

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2011

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

For the Transition Period From _____ to _____

Commission File Number: 0-16454

CIMETRIX INCORPORATED

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

87-0439107

(I.R.S. Employer
Identification No.)

6979 South High Tech Drive, Salt Lake City, Utah

(Address of principal executive office)

84047-3757

(Zip Code)

Registrant's telephone number, including area code: **(801) 256-6500**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-3 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the registrant's common stock as of November 4, 2011:
Common stock, par value \$.0001 – 45,209,256 shares

CIMETRIX INCORPORATED
FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2011

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PART 1 - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****CIMETRIX INCORPORATED AND SUBSIDIARIES**
Consolidated Condensed Balance Sheets

	September 30, 2011	December 31,
	(Unaudited)	2010
ASSETS		
Current assets:		
Cash	\$ 843,000	\$ 1,559,000
Accounts receivable, net	916,000	673,000
Prepaid expenses and other current assets	60,000	33,000
Total current assets	<u>1,819,000</u>	<u>2,265,000</u>
Property and equipment, net	126,000	100,000
Goodwill	64,000	64,000
Other assets	20,000	20,000
	<u>\$ 2,029,000</u>	<u>\$ 2,449,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 316,000	\$ 332,000
Accrued expenses	339,000	570,000
Deferred revenue	232,000	237,000
Current portion of notes payable and capital lease obligations	-	5,000
Total current liabilities	<u>887,000</u>	<u>1,144,000</u>
Long-term liabilities:		
Notes payable - related parties, net	-	396,000
Long-term portion of notes payable	-	376,000
Total long-term liabilities	<u>-</u>	<u>772,000</u>
Total liabilities	<u>887,000</u>	<u>1,916,000</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock; \$.0001 par value, 100,000,000 shares authorized, 45,234,256 and 44,842,767 shares issued, respectively	4,000	4,000
Additional paid-in capital	33,579,000	33,488,000
Treasury stock, 25,000 shares at cost	(49,000)	(49,000)
Accumulated deficit	(32,392,000)	(32,910,000)
Total stockholders' equity	<u>1,142,000</u>	<u>533,000</u>
	<u>\$ 2,029,000</u>	<u>\$ 2,449,000</u>

See accompanying notes to consolidated financial statements

CIMETRIX INCORPORATED AND SUBSIDIARIES
Consolidated Condensed Statements of Operations
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues:				
New software licenses	\$ 922,000	\$ 2,131,000	\$ 3,853,000	\$ 3,989,000
Software license updates and product support	249,000	241,000	686,000	620,000
Total software revenues	<u>1,171,000</u>	<u>2,372,000</u>	<u>4,539,000</u>	<u>4,609,000</u>
Professional services	598,000	238,000	1,552,000	585,000
Total revenues	<u>1,769,000</u>	<u>2,610,000</u>	<u>6,091,000</u>	<u>5,194,000</u>
Operating costs and expenses:				
Cost of revenues	872,000	373,000	2,653,000	976,000
Sales and marketing	257,000	327,000	809,000	734,000
Research and development	331,000	216,000	1,051,000	459,000
General and administrative	288,000	413,000	990,000	1,038,000
Depreciation and amortization	<u>13,000</u>	<u>7,000</u>	<u>36,000</u>	<u>20,000</u>
Total operating costs and expenses	<u>1,761,000</u>	<u>1,336,000</u>	<u>5,539,000</u>	<u>3,227,000</u>
Income from operations	<u>8,000</u>	<u>1,274,000</u>	<u>552,000</u>	<u>1,967,000</u>
Other income (expenses):				
Interest income	1,000	-	3,000	-
Interest expense	<u>(6,000)</u>	<u>(23,000)</u>	<u>(37,000)</u>	<u>(77,000)</u>
Total other expenses, net	<u>(5,000)</u>	<u>(23,000)</u>	<u>(34,000)</u>	<u>(77,000)</u>
Income before income taxes	3,000	1,251,000	518,000	1,890,000
Provision for income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 3,000</u>	<u>\$ 1,251,000</u>	<u>\$ 518,000</u>	<u>\$ 1,890,000</u>
Net Income per common share:				
Basic	<u>\$ 0.00</u>	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ 0.04</u>
Diluted	<u>\$ 0.00</u>	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ 0.04</u>
Weighted average number of shares outstanding:				
Basic	45,318,000	45,386,000	45,178,000	46,564,000
Diluted	46,374,000	46,817,000	46,577,000	47,744,000

See accompanying notes to consolidated financial statements

CIMETRIX INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 518,000	\$ 1,890,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,000	20,000
Write off of fully paid note payable and capital lease	(4,000)	-
Stock-based compensation	45,000	54,000
Amortization of bond discount	-	1,000
Sale recorded from receipt and retirement of stock (see Note 5)	-	(500,000)
Changes in operating assets and liabilities:		
Accounts receivable	(243,000)	(295,000)
Prepaid expenses and other current assets	(15,000)	-
Accounts payable	(33,000)	71,000
Accrued expenses	(206,000)	201,000
Deferred revenue	(5,000)	95,000
Net cash provided by operating activities	93,000	1,537,000
Cash flows from investing activities:		
Purchase of property and equipment	(56,000)	(36,000)
Net cash (used in) investing activities	(56,000)	(36,000)
Cash flows from financing activities:		
Proceeds from exercise of options and warrants	19,000	10,000
Payments of debt	(376,000)	(461,000)
Payments of debt to related parties	(396,000)	-
Proceeds from the issuance of debt	-	147,000
Net cash (used in) financing activities	(753,000)	(304,000)
Net (decrease) increase in cash and cash equivalents	(716,000)	1,197,000
Cash and cash equivalents, beginning of period	1,559,000	139,000
Cash and cash equivalents, end of period	\$ 843,000	\$ 1,336,000

Supplemental schedule of cash amounts for interest and income taxes

	Nine Months Ended September 30,	
	2011	2010
Cash paid for interest	\$ 62,000	\$ 59,000
Cash paid for income taxes	\$ -	\$ -

See accompanying notes to consolidated financial statements

CIMETRIX INCORPORATED AND SUBSIDIARIES
Notes to Consolidated Condensed Financial Statements
(Unaudited)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Cimetricx Incorporated, a Nevada corporation, and its subsidiaries (“Cimetricx” or the “Company”) are primarily engaged in the development and sale of computer software for controlling electronic manufacturing equipment, and communication products that allow communication between equipment on the factory floor and host systems.

Basis of Presentation – The consolidated condensed financial statements include the accounts of the Company and its wholly owned subsidiaries, Cimetricx Japan K.K., Cimetricx Europe, Inc. and Cimetricx Data Management Solutions, Inc. All significant inter-company accounts and transactions have been eliminated in consolidation. The interim financial information of the Company as of September 30, 2011 and for the three and nine month periods ended September 30, 2011 and 2010 is unaudited, and the balance sheet as of December 31, 2010 is derived from audited financial statements. The accompanying consolidated condensed financial statements have been prepared in accordance with U. S. generally accepted accounting principles for interim financial statements. Accordingly, they omit or condense footnotes and certain other information normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles. The accounting policies followed for quarterly financial reporting conform with the accounting policies disclosed in Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. In the opinion of management, all adjustments that are necessary for a fair presentation of the financial information for the interim periods reported have been made. All such adjustments are of a normal recurring nature. The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that can be expected for the entire year ending December 31, 2011. The unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

NOTE 2 – STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with Accounting Standards Codification (“ASC”) Topic 718. Stock-based compensation cost is measured at the grant date based on the estimated fair value of the award granted and recognized as expense over the period in which the award is expected to vest.

