributable events are subject to the Spousal and Participant consent requirements (if applicable) contained in Sections 411(a)(11) and 417 of the Code. IN ADDITION, DISTRIBUTIONS AFTER MARCH 31, 1988, THAT ARE TRIGGERED BY ANY OF THE FIRST THREE EVENTS ENUMERATED ABOVE MUST BE MADE IN A LUMP SUM."

19. Section 4.19(d)(4) of the Plan is amended by adding the following text for ease of administration as follows:

"(4) If the Participant is not covered by the Plan at the end of a Limitation Year, the excess amount will be held unallocated in a suspense account. The suspense account will be applied to reduce current or succeeding Employer Contributions (including allocation of any forfeitures) for all remaining Participants in the next Limitation Year, and each succeeding Limitation Year if necessary;"

20. Section 11.9 is amended as follows by the insertion of the language described in Section XVII. of the "Listing of Required Modifications" prepared by the Internal Revenue Service in December of 1991 and incorporates the amendment described in Revenue Ruling 92-41, Section 5.05(2) into the Plan as follows:

"11.9 HARDSHIP WITHDRAWALS

Subject to the options chosen in Article One, Section 1.5(k) in the event a Participant incurs a "hardship" prior to the occurrence of an event allowing distribution from this Plan, he may request a withdrawal from his Employee Deferral Account (including, if applicable, any earnings credited to a Participant's Account as of the end of the last Plan Year ending before July 1, 1989), for the following reasons:

a) Medical expenses (not covered by insurance, described in Code Section 213(d)) incurred by the Participant, the Participant's spouse, or any dependents (as defined in Code Section 152) of the Participant or necessary medical expenses for aforementioned persons to obtain medical care (described in Section 213(d) of the Code).

b) Purchase (excluding mortgage payments) of a principal residence for the Participant.

c) Payment of tuition and related educational expenses for the next twelve months of post-secondary education for the Participant, the Participant's spouse, or any dependents of the Participant (as defined in Code Section 152).

d) Payment of a sum of money in order to prevent the eviction of the Participant from his principal residence or foreclosure on the mortgage of the Participant's principal residence.

e) Funeral expenses.

The amount of the hardship withdrawal may include any amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from such hardship distribution.

A Participant must file a written request for a withdrawal and establish, to the satisfaction of the Administrator, that he has a financial need. A financial need shall be deemed established if the following conditions exist:

a) The distribution is not in excess of the amount of the immediate and heavy financial need of the Participant; and,

b) The Participant has obtained all distributions, other than hardship distributions, and all nontaxable funds (nontaxable at the time of the loan) available through the provisions relating to Participants loans, if permitted in Article One of the Plan; and

c) The Participant agrees and elects in a written agreement that all Employee Deferral Contributions shall be suspended for a 12-month period after the receipt of the hardship distribution; and

d) The Participant agrees that Employee Deferral Contributions during the tax year immediately following the taxable year of the withdrawal may not exceed the $7,000 limit (as adjusted by the Secretary of the Treasury) less the amount of the Participant's Employee Savings Contributions made during the taxable year of the hardship distribution."

21. A new Section 11.16 is added to the Plan for ease of administration of Qualified Domestic Relations Orders as follows:

11.16 DISTRIBUTIONS PURSUANT TO A QUALIFIED DOMESTIC RELATIONS ORDER

"NOTWITHSTANDING ANY PROVISIONS IN THE PLAN AND THIS ARTICLE ELEVEN TO THE CONTRARY, ALL DISTRIBUTIONS UNDER THIS PLAN AND TRUST SHALL BE SUBJECT TO THE RIGHTS GIVEN TO AN "ALTERNATE PAYEE" UNDER A QUALIFIED DOMESTIC RELATIONS ORDER (DEFINED IN SECTION 16.3 OF THE PLAN). A DISTRIBUTION TO AN "ALTERNATE PAYEE" SHALL BE PERMITTED UPON THE DETERMINATION OF QUALIFICATION OF A DOMESTIC RELATIONS ORDER BY THE PLAN ADMINISTRATOR IN ACCORDANCE WITH THE ESTABLISHED POLICY, REGARDLESS OF WHETHER OR NOT THERE IS A DISTRIBUTABLE EVENT FOR THE PARTICIPANT. SUCH DISTRIBUTION MAY TAKE PLACE UPON THE "EARLIEST RETIREMENT AGE" OR IF THE POLICY PERMITS, IN THE EVENT THAT THE PARTICIPANT HAS NOT REACHED THE "EARLIEST RETIREMENT AGE" PURSUANT TO CODE SECTION 414(p)(10). NO AMENDMENT TO THE PLAN SHALL BE NECESSARY TO IMPLEMENT THE RIGHTS OF AN "ALTERNATE PAYEE" IN ACCORDANCE WITH THE FOREGOING; PROVIDED THAT THE QUALIFIED ORDER DOES NOT SPECIFICALLY REQUIRE THE PLAN TO BE AMENDED FOR SPECIAL CIRCUMSTANCES (FOR EXAMPLE, PERMITTING THE "ALTERNATE PAYEE" TO HAVE INDIVIDUAL INVESTMENT DIRECTION OF A SEGREGATED ACCOUNT)."

INTERNAL REVENUE SERVICE
DISTRICT DIRECTOR
EP/EO DIVISION
2 CUPANIA CIRCLE
MONTEREY PARK, CA 91755-7406

DEPARTMENT OF THE TREASURY

Date: April 22, 1994

ADVISORY LETTER NUMBER:
V1950129
TYPE OF PLAN:
401(k) Plan
PERSON TO CONTACT:
David L. Beckerman
TELEPHONE NUMBER:
213-725-0164
REFER REPLY TO:
EP/EO:TB:TSS:DLB

Dun & Bradstreet Pension Services
3415 Sepulveda Blvd., Suite 800
Los Angeles, CA 90034

Dear Applicant:

We have reviewed the AMENDMENT to your specimen document identified above as part of our Volume Submitter Program. It is our opinion that the amended document meets the requirements of the Internal Revenue Code as amended by the Tax Reform Act of 1986.

This opinion may change based on the release of temporary and/or final regulations or other enhancements of the tax law, which would affect deferred compensation plans issued after the date of this letter, In the event this occurs, you will be notified by this office of the need for amendments to your document.

This letter relates only to the amendment to the form of the plan. It is not a determination of any other amendment or of the form of the plan as a whole, or on the effect of other Federal or local statutes.

This letter covers the provisions of Revenue Procedure 92-41.

The acceptability of the form of this document does not constitute a determination of the qualification of an adopting employer's plan under section 401(a) of the Internal Revenue Code, or of the exemption of the related trust or custodial account under section 501(a). The qualification of the adopting employer may also be affected by the options or variables selected by the employer.

An employer adopting this specimen document who wants such a determination and reliance on the volume submitter letter must file Form 5307, Short Form Application For Determination For Employee Benefit Plan, with the Key District Director. Adopting employers must individually amend the plan to remain in compliance. A copy of this letter must be submitted with each application. Any alteration made to the specimen document after the date of this letter must be indicated in a cover letter.

This letter supersedes our letter dated May 29, 1991.

If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely,

/s/ Sharon L. Camarillo
Chief, Technical Branch
EP/EO Division
Los Angeles Key District

ADDITIONAL INFORMATION

14. Detailed instructions regarding the requirements for notification of interested parties may be found in Sections 17, 18, and 19 of Revenue Procedure 94-6. Additional information concerning this amendment (including, where applicable, a description of the provisions providing for nonforfeitable benefits; a description of the circumstances which may result in ineligibility or loss of benefits; a description of the source of financing of the Plan; and copies of Section 17 of Revenue Procedure 94-6) are available at the Office of the Plan Administrator, at the address described above, during office hours of business operation for inspection and copying. (There is a nominal charge for copying and/or mailing.)