The stock-based compensation expense for the three-month and nine-month periods ended September 30, 2011 and September 30, 2010 has been allocated to the various categories of operating costs and expenses in a manner similar to the allocation of payroll expense as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Cost of revenues	\$ -	\$ -	\$ 2,000	\$ 4,000
Sales and marketing	2,000	3,000	8,000	15,000
Research and development	3,000	2,000	7,000	6,000
General and administrative	13,000	8,000	28,000	29,000
Total stock-based compensation expense	<u>\$ 18,000</u>	<u>\$ 13,000</u>	<u>\$ 45,000</u>	<u>\$ 54,000</u>

During the nine months ended September 30, 2011, options to purchase 200,000 shares of the

Company's common stock were granted to the Company's employees, with an exercise price ranging from of \$0.26 to \$0.40 per share.

During the nine months ended September 30, 2011 and 2010, 93,000 and 700,000 shares, respectively, of restricted stock awards were granted. The total stock-based compensation costs from vesting restricted stock shares in the nine month periods of September 30, 2011 and 2010 was \$26,000 and \$33,000, respectively.

As of September 30, 2011, the total future compensation cost related to non-vested stock-based awards not yet recognized in the condensed consolidated statements of operations was \$88,000, and the weighted average period over which these awards are expected to be recognized was 0.93 years.

In May 2011, the shareholders approved an amendment to the Company's 2006 Long-Term Incentive Plan to authorize an additional 3,000,000 shares of common stock to be made available for awards.

NOTE 3 – EARNINGS PER SHARE

The computation of basic earnings per common share is based on the weighted average number of shares outstanding, including unissued, but vested, restricted stock shares deemed as participating securities, during the period. Diluted earnings per common share is computed by dividing the net income or loss by the sum of the weighted-average number of common shares outstanding plus the weighted average common stock equivalents which would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding options and unvested restricted stock. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per common share by application of the treasury method.

The following table sets forth the computation of basic and diluted earnings per common share for the three and nine month periods ended September 30, 2011 and 2010:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Numerator:				
Net income	\$ 3,000	\$ 1,251,000	\$ 518,000	\$ 1,890,000
Denominator:				
Basic weighted average shares outstanding	45,318,000	45,386,000	45,178,000	46,564,000
Effect of dilutive securities:				
Stock options	847,000	819,000	1,140,000	563,000
Unvested restricted stock	209,000	322,000	259,000	370,000
Warrants	-	290,000	-	247,000
Diluted weighted average shares outstanding	<u>46,374,000</u>	<u>46,817,000</u>	<u>46,577,000</u>	<u>47,744,000</u>
Net income per share				
Basic	\$ 0.00	\$ 0.03	\$ 0.01	\$ 0.04
Diluted	\$ 0.00	\$ 0.03	\$ 0.01	\$ 0.04

Potentially dilutive securities representing approximately 1,173,000 and 1,526,000 shares of common stock at September 30, 2011 and 2010, respectively, were not included in the computation of net income per diluted share because the effect would be anti-dilutive.

NOTE 4 – NOTES PAYABLE

Related Party and Senior Notes – At June 30, 2011, the Company had a total of \$697,000 in outstanding Senior Notes, of which \$321,000 were held by related parties. The Senior Notes were unsecured, with interest at 10%, payable semiannually on April 1 and October 1 and had a maturity date of September 30, 2012. On August 1, 2011, the Company repaid the Senior Notes in full, more than one year ahead of the maturity date. This prepayment will save the Company approximately \$70,000 in interest expense over the next fourteen months

Revolving Bank Line of Credit - The Company and Silicon Valley Bank (the “Bank”) entered into a Loan and Security Agreement, effective as of September 27, 2011. Line of credit advances are available to the Company in accordance with a defined “Availability Amount”, based in part on qualifying accounts receivable, up to a maximum of \$1 million. The line of credit bears interest at the prime rate plus 1.75%, payable monthly, and matures September 26, 2012. The line of credit is collateralized by substantially all operating assets of the Company. Interest payments are payable on the first day of each month with all principal advances payable on the maturity date of the line of credit. As of September 30, 2011, the Company had no borrowings against the line of credit.

Under the line of credit agreement, the Company is required to comply with the following financial covenants:

- Maintain a ratio of quick assets to current liabilities minus deferred revenue of at least: 1.50 to 1.00
- Maintain a tangible net worth equal to or greater than the sum of (i) \$500,000, plus (ii) for each successive quarter, commencing as of the quarter ending December 31, 2011, 50% of net proceeds received by Company in the preceding quarter from bona-fide issuances of new equity or bridge financing which constitutes “subordinated debt”.

The line of credit agreement also contains numerous negative comments restricting certain actions by the Company without the bank’s consent, such as are typically included in similar loan agreements, including restrictions on the payment of dividends, restrictions on incurring additional debt, prohibitions restricting major corporation transactions, including a sale of the business, and a requirement that the Company retain certain key employees.

At September 30, 2011, the Company was in compliance with all covenants.

NOTE 5 – COMMON STOCK

During the nine months ended September 30, 2011, the Company issued 391,000 shares of its common stock from the exercise of warrants associated with Senior Notes for proceeds of \$19,000. As of September 30, 2011, all warrants associated with the Senior Notes have been exercised.

The Company had 211,000 and 182,000 vested restricted stock awards for which shares of common stock have not been issued as of September 30, 2011 and December 31, 2010, respectively.

During the three months ended September 30, 2010, a transaction occurred with a Cimatrix customer that is also a Cimatrix shareholder. This customer purchased a one-time \$1 million software development kit license for the Company’s new CIMControlFramework product. Terms of the transaction included a cash payment of \$500,000 and the remaining \$500,000 non-cash payment consisted of the return and cancellation of 2,698,327 shares of the common stock valued at a price of \$0.1853 per share.

NOTE 6 – RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2011 and 2010, the Company had the following revenues from two customers who are also shareholders of the Company:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
New software licenses	\$ 68,000	\$1,004,000	\$ 293,000	\$1,123,000
Software license updates and product support	21,000	37,000	74,000	60,000
Total software revenues	89,000	1,041,000	367,000	1,183,000
Professional services	-	5,000	-	8,000
Total software revenues	\$ 89,000	\$1,046,000	\$ 367,000	\$1,191,000

The Company had accounts receivable from these two related customers totaling \$38,000 and \$45,000 at September 30, 2011 and December 31, 2010, respectively.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, payables, and notes payable. The carrying amount of cash, receivables and payables approximates fair value because of the short-term nature of these items. The carrying amount of the notes payable approximates fair value as the individual borrowings bear interest at rates that approximate market interest rates for similar debt instruments.

NOTE 8 – RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2011, the Company adopted the Financial Accounting Standards Board ("FASB") revised accounting guidance related to revenue arrangements with multiple deliverables. The guidance applies to all deliverables under contractual arrangements in which a vendor will perform multiple revenue-generating activities. The guidance addresses how total consideration should be allocated to the separate units of accounting, when applicable. The new guidance retains the criteria when delivered items in a multiple-deliverable arrangement should be considered separate units of accounting, but it removes the previous separation criterion that objective and reliable evidence of fair value of any undelivered items must exist for the delivered items to be considered a separate unit or separate units of accounting. The adoption of this new guidance did not result in any new units of accounting. In accordance with the guidance, consideration for multi revenue-generating activities are allocated to the units of accounting using the relative selling price method proportionally to each deliverable based on the vendor specific objective evidence of fair value of each specific deliverable. Adoption of this guidance did not have a significant impact on the timing or amount of revenue recognized by the Company for multiple-deliverable arrangements.