EXHIBIT 10.7

MARKETING LICENSE AGREEMENT

THIS MARKETING LICENSE AGREEMENT (hereinafter Agreement) is effective as of the 26 day of March, 1996, between VALIData Sistemas de Captura, de C.V., (hereafter referred to as Validata), a Mexico corporation, having principle offices at Puebla, Puebla, Mexico, and Mitek Systems, Inc., (hereafter referred to as Mitek), a Delaware corporation, having principle offices at San Diego, California.

WITNESSETH:

WHEREAS, Validata is the owner of all U.S. and foreign copyrights and other proprietary rights in certain computer programs that are the subject of this Agreement (hereinafter defined as the Code);

WHEREAS, Mitek desires to modify the Code in order to develop and market certain further computer programs and related documentation (hereinafter defined as the Products); and

WHEREAS, each party hereto represents that it is ready, willing, and able to undertake the responsibilities and obligations set forth in this Agreement, and that is possesses the rights, resources, and capabilities to perform its responsibilities under this Agreement;

NOW, THEREFORE, in consideration of the premises, and of the obligations herein made and undertaken, the parties hereto do hereby covenant and agree as follows:

Section 1

DEFINITIONS

For the purposes of this Agreement, the definitions set forth in this Section shall apply to the respective capitalized terms:

1.1 "Adaptations." A change or modification to the Code including the adaptation of the Code for a specific market or application. Adaptations shall not include programs that have a value and utility separate from the use of the Code and that, as a practical matter, may be priced and offered separately from the Code.

1.2 "Agreement Territory." World-Wide.

1.3 "Authorized End-User Copy." A copy of a Product that may be used by customers of Mitek under the Mitek License. Backup copies for use only in the event of loss or destruction of an Authorized End-User Copy are not counted as Authorized End-User Copies.

1.4 "Code." Computer programming code, including source code (i.e., human-readable), and object code (i.e., machine-readable), and associated procedural code, as more fully described in the Specifications attached hereto as Exhibit A.

1.5 "Derivative Work." A work that is based upon one or more preexisting works, such as a revision, modification, translation, abridgement, condensation, expansion, or any other form in which a preexisting work may be recast, transformed, or adapted, and that, if prepared without the authorization of the owner of the preexisting work, would constitute a copyright infringement.

1.6 "End User." A prospective customer of Mitek to whom Mitek offers Products for use in the regular course of such customer's business and not for resale.

1.7 "Enhancement." A change or addition to the Code, other than an Error Correction, that improves its function, adds new function, or substantially enhances its performance Enhancements shall

not include programs that have a value and utility separate from the use of the Code and that, as a practical matter, may be priced and offered separately from the Code.

1.8 "Error." A defect in the Code that prevents the Code from functioning in material conformity with the Specifications.

1.9 "Error Correction." A change to the Code that is in a form that allows its application to the Code to reestablish material conformity with the Specifications. All Error Correction shall be considered part of Code for all purposes under this Agreement.

1.10 "Mitek License." A license agreement between Mitek and Mitek's customers under which copies of the Product will be provided to such customers. The Mitek License shall contain terms limiting the use of Products to designated Central Processing Units (CPUs), allowing only one backup copy for each CPU, prohibiting further copying and/or transfer of the Products by such customers, and prohibiting reverse assembly, reverse compiling, or reverse engineering of the Products.

1.11 "Product." English language computer programs that contain, or are Derivative Works of, the Code, and that are completed in marketable form (with appropriate end-user Documentation) by Mitek and are offered by Mitek to its customers or potential customers, in object code form, under the terms of the Mitek License. Spanish language versions of the Code, and/or Spanish language versions o Derivative Works of the Code, remain under the sole control of Validata and are not within this definition.

Section 2

CERTIFICATIONS

2.1 Marketing. Mitek certifies and agrees that, in consideration of the benefits of this Agreement, including the Code provided to Mitek under this Agreement, Mitek will add value to, and enhance the functionality and/or capability of, the Code by modifying the Code to produce an English language version and other Derivative Works of the Code (hereinafter Products), and Mitek shall market such Products and related services, including (without limitation) training, installation assistance, and other forms of customer support.