In September 2011, the FASB issued new guidance, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. The guidance eliminates the option to present components of other comprehensive income as part of the statement of equity. The guidance will be effective beginning after December 15, 2011. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

In September 2011, the FASB issued new guidance on the annual testing of goodwill for impairment. The guidance will allow companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step

goodwill impairment test required under current accounting standards. This guidance will be effective for the Company for the year ending December 31, 2012, with early adoption permitted. The Company does not expect the adoption of this new guidance to have a material impact on its consolidated financial statements.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated events through the date the financial statements were filed with the Securities and Exchange Commission and concluded there were no events to report.

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

Overview

The following is a brief discussion and explanation of significant financial data, which is presented to help the reader understand the results of the Company’s financial performance for the three-month and nine-month periods ended September 30, 2011 and September 30, 2010 and the Company’s financial position at September 30, 2011. The information includes discussions of sales, expenses, capital resources and other significant financial items.

This discussion should be read in conjunction with the Company’s Consolidated Financial Statements and Notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010. The ensuing discussion and analysis contains both statements of historical fact and forward-looking statements. Forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, generally are identified by the words “expects,” “believes,” “anticipates” or words of similar import. Examples of forward-looking statements include: (a) projections regarding sales, revenue, liquidity, capital expenditures and other financial items; (b) statements of the plans, beliefs and objectives of the Company or its management; (c) statements of future economic performance; and (d) assumptions underlying statements regarding the Company or its business. Forward-looking statements are subject to factors and uncertainties that could cause actual results to differ materially from the forward-looking statements, including, but not limited to, those factors and uncertainties described below under “Liquidity and Capital Resources,” “Factors Affecting Future Results” and “Risk Factors,” and those factors set forth under “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

Cimetrix is a software company that designs, develops, markets and supports factory automation and tool control products for today’s smart, connected factories. The Company’s primary customers are original equipment manufacturers (OEM’s) that supply precision electronics equipment for semiconductor wafer fabrication, solar/photovoltaic (PV) and other electronics manufacturing.

Revenues are derived from the sales of software and services. Software includes the initial sale of software development kits (SDK’s), the ongoing runtime licenses for each machine shipped with Cimetrix software and annual contracts for software license updates and product support. Services include the sale of professional services that provide customers with software solutions typically incorporating Cimetrix software products. While Cimetrix products are installed in a wide range of industries, the Company has focused over the past several years on the global semiconductor and electronics industries, which includes the growing solar photovoltaic and light emitting diode (“LED”) markets.

Critical Accounting Policies

The Company prepares its condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles. The Company's condensed consolidated financial statements are based on the application of certain accounting policies, the most significant of which are described in Note 1—Summary of Significant Accounting Policies included in the Company's 2010 Annual Report filed on Form 10-K. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or be subject to variations and may significantly affect the Company's reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions or estimates in any of these areas could have a material impact on the Company's future financial condition and results of operations.

Operations Review

The following table sets forth the percentage of costs and expenses to total revenues derived from the Company's Consolidated Condensed Statements of Operations.

Revenues

The following table summarizes revenues by category and as a percent of total revenues:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
New software licenses	\$ 922,000	52%	\$ 2,131,000	82%	\$ 3,853,000	63%	\$ 3,989,000	77%
Software license updates and product support	249,000	14%	241,000	9%	686,000	12%	620,000	12%
Total software revenues	1,171,000	66%	2,372,000	91%	4,539,000	75%	4,609,000	89%
Professional services	598,000	34%	238,000	9%	1,552,000	25%	585,000	11%
Total revenues	\$ 1,769,000	100%	\$ 2,610,000	100%	\$ 6,091,000	100%	\$ 5,194,000	100%

Total revenues decreased by \$841,000, or 32%, to \$1,769,000 for the three months ended September 30, 2011, from \$2,610,000 for the three months ended September 30, 2010. Excluding a one-time SDK license order for \$1 million in the period ended September 30, 2010, total revenues increased to \$1,769,000 from \$1,610,000. For the nine months ended September 30, 2011, total revenues increased \$897,000 or 17% to \$6,091,000 from \$5,194,000 for the nine months ended September 30, 2010. The increase in revenues for the nine months ended September 30, 2011 was primarily attributable to the increase in services which increased \$967,000 over the same period in 2010.

New software license revenues include the initial sale of software development kits and the ongoing runtime licenses that equipment suppliers purchase for each machine shipped with Cimetric software. The primary markets served by Cimetric customers are the semiconductor, PV, LED, and other electronics markets, all of which were experiencing growth during the first part of 2011. However, the semiconductor industry has recently experienced another slowdown which began at the end of the second quarter and accelerated during the third quarter.

Total software revenues decreased to \$1,171,000 for the three months ended September 30, 2011, as compared to \$2,372,000 for the three months ended September 30, 2010, or \$1,372,000 excluding the one-time SDK license order for \$1 million that occurred in the prior year quarter. For the nine months ended September 30, 2011, software revenues decreased to \$4,539,000 as compared to \$4,609,000 for the nine months ended September 30, 2010. The decrease in software revenues is attributable to two events:

(1) The semiconductor industry has recently experienced a dramatic slowdown during the third quarter of 2011 which is expected to continue at least through the end of 2011; (2) In August 2010, the Company received a one-time \$1 million software development kit license fee after winning a new customer for its CIMControlFramework software product for advanced equipment control, which was an unusually large SDK licensing fee. The combination of these two events resulted in decreased software revenues year over year.

Revenue associated with software license updates and product support increased 3% for the three months ended September 30, 2011 as compared to the prior year period. For the nine months ended September 30, 2011, revenues associated with software license updates and product support increased 11% over the nine months ended September 30, 2010. The increase in revenues from software license updates and product support was a result of new customers added since September 30, 2010.

Professional services revenues increased 165% year-over-year for the nine months ended September 30, 2011. While Cimatrix is a software products company, professional services is a key factor in our growth strategy to assist customers in using Cimatrix products. For many customers, they will only purchase Cimatrix products if Cimatrix is also able to provide professional services. One of the effects of the 2008/2009 severe downturn is that many customers have significantly reduced internal software staff, which has increased the need for Cimatrix to assist those customers.

Results of Operations

The following table sets forth the percentage of costs and expenses to total revenues derived from the Company's Consolidated Condensed Statements of Operations:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net sales	100 %	100 %	100 %	100 %
Operating costs and expense:				
Cost of revenues	49	14	44	19
Sales and marketing	15	13	13	14
Research and development	19	8	17	9
General and administrative	16	16	16	20
Depreciation and amortization	1	0	1	0
Total operating costs and expenses	100	51	91	62
Income from operations	0	49	9	38
Other expense, net	0	(1)	0	(1)
Net income	0 %	48 %	9 %	37 %

The Company's operating results for the first half of 2011 reflect the effects of the short-term recovery in the economy as well as changes made to our business model to be more efficient and concentrate on our core strengths of developing leading software products. As stated earlier, a recent pull-back in the semiconductor industry negatively impacted our third quarter 2011 software license revenues.

The Company reported net income of \$3,000 for the three months ended September 30, 2011, compared to \$1,251,000 for the three months ended September 30, 2010. The three months ended September 30, 2010 included a one-time \$1 million fee associated with the sale of a CIMControlFramework SDK. The net results for all periods include non-cash stock-based compensation

expense and non-cash depreciation and amortization expense. For the three-month periods ended September 30, 2011 and 2010, stock-based compensation expense was \$18,000 and \$13,000, respectively, and depreciation and amortization expense was \$13,000 and \$7,000, respectively. The Company reported net income of \$518,000 for the nine months ended September 30, 2011 as compared to the net income of \$1,890,000 for the nine months ended September 30, 2010. For the nine-month periods ended September 30, 2011 and 2010, the Company did not have any bad debt expense. For the nine-month periods ended September 30, 2011 and September 30, 2010, stock-based compensation expense was \$45,000 and \$54,000 respectively and depreciation and amortization expense was \$36,000 and \$20,000, respectively.

The Company generated net cash in operating activities totaling \$93,000 for the nine months ended September 30, 2011, compared to net cash generated from operating activities of \$1,537,000 for the nine months ended September 30, 2010. The net difference between 2011 and 2010 is attributable mostly to the one-time \$1 million fee associated with the sale of a CIMControlFramework SDK in August 2010, increased accounts receivable at September 30, 2011 compared to the same period in 2010 and increased costs associated with the delivery of services as discussed below under Cost of Revenues.

Cost of Revenues

The Company's cost of revenues as a percentage of total revenues for the three months ended September 30, 2011 was 49%, compared to 14% for the three months ended September 30, 2010. Cost of revenues as a percentage of total revenues for the nine months ended September 30, 2011 and 2010 was 44% and 19%, respectively. This increase was a combination of investment in our current products, payroll costs related to increased staff and the use of service partners to augment our engineering team to deliver professional services. Cost of revenues is higher for professional services compared to software sales and the cost of revenues as a percentage of total revenues will vary from period to period depending on the mix of software and professional service revenues, the type of service projects completed, the pricing strategy for the projects, the extent of utilization of outside resources, and other factors.

In the third quarter of 2010, the Company modified its business model with regards to professional services. The Company formed relationships with services partners capable of providing qualified Microsoft developers and/or industry knowledgeable engineers to augment Cimatrix project teams. Cimatrix will continue to maintain a cadre of staff to perform some professional services engagements directly. When increased business opportunities for professional services projects present themselves, as they did in the first half of 2011, Cimatrix can quickly arrange project teams using one or more of its services partners. This approach increases Cimatrix's costs of services for these projects, but these costs are variable costs that are only incurred if and when Cimatrix secures these additional projects.

Sales and Marketing

Sales and marketing expenses decreased \$70,000, or 21%, to \$257,000 during the three months ended September 30, 2011, from \$327,000 during the three months ended September 30, 2010. The decrease was primarily attributable to the commissions and selling costs associated with the one-time \$1million SDK sale during the three months ended September 30, 2010. During the nine months ended September 30, 2011, sales and marketing expenses increased \$75,000 or 10% to \$809,000 from \$734,000 for the nine months ended September 30, 2010. The increase was primarily a result of increased sales and marketing activities for the Company's products and commissions on higher revenues. Although sales and marketing expenses increased over 2010, the percentage of revenue for sales and marketing expenses decreased from 14% of total revenues for the nine months ended September 30, 2010 to 13% of total revenues for the nine months ended September 30, 2011 due to increased revenues. Sales and marketing expenses reflect the direct payroll and related travel expenses of the Company's sales and marketing staff, the development of product brochures and marketing materials, costs associated with press releases, branding, search engine optimization, website design improvements and costs related to the Company's representation at industry trade shows.

Research and Development

Research and development expenses increased \$115,000, or 53%, to \$331,000 during the three months ended September 30, 2011, from \$216,000 during the three months ended September 30, 2010. During the nine months ended September 30, 2011, research and development expenses increased \$592,000 or 129% to \$1,051,000 from \$459,000 for the nine months ended September 30, 2010. The increase is primarily due to a resurgence of investment in our current products as well as our new CIMControlFramework™ software product. Research and development expenses include only direct costs for wages, benefits, materials, and education of technical personnel involved in new product development activities. All indirect costs such as rents, utilities, depreciation and amortization are included in general and administrative expenses, as discussed below.

General and Administrative

General and administrative expenses decreased \$125,000 or 30%, to \$288,000 in the three months ended September 30, 2011, from \$413,000 in the three months ended September 30, 2010. During the nine months ended September 30, 2011, general and administrative expenses decreased \$48,000 or 5% to \$990,000 from \$1,038,000 for the nine months ended September 30, 2010. The percentage of revenue for general and administrative expenses decreased from 20% of total revenues for the nine months ended September 30, 2010 to 16% of total revenues for the nine months ended September 30, 2011 due to increased revenues and overall cost reductions in a variety of administrative type expenses. General and administrative expenses include all direct costs for administrative and accounting personnel, and all rents and utilities for maintaining Company offices.

Depreciation and Amortization

Depreciation and amortization expense increased \$6,000 or 86% to \$13,000 in the three months ended September 30, 2011, from \$7,000 in the three months ended September 30, 2010. During the nine months ended September 30, 2011, depreciation and amortization increased \$16,000 or 80%, to \$36,000 from \$20,000 in the nine months ended September 30, 2010. The increase is attributable to the Company's investment in equipment upgrades and new financial software.

Other Income (Expense)

Interest expense for the three months ended September 30, 2011 decreased by \$17,000, to \$6,000, from \$23,000 for the three months ended September 30, 2010. During the nine months ended September 30, 2011, interest expense decreased \$40,000 or 52%, to \$37,000 from \$77,000 in the nine months ended September 30, 2010. The decrease in interest expense for the three and nine month periods ended September 30, 2011, compared to the same periods in 2010 was due, primarily, to the termination of the Company's bank loan with Silicon Valley Bank in July 2010 and the early pay off of Senior Notes in August 2011.

Interest income for the three months ended September 30, 2011 was \$1,000 compared to \$0 for the same period in 2010. During the nine months ended September 30, 2011, interest income was \$3,000 compared to \$0 for the same period in 2010. The increase in interest income is a result of higher cash balances, year over year.

Liquidity and Capital Resources

At September 30, 2011, the Company had current assets of \$1,819,000, including cash and cash equivalents of \$843,000, and current liabilities of \$887,000, resulting in a working capital of \$932,000. Excluding deferred revenue of \$232,000, which requires the Company to provide services and support,

but does not represent a scheduled obligation requiring the outlay of Company assets, the Company's current assets exceeded current liabilities by \$1,164,000 at September 30, 2011.

Related Party and Senior Notes – At June 30, 2011, the Company had a total of \$697,000 in outstanding Senior Notes, of which \$321,000 were held by related parties. The Senior Notes were unsecured, with interest at 10%, payable semiannually and had a maturity date of September 30, 2012. On August 1, 2011, the Company repaid the Senior Notes in full, more than one year ahead of maturity date. This prepayment will save the Company approximately \$70,000 in interest expense over the next fourteen months.

During the nine months ended September 30, 2011, the Company issued 391,000 shares of its common stock from the exercise of warrants associated with Senior Notes for proceeds of \$19,000. As of September 30, 2011, all warrants associated with the Senior Notes have been exercised.

Revolving Bank Line of Credit - The Company and Silicon Valley Bank (the "Bank") entered into a Loan and Security Agreement, effective as of September 27, 2011. Line of credit advances are available to the Company in accordance with a defined "Availability Amount", based in part on qualifying accounts receivable, up to a maximum of \$1 million. The line of credit bears interest at the prime rate plus 1.75%, payable monthly and matures September 26, 2012. The line of credit is collateralized by substantially all operating assets of the Company. Interest payments are payable on the first day of each month with all principal advances payable on the maturity date of the line of credit. As of September 30, 2011, the Company had no borrowings against the line of credit.

Under the line of credit agreement, the Company is required to comply with the following financial covenants:

- Maintain a ratio of quick assets to current liabilities minus deferred revenue of at least: 1.50 to 1.00
- Maintain a tangible net worth equal to or greater than the sum of (i) \$500,000, plus (ii) for each successive quarter, commencing as of the quarter ending December 31, 2011, 50% of net proceeds received by Company in the preceding quarter from bona-fide issuances of new equity or bridge financing which constitutes "subordinated debt".