2.2 Accounts. Mitek further certifies and agrees that it will market the Products for its own account in the normal course of its business. In the event that any of the foregoing representations and undertakings prove untrue at any time during the term of this Agreement, Validata shall have the right to terminate this Agreement as to any or all further shipments to Mitek or as to any or all further copying and distribution of Products by Mitek in the manner prescribed in Section 13 hereof.

2.3 Co-ownership. Validata certifies and agrees that for reasonable compensation, it will create a right of joint ownership in certain agreed Code portions to be specified at a later date. This agreement does not create any joint ownership rights nor shall it be construed to create any implied joint ownership rights in the Code or Products.

2.4 Further Licenses. Validata further certifies that for reasonable compensation, it will grant Mitek a non-exclusive license to use, reproduce and distribute the Code for use in products unrelated to this Agreement. Such further licenses are not included within this Agreement.

Section 3

VALIDATA'S OBLIGATIONS

3.1 Initial Delivers. To the extent performance has not already been completed, Validata shall deliver to Mitek one (1) copy of the Code (in object code and source code form) within thirty (30) days following the date of this Agreement.

3.2 Support Services. Validata shall provide support services in accordance with Section 11 hereof for the Code (and Derivative Works thereof) for development relating to the Products.

3.3 Enhancements. Validata shall offer Enhancements as proposed additions to the Code in accordance with Section 7 hereof.

Section 4

MITEK'S OBLIGATIONS

4.1 Development of Products. Mitek shall use all reasonable efforts to develop the Products, as Derivative Works of the Code within one (1) month of the effective date of this Agreement. Upon completion of development of the Products, Mitek shall test and evaluate the Products and assess their usefulness, performance, quality and marketability.

4.2 Marketing. Mitek shall use all reasonable efforts to market the Products in accordance with this Agreement. Mitek shall use all reasonable efforts to package Products that Mitek determines to be commercially reasonable offerings and to market such Products to potential customers under the Mitek License within the Agreement Territory. Mitek shall submit a copy of its proposed Mitek License to Validata for approval and shall make changes reasonably required by Validata to protect Validata's interests.

4.3 Customers. Except as otherwise provided in this Agreement, Mitek shall assume all responsibility and liability to customers with respect to the Products and shall assume all responsibility and liability for related support and assistance.

4.4 Royalties. Mitek shall pay royalties and other compensation to Validata in accordance with Section 6.

4.5 Enhancements. Mitek shall offer Enhancements as proposed additions to the Code in accordance with Section 7 hereof.

4.6 Intellectual Property. Mitek shall take reasonable precautions to protect Validata's proprietary rights in Code and Products as set forth in Section 8 hereof.

Section 5

GRANT OF LICENSE

Validata hereby grants to Mitek, only in the Agreement Territory, a nonexclusive right and license to take the following actions:

5.1 Use and reproduce the Code and prepare Derivative Works thereof, in object code or source code form, for the purposes of development, technical support, maintenance, and warranty service of Products;

5.2 Use, reproduce, and distribute copies of the Code or Derivative Works thereof, in object code form only, as Products or parts of Products, in furtherance of the marketing of Products to customers of Mitek under the terms of the Mitek License; and

5.3 Use and copy the Code or Derivative Works thereof, for marketing, training, and demonstration purposes with respect to the Products.

Section 6

ROYALTIES AND PAYMENT

6.1 Percentage Royalties. Mitek shall pay to Validata a royalty in the amount of 50% of the total imputed price of all Products sold each month. Such imputed price may only be discounted according to the Volume Discount Table shown in Exhibit B. Such revenues include, without limitation, all amounts received as license fees and charges under the Mitek License. Royalties accrue when revenue for each Authorized End-User Copy is received or is first placed in use by a customer, whichever comes first, and are payable monthly, with payment due within 10 days after the last day of each month.