The line of credit agreement also contains numerous negative comments restricting certain actions by the Company without the bank's consent, such as are typically included in similar loan agreements, including restrictions on the payment of dividends, restrictions on incurring additional debt, prohibitions restricting major corporation transactions, including a sale of the business, and a requirement that the Company retain certain key employees.

At September 30, 2011, the Company was in compliance with all covenants.

Results of Operations and Cash Flows – The Company has posted nine consecutive quarters of positive net income beginning in mid-2009. As of September 30, 2011, the Company had total stockholders' equity of \$1,142,000. During the nine months ended September 30, 2011, the Company reported net income of \$518,000 compared to \$1,890,000 for the same period in 2010. The Company generated net cash in operating activities of \$93,000 for the nine months ended September 30, 2011 as compared to net cash generated in operating activities of \$1,537,000 for the same period in 2010. The net difference between 2011 and 2010 is attributable mostly to the one-time \$1 million fee associated with the sale of a CIMControlFramework SDK in August 2010, as well as increased accounts receivable and increased costs associated with the delivery of professional services as of September 30, 2011 compared to the same period in 2010.

Net cash used in investing activities during the nine months ended September 30, 2011, was \$56,000 and consisted of software and hardware upgrades. Net cash used in investing activities during the nine months ended September 30, 2010, was \$36,000 and consisted of hardware upgrades.

Net cash used in financing activities for the nine months ended September 30, 2011 was \$753,000, comprised of \$19,000 in proceeds from the issuance of common stock related to the exercise of Senior Note warrants, payments of debt to related parties of \$396,000 and payments of debt of \$376,000.

The Company has not been adversely affected by inflation. Revenues from foreign customers were \$2,667,000 during the nine months ended September 30, 2011, representing 44% of the Company's total revenues, compared to \$3,013,000 or 58%, of total revenues during the same period in 2010. There are potential economic risks inherent in foreign trade. To minimize the risk from changes in foreign currency exchange rates, the Company's export sales are transacted in United States dollars.

Factors Affecting Future Results

Total revenues for the first nine months of 2011 increased 17% compared to the first nine months of 2010, reflecting increased purchases of Cimetrix professional services as our customers looked to Cimetrix for solutions to get their tools to market quicker netted with decreased purchases of software licenses and SDK's as a result of the recent semiconductor industry pull-back.

The Company continues to focus on incrementally expanding its customer base and product line in order to increase revenues. In 2008, the Company announced its new CIMControlFramework software for equipment tool control, which enables the Company to provide equipment makers with a complete software solution that reduces their time-to-market for new tool developments. As equipment makers reduce their costs and internal resources, Cimetrix believes the market for CIMControlFramework will grow as equipment makers begin to invest in new machine development programs.

Ultimately, the Company's business is driven by the global demand for electronic devices photovoltaic solar panels and high brightness LED's by consumers and businesses. Even though the first half of 2011 showed encouraging signs of economic recovery, there has been a pull-back in the Company's market and any negative changes in the global economic conditions could further adversely affect Cimetrix's business and the results of operations. In the current environment, the Company's ability to accurately predict future operating results associated with our customer shipments of machines is particularly low.

The Company recognizes the impact an industry-wide slowdown has on profitability and has taken steps to align costs with revenues to seek profitability and positive cash flow during the down-cycle. The strategy to use service partners to augment professional staff enables the Company to quickly reduce costs related to those service partners when there is a sudden change in revenue due to negative market conditions. The Company also paid off all debts and has secured a \$1million line of credit in the event operating cash is needed in the short-term. While there is no assurance the Company will maintain profitability, the Company believes it can maintain profitability during this down-cycle.

The Company continues to pursue customers through its professional services group, which is available to assist customers by providing professional services and complete turnkey solutions. The ability of the Company to provide both products and services to its customer base is becoming a more important factor as customers seek to limit the number of suppliers, reduce their internal staff, and prefer single source responsibility. The experience gained delivering professional services also provides valuable inputs to new product development roadmaps.

The Company's future operating results and financial condition are difficult to predict and will be affected by a number of factors. The markets for the Company's products are emerging and specialized. There can be no assurance that the markets for industrial motion control, connectivity, and tool control that are served by the Company will continue to grow, or that the Company's existing and new products will continue to satisfy the requirements of those markets and maintain a successful level of customer acceptance.

Because of these and other factors, past financial performance is not necessarily indicative of future performance, and historical trends should not be used to anticipate future operating results.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is not subject to this requirement since it is not an accelerated filer.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized, and reported within the required time periods and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure.

As required by Rule 13a-15(b) under the Exchange Act, we conducted an evaluation, under the supervision and with the participation of our management, including the chief executive officer and the chief financial officer, of the effectiveness and the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the chief executive officer and the chief financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in internal controls

During the most recent fiscal quarter covered by this report, and since that date there has been no change in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

None

ITEM 1. LEGAL PROCEEDINGS

The Company is not currently involved in any pending litigation.

ITEM 1A. RISK FACTORS

The Company has disclosed risk factors in its Annual Report on Form 10-K for the year ended December 31, 2010 which could materially affect its business, financial condition or future results of operations to which the reader is referred. There have been no material changes to the risk factors disclosed in that Form 10-K.

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

During the nine months ended September 30, 2011, in connection with the exercise of previously outstanding Senior Note warrants, the Company issued 391,000 shares of its restricted

common stock, par value \$0.0001 per share, for a price of \$0.05 per share, or aggregate proceeds of \$19,000.

The sales were made in reliance on the exemptions from the registration requirements provided by Regulation D of the Securities Act of 1933, as amended. The sales were made to two accredited purchasers. The certificates representing the shares sold will bear a legend indicating that they have been issued in reliance on an exemption from the registration requirements of U.S. Securities laws and cannot be sold or transferred without compliance with such registration requirements or the availability of an exemption from such registration requirements.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
10.1	Loan and Security Agreement dated September 27, 2011 between Silicon Valley Bank and Cimatrix Incorporated*
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
99.1	Press Release dated November 10, 2011*

* Exhibits filed with this report

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REGISTRANT

CIMETRIX INCORPORATED

Dated: November 14, 2011

By: /S/ Robert H. Reback
Robert H. Reback
President and Chief Executive Officer
(Principal Executive Officer)

By: /S/ Jodi M. Juretich
Jodi M. Juretich
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 10.1

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (this “**Agreement**”) dated as of September 27, 2011 (the “**Effective Date**”) between **SILICON VALLEY BANK**, a California corporation (“**Bank**”), and **CIMETRIX INCORPORATED**, a Nevada corporation (“**Borrower**”), provides the terms on which Bank shall lend to Borrower and Borrower shall repay Bank. The parties agree as follows:

1 ACCOUNTING AND OTHER TERMS

Accounting terms not defined in this Agreement shall be construed following GAAP. Calculations and determinations must be made following GAAP. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 13. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein.

2 LOAN AND TERMS OF PAYMENT

2.1 **Promise to Pay.**

Borrower hereby unconditionally promises to pay Bank the outstanding principal amount of all Credit Extensions and accrued and unpaid interest thereon as and when due in accordance with this Agreement.

2.1.1 **Revolving Advances.**

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

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

2.2 **Overadvances.**

If, at any time, the outstanding principal amount of any Advances exceeds the lesser of either the Revolving Line or the Borrowing Base, Borrower shall immediately pay to Bank in cash such excess.

2.3 **Payment of Interest on the Credit Extensions.**

(a) **Interest Rate.** Subject to Section 2.3(b), the principal amount outstanding under the Revolving Line shall accrue interest at a floating per annum rate equal to the Prime Rate, plus one and three-quarters percent (1.75%), which interest shall be payable monthly in accordance with Section 2.3(f) below.

(b) **Default Rate.** Immediately upon the occurrence and during the continuance of an Event of Default, Obligations shall bear interest at a rate per annum which is five percent (5.0%) above the rate that is otherwise applicable thereto (the “**Default Rate**”) unless Bank otherwise elects from time to time in its sole discretion to impose a smaller increase. Fees and expenses which are required to be paid by Borrower pursuant to the Loan Documents (including, without limitation, Bank Expenses) but are not paid when due shall bear interest until paid at a rate equal to the highest rate applicable to the Obligations. Payment or acceptance of

the increased interest rate provided in this Section 2.3(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Bank.

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

(d) Computation; 360-Day Year. In computing interest, the date of the making of any Credit Extension shall be included and the date of payment shall be excluded; provided, however, that if any Credit Extension is repaid on the same day on which it is made, such day shall be included in computing interest on such Credit Extension. Interest shall be computed on the basis of a 360-day year for the actual number of days elapsed.

(e) Debit of Accounts. Bank may debit any of Borrower's deposit accounts, including the Designated Deposit Account, for principal and interest payments or any other amounts Borrower owes Bank when due. These debits shall not constitute a set-off.

(f) Interest Payment Date. Unless otherwise provided, interest is payable monthly on the first (1st) calendar day of each month.

2.4 Fees.

Borrower shall pay to Bank:

(a) Commitment Fee. A fully earned, non-refundable commitment fee of Five Thousand Dollars (\$5,000), on the Effective Date; and

(b) Bank Expenses. All Bank Expenses (including reasonable attorneys' fees and expenses for documentation and negotiation of this Agreement) incurred through and after the Effective Date, when due.

2.5 Payments; Application of Payments.

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

(b) Bank shall apply the whole or any part of collected funds against the Revolving Line or credit such collected funds to a depository account of Borrower with Bank (or an account maintained by an Affiliate of Bank), the order and method of such application to be in the sole discretion of Bank. Borrower shall have no right to specify the order or the accounts to which Bank shall allocate or apply any payments required to be made by Borrower to Bank or otherwise received by Bank under this Agreement when any such allocation or application is not specified elsewhere in this Agreement.

3 CONDITIONS OF LOANS

3.1 Conditions Precedent to Initial Credit Extension.

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

- (a) duly executed original signatures to the Loan Documents;
- (b) duly executed original signatures to the SVB Control Agreement and any other Control Agreement required by Bank;
- (c) Borrower's Operating Documents and a good standing certificate of Borrower certified by the Secretary of State of the State of Nevada as of a date no earlier than thirty (30) days prior to the Effective Date;
- (d) duly executed original signatures to the completed Borrowing Resolutions for Borrower;
- (e) certified copies, dated as of a recent date, of financing statement searches, as Bank shall request, accompanied by written evidence (including any UCC termination statements) that the Liens indicated in any such financing statements either constitute Permitted Liens or have been or, in connection with the initial Credit Extension, will be terminated or released;
- (f) the Perfection Certificate of Borrower, together with the duly executed original signature thereto;
- (g) evidence satisfactory to Bank that the insurance policies required by Section 6.5 hereof are in full force and effect, together with appropriate evidence showing lender loss payable and/or additional insured clauses and cancellation notice to Bank (or endorsements reflecting the same) in favor of Bank;
- (h) the completion of the Initial Audit with results satisfactory to Bank in its sole and absolute discretion; and
- (i) payment of the fees and Bank Expenses then due as specified in Section 2.4 hereof.

3.2 Conditions Precedent to all Credit Extensions.

Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

- (a) except as otherwise provided in Section 3.4, timely receipt of an executed Payment/Advance Form;
- (b) the representations and warranties in this Agreement shall be true, accurate, and complete in all material respects on the date of the Payment/Advance Form and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier

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

(c) in Bank's sole discretion, there has not been any material impairment in the general affairs, management, results of operation, financial condition or the prospect of repayment of the Obligations, or any material adverse deviation by Borrower from the most recent business plan of Borrower presented to and accepted by Bank.

3.3 Covenant to Deliver.

Borrower agrees to deliver to Bank each item required to be delivered to Bank under this Agreement as a condition precedent to any Credit Extension. Borrower expressly agrees that a Credit Extension made prior to the receipt by Bank of any such item shall not constitute a waiver by Bank of Borrower's obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in Bank's sole discretion.

3.4 Procedures for Borrowing.

Subject to the prior satisfaction of all other applicable conditions to the making of an Advance set forth in this Agreement, to obtain an Advance, Borrower shall notify Bank (which notice shall be irrevocable) by electronic mail, facsimile, or telephone by 12:00 p.m. Pacific time on the Funding Date of the Advance. Together with any such electronic or facsimile notification, Borrower shall deliver to Bank by electronic mail or facsimile a completed Payment/Advance Form executed by a Responsible Officer or his or her designee. Bank may rely on any telephone notice given by a person whom Bank believes is a Responsible Officer or designee. Bank shall credit Advances to the Designated Deposit Account. Bank may make Advances under this Agreement based on instructions from a Responsible Officer or his or her designee or without instructions if the Advances are necessary to meet Obligations which have become due.

4 CREATION OF SECURITY INTEREST

4.1 Grant of Security Interest.

Borrower hereby grants Bank, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Bank, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof.

4.2 Priority of Security Interest.

Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that may

have superior priority to Bank's Lien under this Agreement). If Borrower shall acquire a commercial tort claim, Borrower shall promptly notify Bank in a writing signed by Borrower of the general details thereof and grant to Bank in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Bank.

If this Agreement is terminated, Bank's Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are repaid in full in cash. Upon payment in full in cash of the Obligations and at such time as Bank's obligation to make Credit Extensions has terminated, Bank shall, at Borrower's sole cost and expense, release its Liens in the Collateral and all rights therein shall revert to Borrower.

4.3 Authorization to File Financing Statements.

Borrower hereby authorizes Bank to file financing statements, without notice to Borrower, with all appropriate jurisdictions to perfect or protect Bank's interest or rights hereunder, including a notice that any disposition of the Collateral, by either Borrower or any other Person, shall be deemed to violate the rights of Bank under the Code. Such financing statements may indicate the Collateral as "all assets of the Debtor" or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in Bank's discretion.

5 REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1 Due Organization, Authorization; Power and Authority.

Borrower is duly existing and in good standing as a Registered Organization in its jurisdiction of formation and is qualified and licensed to do business and is in good standing in any jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified except where the failure to do so could not reasonably be expected to have a material adverse effect on Borrower's business. In connection with this Agreement, Borrower has delivered to Bank a completed certificate signed by Borrower, entitled "**Perfection Certificate**". Borrower represents and warrants to Bank that (a) Borrower's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof; (b) Borrower is an organization of the type and is organized in the jurisdiction set forth in the Perfection Certificate; (c) the Perfection Certificate accurately sets forth Borrower's organizational identification number or accurately states that Borrower has none; (d) the Perfection Certificate accurately sets forth Borrower's place of business, or, if more than one, its chief executive office as well as Borrower's mailing address (if different than its chief executive office); (e) Borrower (and each of its predecessors) has not, in the past five (5) years, changed its jurisdiction of formation, organizational structure or type, or any organizational number assigned by its jurisdiction; and (f) all other information set forth on the Perfection Certificate pertaining to Borrower and each of its Subsidiaries is accurate and complete (it being understood and agreed that Borrower may from time to time update certain information in the Perfection Certificate after the Effective Date to the extent permitted by one or more specific provisions in this Agreement).