6.2 Audit. Upon Validata's request, at mutually agreeable times no more frequently than twice annually, Validata or an agent or accounting firm chosen by Validata shall be provided reasonable access during normal business hours to the records of Mitek for purposes of audit of royalties due. Records sufficient to verify the revenue received, copies of Products authorized to be made, copies of Products made, and Authorized End-User Copies sold, leased, or otherwise distributed or transferred shall be maintained by Mitek and made available for audit. Persons conducting the audit shall be provided a reasonable opportunity to interview customers of Mitek and any employees of Mitek who have engaged in the development and/or marketing of Products in order to corroborate the information contained in such records.

6.3 Credit for Uncollectible Accounts. Mitek may take as a credit against future royalty payments a charge due to the uncollectability of licenses or fees with respect to which royalties have been paid. Such charge shall be supported by the written statement of Mitek showing a good-faith effort to collect such accounts receivable and stating why further collection efforts are not commercially reasonable.

Section 7

AVAILABILITY OF ENHANCEMENTS

7.1 Enhancements by Validata. Validata may from time to time offer Enhancements or Adaptations, to the extent developed or acquired by Validata, to Mitek for inclusion in the Code. If the parties agree on inclusion of any Enhancements or Adaptations, appropriate changes in the Specifications shall be set forth in a written amendment to this Agreement, and thereupon the Enhancements shall become part of the Code for purposes of this Agreement. Validata shall provide such Enhancements and Adaptations to Mitek at no cost to either party.

7.2 Enhancements by Mitek. Mitek may from time to time make Enhancements and/or Adaptations to the Code. Mitek shall provide such Enhancements and Adaptations to Validata at no cost to either party and perform such other obligations as set forth in Section 8 hereof. If at any time Validata decides to market the Code to another company, Mitek shall be entitled to a portion of the revenue received from such sale corresponding to Mitek's relative contribution to the development of the Code, as measured in man hours, with respect to Validata's.

Section 8

CONFIDENTIALITY OF INFORMATION; PROTECTION AND SECURITY

8.1 Confidentiality. Mitek shall treat all information provided by Validata as confidential, except as indicated by Validata, if in the public domain through no fault of Mitek, already in the possession of Mitek, obtained from a third party without similar obligations of confidentiality, or independently developed by Mitek. Mitek shall use all reasonable efforts to protect and defend the proprietary nature of the Code (including Enhancements and any derivative works of the Code). Except as expressly provided otherwise in this Agreement, Mitek shall not copy, modify, transcribe, store, translate, sell, lease, or otherwise transfer or distribute any of the Code (including Enhancements), in whole or in part, without prior authorization or agreement in writing from Validata.

8.2 Title and Ownership of Work Product by Mitek. Title to all Code (including any Enhancements or Adaptations) shall at all times remain and vest solely with Validata. Mitek agrees that it will not claim or assert title to any such materials or attempt to transfer any title to End Users or any third parties. All Products shall be owned by Validata and shall be considered works made for hire by Mitek for Validata. Validata shall own all United States and international copyrights in the Products.

8.3 Vesting of Rights. Mitek agrees to assign, and upon creation of each Product automatically assigns, to Validata, its successors and assigns, ownership of all United States and international copyrights in each and every Product, insofar as any such Product, by operation of law, may not be considered work made for hire by Mitek from Validata. From time to time upon Validata's request, Mitek and/or its personnel shall confirm such assignment by execution and delivery of such assignments, confirmations or assignment, or other written instruments as Validata may request. Validata, its successors and assigns, shall have the right to obtain and hold in its or their own name(s) all copyright registrations and other evidence of rights that may be available for the Products.

8.3.1. Employee Agreements. Mitek shall obtain and maintain in effect agreements with each of its employees who participate in any of Mitek's work under this Agreement. Such agreements shall contain terms sufficient for Mitek to comply with all provisions of the Agreement and to support all grants and assignments of rights and ownership hereunder. Such agreements also shall impose an obligation of confidence on such employees with respect to Validata's confidential information.

8.4 Copyright Markings. All Code, including any Enhancements, shall be marked with Validata's copyright notice. All Products offered by Mitek shall display Validata's copyright notice, except that Mitek may mark with its own copyright notice to the extent that preexisting Mitek code is combined, provided that appropriate identification is made in such notice and in such registrations of Mitek's preexisting works. The parties agree to cooperate in any such registration and to provide necessary information and prepare and deliver duly executed documents reasonably required in such regard.

8.5 Trademarks. The Products may be sold using trademarks of Mitek's choice and Validata generally makes no claim to ownership of such marks. However, if Mitek should utilize the same mark as previously used by Validata anywhere in the world, such use shall be considered to be a licensed use by Mitek and all goodwill shall inure to Validata and Validata shall have the right to request Mitek to make changes in any such use or in the Product so as not to diminish the goodwill or standards of Validata.

Section 9

LIMITED WARRANTY AND LIMITATION OF LIABILITY

9.1 Ownership and Authority. Validata warrants that it is the exclusive owner of all U.S. and foreign copyrights in the Code or that it has all rights necessary for the grant of the right and license granted by this Agreement.

9.2 Conformity to Specifications. Validata warrants that the Code will, at the time of delivery, conform in all material respects to the Specifications.

9.3 Disclaimer. The Code is provided "AS IS" for Mitek's evaluation and, as between the parties, Mitek assumes responsibility for determining the suitability of the Code, for its use in Products, and for results obtained. Validata makes no warranty that all Errors have been or can be eliminated from the Code, except as expressly stated above, and Validata shall in no event be responsible for losses of any kind resulting from the use of the Code in Products, including, without limitation, any liability for business expense, machine downtime, or damages caused to Mitek or Mitek's customers by any deficiency, defect, error, or malfunction. EXCEPT AS SPECIFICALLY SET FORTH HEREIN, VALIDATA DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, ARISING OUT OF OR RELATING TO THE CODE OR ANY USE THEREOF, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY WHATSOEVER AS TO THE FITNESS FOR A PARTICULAR USE OR THE MERCHANTABILITY OF THE CODE.

9.4 Limitation of Liability. In no event shall Validata be liable to Mitek or Mitek's customers for any indirect, special, incidental, or consequential damages, including lost profits.

Section 10

OBLIGATION FOR EXPENSES

Validata shall have no obligation or requirement whatsoever to reimburse Mitek for any expenses or costs incurred by Mitek in the performance of, or otherwise by reason of, this Agreement. Mitek's incursion of costs or expenses under this Agreement is at its sole risk and upon its independent business judgement that such costs and expenses are appropriate.

Section 11

SUPPORT SERVICES

11.1 Technical Support and Training; Error Correction. Validata shall provide, during the term of this Agreement, the following support services to Mitek:

1. Ongoing technical support and training in the use of the Code, and for adaptation of the Code for the Agreement Territory, but not including Enhancements; and

2. Reasonable efforts to prepare Error Corrections of the Code upon reasonable notice of the nature of any identified Errors.

11.2 Personal Development Services. It is understood and agreed that the personal development assistance of Validata and the Validata's technical experts may be required by reason of Validata's authorship and unique familiarity with the Code and by reason of their unique understanding of the underlying programming theories and specialized methods and practices used. It is also understood and agreed that if the development assistance of Validata and/or Validata's technical experts are required for certain Enhancements undertaken by Mitek, that Validata will make such services available to Mitek, provided reasonable compensation for such services is agreed to under a separate development agreement.

Section 12

TERM OF AGREEMENT

The term of this Agreement shall commence on the date hereof and continue for a period of 1 year, with automatic renewal, unless sooner terminated under Section 13.

Section 13

TERMINATION; EFFECT OF TERMINATION

13.1 Certification. Validata may terminate this Agreement if Mitek at any time fails to comply with the certification required under Section 2 hereof.

13.2 Expiration. This Agreement shall terminate automatically upon expiration of its term, unless extended or renewed in writing by the parties hereto.

13.3 Breach. Should either party commit a material breach in its obligations hereunder, or should any of the representations of either party prove to be untrue in any material respect, the other party may, at its option, provide written notice to the other party. Such notice shall identify and describe the default upon which the breach is based. The defaulting party shall have 180 days to cure such default, which, if effected, shall prevent termination by virtue of such default. If such default is not cured within 180 days, the noticing party may terminate this Agreement by written notice.