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

5.2 Collateral.

Borrower has good title to, has rights in, and the power to transfer each item of the Collateral upon which it purports to grant a Lien hereunder, free and clear of any and all Liens except Permitted Liens. Borrower has no deposit accounts other than the deposit accounts with Bank, the deposit accounts, if any, described in the

Perfection Certificate delivered to Bank in connection herewith, or of which Borrower has given Bank notice and taken such actions as are necessary to give Bank a perfected security interest therein. The Accounts are bona fide, existing obligations of the Account Debtors.

The Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in the Perfection Certificate. None of the components of the Collateral shall be maintained at locations other than as provided in the Perfection Certificate or as permitted pursuant to Section 7.2. All Inventory is in all material respects of good and marketable quality, free from material defects, subject only to the reserves established in accordance with GAAP on the Borrower's financial statements.

Borrower is the sole owner of the Intellectual Property which it owns or purports to own except for (a) non-exclusive licenses granted to its customers in the ordinary course of business, (b) over-the-counter software that is commercially available to the public, and (c) material Intellectual Property licensed to Borrower and noted on the Perfection Certificate. Each Patent which it owns or purports to own and which is material to Borrower's business is valid and enforceable, and no part of the Intellectual Property which Borrower owns or purports to own and which is material to Borrower's business has been judged invalid or unenforceable, in whole or in part. To the best of Borrower's knowledge, no claim has been made that any part of the Intellectual Property violates the rights of any third party except to the extent such claim would not reasonably be expected to have a material adverse effect on Borrower's business. Except as noted on the Perfection Certificate, Borrower is not a party to, nor is it bound by, any Restricted License.

5.3 Accounts Receivable.

For any Eligible Account in any Borrowing Base Certificate, all statements made and all unpaid balances appearing in all invoices, instruments and other documents evidencing such Eligible Accounts are and shall be true and correct and all such invoices, instruments and other documents, and all of Borrower's Books are genuine and in all respects what they purport to be. Whether or not an Event of Default has occurred and is continuing, Bank may notify any Account Debtor owing Borrower money of Bank's security interest in such funds and verify the amount of such Eligible Account. All sales and other transactions underlying or giving rise to each Eligible Account shall comply in all material respects with all applicable laws and governmental rules and regulations. Borrower has no knowledge of any actual or imminent Insolvency Proceeding of any Account Debtor whose accounts are Eligible Accounts in any Borrowing Base Certificate. To the best of Borrower's knowledge, all signatures and endorsements on all documents, instruments, and agreements relating to all Eligible Accounts are genuine, and all such documents, instruments and agreements are legally enforceable in accordance with their terms.

5.4 Litigation.

There are no actions or proceedings pending or, to the knowledge of the Responsible Officers, threatened in writing by or against Borrower or any of its Subsidiaries involving more than, individually or in the aggregate, Fifty Thousand Dollars (\$50,000).

5.5 Financial Statements; Financial Condition.

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

5.6 Solvency.

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

5.7 Regulatory Compliance.

Borrower is not an “investment company” or a company “controlled” by an “investment company” under the Investment Company Act of 1940, as amended. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Neither Borrower nor any of its Subsidiaries is a “holding company” or an “affiliate” of a “holding company” or a “subsidiary company” of a “holding company” as each term is defined and used in the Public Utility Holding Company Act of 2005. Borrower has not violated any laws, ordinances or rules, the violation of which could reasonably be expected to have a material adverse effect on its business. None of Borrower’s or any of its Subsidiaries’ properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower’s knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Governmental Authorities that are necessary to continue their respective businesses as currently conducted.

5.8 Subsidiaries; Investments.

Borrower does not own any stock, partnership interest or other equity securities except for Permitted Investments.

5.9 Tax Returns and Payments; Pension Contributions.

Borrower has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower. Borrower may defer payment of any contested taxes, provided that Borrower (a) in good faith contests its obligation to pay the taxes by appropriate proceedings promptly and diligently instituted and conducted, (b) notifies Bank in writing of the commencement of, and any material development in, the proceedings, and (c) posts bonds or takes any other steps required to prevent the Governmental Authority levying such contested taxes from obtaining a Lien upon any of the Collateral that is other than a “**Permitted Lien.**” Borrower is unaware of any claims or adjustments proposed for any of Borrower’s prior tax years which could result in additional taxes becoming due and payable by Borrower. Borrower has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

5.10 Use of Proceeds.

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

5.11 Full Disclosure.

No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to Bank, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

5.12 Definition of “Knowledge.”

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

6 AFFIRMATIVE COVENANTS

Borrower shall do all of the following:

6.1 **Government Compliance.**

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

(b) Obtain all of the Governmental Approvals necessary for the performance by Borrower of its obligations under the Loan Documents to which it is a party and the grant of a security interest to Bank in all of its property. Borrower shall promptly provide copies of any such obtained Governmental Approvals to Bank.

6.2 **Financial Statements, Reports, Certificates.**

Deliver to Bank:

(a) Borrowing Base Reports. Within thirty (30) days after the last day of each month, aged listings of accounts receivable and accounts payable (by invoice date) (the “**Borrowing Base Reports**”);

(b) Borrowing Base Certificate. Within thirty (30) days after the last day of each month and together with the Borrowing Base Reports, a duly completed Borrowing Base Certificate signed by a Responsible Officer;

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

(d) Monthly Compliance Certificate. Within thirty (30) days after the last day of each month and together with the Monthly Financial Statements, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month, Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information as Bank shall reasonably request;

(e) Annual Audited Financial Statements. As soon as available, but no later than one hundred fifty (150) days after the last day of Borrower’s fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an

unqualified opinion on the financial statements from an independent certified public accounting firm acceptable to Bank in its reasonable discretion;

(f) Other Statements. Within five (5) days of delivery, copies of all statements, reports and notices made available to Borrower's security holders or to any holders of Subordinated Debt;

(g) SEC Filings. Within five (5) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by Borrower with the SEC, any governmental authority succeeding to any or all of the functions of the SEC or with any national securities exchange, or distributed to its shareholders, as the case may be. Documents required to be delivered pursuant to the terms hereof (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which Borrower posts such documents, or provides a link thereto, on Borrower's website on the Internet at Borrower's website address;

(h) Legal Action Notice. A prompt report of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could result in damages or costs to Borrower or any of its Subsidiaries of, individually or in the aggregate, Fifty Thousand Dollars (\$50,000) or more;

(i) Intellectual Property Notice. Prompt written notice of (i) any material change in the composition of the Intellectual Property, (ii) the registration of any copyright, including any subsequent ownership right of Borrower in or to any copyright, patent or trademark not shown in the IP Agreement, and (iii) Borrower's knowledge of an event that could reasonably be expected to materially and adversely affect the value of the Intellectual Property;

(j) Board-Approved Projections. On the earlier of (A) fifteen days after approval by Borrower's Board of Directors, or (B) January 31st of each fiscal year, or as otherwise as updated from time to time, annual financial projections for the following fiscal year approved by Borrower's Board of Directors, together with any related business forecasts used in the preparation of such annual financial plans and projections;

(k) Monthly Balances in Japanese Deposit Account. Within thirty (30) days after the last day of each month, a true, correct and complete copy of the statement of the balances maintained in the Japanese Deposit Account; and

(l) Other Financial Information. Budgets, sales projections, operating plans and other financial information reasonably requested by Bank.