13.4 Insolvency. Should either party admit in writing its inability to pay its debts generally as they become due, or make a general assignment for the benefit of creditors, or institute proceedings to be adjudicated a voluntary bankrupt, or consent to the filing of a petition of bankruptcy against it, or be adjudicated by a court of competent jurisdiction as bankrupt or insolvent; or should either party seek reorganization under any bankruptcy act, or consent to the filing of a petition seeking such reorganization; or should either party have a decree entered against it by a court of competent jurisdiction appointing a receiver, liquidator, trustee, or assignee in bankruptcy or in insolvency covering all or substantially all of such party's property or providing for the liquidation of such party's property or business affairs; then the other party may, at its option and without notice, terminate this Agreement, effective immediately.

13.5 Consequences. Upon the termination of this Agreement, Mitek shall immediately cease all use of the Code and any Derivative Works thereof, and shall make no further copies of any of the foregoing. Mitek shall also discontinue all promotion, marketing, support, training, licensing, or other activities, except with respect to Authorized End-User Copies to the extent they have been placed in use by customers pursuant to the Mitek License prior to the effective date of termination.

13.6 Survival. Notwithstanding the foregoing, and notwithstanding termination of this Agreement, Mitek shall retain the right to continue to support Authorized End-User Copies that have been completed, marketed, and installed pursuant to the Mitek License prior to the effective date of termination, subject to continued payment of applicable royalties to Validata.

13.7 Nonpayment Termination Rights. Notwithstanding the foregoing, and notwithstanding any other provision of this Agreement, Validata may terminate this Agreement and any rights that otherwise would survive termination hereof for nonpayment of royalties, upon 10 days' written notice. In the event of such termination for nonpayment, all rights and licenses granted Mitek hereunder shall terminate, and Validata shall be entitled to recover for breach of contract, tort, and copyright infringement, and shall have all available remedies at law or in equity, including injunction, damages (direct, consequential, or punitive), and the right to recover attorney fees and all costs of suit.

13.8 Return of Materials. Upon the termination of this Agreement, Mitek shall immediately return to Validata all copies of the Code, including any Enhancements, and shall destroy any Derivative Works of any and all of the foregoing and all sales materials produced pursuant to this Agreement, except for those items that are Authorized End-User Copies of Products completed, marketed, and installed pursuant to a Development License prior to the effective date of termination and except for one archival copy of material deemed by Mitek to be necessary in enforcement of Mitek's rights (which archival copy shall be sealed and placed in the hands of a bonded, independent custodian for use only in the assertion of rights and defenses by Mitek). Mitek shall warrant in writing, upon request of Validata, that no copies of any such material, except that consisting of the above-described finished Products, have been retained or are within the control of Mitek or its customers.

Section 14

INDEMNIFICATION

14.1 Validata Indemnification. Validata agrees to, and does hereby, indemnify and hold harmless Mitek from any and all claims, demands, or actions alleging that the Code, including any Enhancements, in the form delivered by Validata infringes or abridges any third-party rights in copyright, trade secret, or other intellectual property rights.

14.2 Mitek Indemnification. Mitek agrees to, and does hereby, indemnify and hold harmless Validata from any and all claims, demands, or actions from or relating to Products, or use by customers of Products, and based on or related to Mitek's performance, nonperformance, infringement of third-party intellectual property rights, representations or statements made, or other actions with respect to Products, which claims are not based on infringement solely by the Code.

14.3 Conditions. The foregoing indemnities shall be contingent upon the party seeking to enforce the indemnity against the other party (1) giving written notice to the other party of any claim, demand, or action for which indemnity is sought; (2) fully cooperating in the defense or settlement of any such claim, demand, or action; and (3) obtaining the prior written agreement of the indemnifying party to any settlement or proposal of settlement.

Section 15

MISCELLANEOUS

15.1 No Assertion of Rights. It is expressly understood and agreed that, as between Validata and Mitek, all right, title, and interest in and to the Code, including any Enhancements, and any other material furnished to Mitek under this agreement vests solely and exclusively in Validata, and Mitek shall neither derive nor assert any title or interest in or to such materials except for the rights of use or licenses granted under this Agreement.

15.2 Independent Contractor Status. Mitek is an independent contractor under this Agreement, and nothing herein shall be construed to create a partnership, joint venture, or agency relationship between the parties hereto, with the sole exception that Mitek acts as a licensing agent of Validata with respect to Products as provided herein. Mitek shall have no authority to enter into agreements of any kind on behalf of Validata, other than with respect to sublicensing of Products in strict accordance with the terms of this Agreement, and shall have no further power or authority to bind or obligate Validata in any manner to any third party.

15.3 No Conflict of Interest. Mitek represents and warrants that it has full power and authority to undertake the obligations set forth in this Agreement and that it has not entered into any other agreements that would render it incapable of satisfactorily performing its obligations hereunder, or that would place it in a position of conflict of interest or be inconsistent or in conflict with its obligations hereunder.

15.4 Compliance with Law. Mitek agrees that it shall comply with all applicable laws and regulations of governmental bodies or agencies in its performance under this Agreement.

15.5 No Assignment. Mitek represents that it is acting on its own behalf and is not acting as an agent for or on behalf of any third party and further agrees that it may not assign or otherwise transfer by merger or otherwise its rights or obligations under this Agreement without the prior written consent of Validata.

15.6 Notices. All notices and other communications required or permitted to be given under this Agreement shall be in writing and shall be considered effective when deposited in the U.S. mail as registered mail, return receipt requested, postage prepaid, and addresssed to the party at the address as follows, unless by such notice a different address shall have been designated in writing.

Notice to: VALIData Sistemas de Captura, S.A. de C.V.
Callejon del Cristo I-1
San Jose del Puente
Puebla, Puebla, Mexico 72000
Attn: Fernando Macias Garza

Notice to: Mitek Systems, Inc.
10070 Carrol Canyon Rd
San Diego, CA 92131
Attn: John F. Kessler

15.7 Governing Laws. All questions concerning the validity, operation, interpretation, and construction of this Agreement will be governed by and determined in accordance with the laws of the State of California.

15.8 No Waiver. Neither party shall by mere lapse of time, without giving notice or taking other action hereunder, be deemed to have waived any breach by the other party of any of the provisions of this Agreement. Further, the waiver by either party of a particular breach of this Agreement by the other shall not be construed or constitute a continuing waiver of such breach or of other breaches of the same or other provisions of this Agreement.

15.9 Force Majeure. Neither party shall be in default if failure to perform any obligation hereunder is caused solely by supervening conditions beyond that party's control, including acts of God, civil commotion, strikes, labor disputes, and governmental demands or requirements.

15.10 Scope of Agreement; Amendment. The parties hereto acknowledge that each has read this Agreement, understands it, and agrees to be bound by its terms. The parties further agree that this Agreement is the complete and exclusive statement of agreement and supersedes all proposals (oral or written), understandings, representations, conditions, warranties, covenants, and other communications between the parties relating hereto. This Agreement may be amended only by a subsequent writing that specifically refers to this Agreement and is signed by both parties, and no other act, document, usage, or custom shall be deemed to amend this Agreement.

15.11 Attorney's Fees. Reasonable attorney's fees shall be awarded to the prevailing party in any litigation relating to this Agreement.

15.12 Headings. The headings contained in this Agreement are intended for convenience or reference only and shall not control or affect the meaning or construction of any provisions of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective duly authorized representatives as set forth below.

Validata

By: /s/Fernando Macias Garza

Title: President

Date: 4/19, 1996

Mitek

By: /s/John F. Kessler

Title: President & CEO

Date: 4/24, 1996

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Registration Statement of Mitek Systems, Inc. on Form SB-2 of our report dated November 10, 1995, appearing in the Prospectus, which is part of this Registration Statement. We also consent to the reference to us under the headings "Selected Consolidated Financial Data" and "Experts" in such Prospectus.

San Diego, California
July 8, 1996