6.3 Inventory; Returns.

Keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower and its Account Debtors shall follow Borrower's customary practices as they exist at the Effective Date. Borrower must promptly notify Bank of all returns, recoveries, disputes and claims that involve more than Fifty Thousand Dollars (\$50,000).

6.4 Taxes; Pensions.

Timely file, and require each of its Subsidiaries to timely file, all required tax returns and reports and timely pay, and require each of its Subsidiaries to timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower and each of its Subsidiaries, except for deferred payment of any taxes contested pursuant to the terms of Section 5.9 hereof, and shall deliver to Bank, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms.

6.5 Insurance.

Keep its business and the Collateral insured for risks and in amounts standard for companies in Borrower's industry and location and as Bank may reasonably request. Insurance policies shall be in a form, with companies, and in amounts that are satisfactory to Bank. All property policies shall have a lender's loss payable endorsement showing Bank as a lender loss payee and waive subrogation against Bank. All liability policies shall show, or have endorsements showing, Bank as an additional insured. All policies (or their respective endorsements) shall provide that the insurer shall give Bank at least twenty (20) days notice before canceling, amending, or declining to renew its policy. At Bank's request, Borrower shall deliver certified copies of policies and evidence of all premium payments. Proceeds payable under any policy shall, at Bank's option, be payable to Bank on account of the Obligations then due. If Borrower fails to obtain insurance as required under this Section 6.5 or to pay any amount or furnish any required proof of payment to third persons and Bank, Bank may make all or part of such payment or obtain such insurance policies required in this Section 6.5, and take any action under the policies Bank deems prudent.

6.6 Operating Accounts.

(a) Maintain all of its and all of its Subsidiaries' operating accounts and investment accounts with Bank and Bank's Affiliates, except for its foreign deposit account with Sumitomo-Mitsui Bank, Yokohama Ekimae branch, Japan (the "**Japanese Deposit Account**"); provided, that the Japanese Deposit Account shall not contain more than One Hundred Fifty Thousand Dollars (\$150,000) or the equivalent in any Foreign Currency in the aggregate at any time.

(b) For each Collateral Account that Borrower at any time maintains, Borrower shall cause the applicable bank or financial institution (other than Bank) at or with which any Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Bank's Lien in such Collateral Account in accordance with the terms hereunder which Control Agreement may not be terminated without the prior written consent of Bank. The provisions of the previous sentence shall not apply to (i) the Japanese Deposit Account and (ii) deposit accounts exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of Borrower's employees and identified to Bank by Borrower as such.

6.7 Financial Covenants.

Maintain at all times, to be tested as of the last day of each month, unless otherwise noted, on a consolidated basis with respect to Borrower and its Subsidiaries:

(a) Adjusted Quick Ratio. A ratio of Quick Assets to Current Liabilities minus Deferred Revenue of at least 1.50 to 1.00.

(b) Tangible Net Worth. A Tangible Net Worth equal to or greater than the sum of (i) Five Hundred Thousand Dollars (\$500,000), plus (ii) for each successive quarter, commencing as of the quarter ending December 31, 2011, fifty percent (50%) of net proceeds received by Borrower in the preceding quarter from bona-fide issuances of new equity or bridge financing which constitutes “Subordinated Debt”.

6.8 Protection and Registration of Intellectual Property Rights.

(a) (i) Protect, defend and maintain the validity and enforceability of its Intellectual Property; (ii) promptly advise Bank in writing of material infringements of its Intellectual Property; and (iii) not allow any Intellectual Property material to Borrower’s business to be abandoned, forfeited or dedicated to the public without Bank’s written consent.

(b) If Borrower (i) obtains any Patent, registered Trademark, registered Copyright, registered mask work, or any pending application for any of the foregoing, whether as owner, licensee or otherwise, or (ii) applies for any Patent or the registration of any Trademark, then Borrower shall immediately provide written notice thereof to Bank and shall execute such intellectual property security agreements and other documents and take such other actions as Bank shall request in its good faith business judgment to perfect and maintain a first priority perfected security interest in favor of Bank in such property. If Borrower decides to register any Copyrights or mask works in the United States Copyright Office, Borrower shall: (x) provide Bank with at least fifteen (15) days prior written notice of Borrower’s intent to register such Copyrights or mask works together with a copy of the application it intends to file with the United States Copyright Office (excluding exhibits thereto); (y) execute an intellectual property security agreement and such other documents and take such other actions as Bank may request in its good faith business judgment to perfect and maintain a first priority perfected security interest in favor of Bank in the Copyrights or mask works intended to be registered with the United States Copyright Office; and (z) record such intellectual property security agreement with the United States Copyright Office contemporaneously with filing the Copyright or mask work application(s) with the United States Copyright Office. Borrower shall promptly provide to Bank copies of all applications that it files for Patents or for the registration of Trademarks, Copyrights or mask works, together with evidence of the recording of the intellectual property security agreement necessary for Bank to perfect and maintain a first priority perfected security interest in such property.

(c) Provide written notice to Bank within thirty (30) days of entering or becoming bound by any Restricted License (other than over-the-counter software that is commercially available to the public). Borrower shall take such steps as Bank requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for (i) any Restricted License to be deemed “**Collateral**” and for Bank to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms of any such Restricted License, whether now existing or entered into in the future, and (ii) Bank to have the ability in the event of a liquidation of any Collateral to dispose of such Collateral in accordance with Bank’s rights and remedies under this Agreement and the other Loan Documents.

6.9 Litigation Cooperation.

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

6.10 Access to Collateral; Books and Records.

Allow Bank, or its agents, at reasonable times, on one (1) Business Day's notice (provided no notice is required if an Event of Default has occurred and is continuing), to inspect the Collateral and audit and copy Borrower's Books. Such inspections or audits shall be conducted no more often than once every twelve (12) months (or more frequently as Bank shall determine conditions warrant, in its sole discretion) unless an Event of Default has occurred and is continuing. The foregoing inspections and audits shall be at Borrower's expense, and the charge therefor shall be Eight Hundred Fifty Dollars (\$850) per person per day (or such higher amount as shall represent Bank's then-current standard charge for the same), plus reasonable out-of-pocket expenses. In the event Borrower and Bank schedule an audit more than ten (10) days in advance, and Borrower cancels or seeks to reschedule the audit with less than ten (10) days written notice to Bank, then (without limiting any of Bank's rights or remedies), Borrower shall pay Bank a fee of One Thousand Dollars (\$1,000) plus any out-of-pocket expenses incurred by Bank to compensate Bank for the anticipated costs and expenses of the cancellation or rescheduling. After the occurrence and during the continuance of an Event of Default, Bank may audit Borrower's Collateral at Borrower's expense and at Bank's sole and exclusive discretion and without notification and authorization from Borrower.

6.11 Formation or Acquisition of Subsidiaries.

At the time that Borrower forms any direct or indirect Subsidiary or acquires any direct or indirect Subsidiary after the Effective Date, Borrower shall, at Bank's sole discretion (a) cause such new Subsidiary to provide to Bank a joinder to the Loan Agreement to cause such Subsidiary to become a co-borrower hereunder, together with such appropriate financing statements and/or Control Agreements, all in form and substance satisfactory to Bank (including being sufficient to grant Bank a first priority Lien (subject to Permitted Liens) in and to the assets of such newly formed or acquired Subsidiary), (b) provide to Bank appropriate certificates and powers and financing statements, pledging all of the direct or beneficial ownership interest in such new Subsidiary, in form and substance satisfactory to Bank, and (c) provide to Bank all other documentation in form and substance satisfactory to Bank, which in its opinion is appropriate with respect to the execution and delivery of the applicable documentation referred to above. Any document, agreement, or instrument executed or issued pursuant to this Section 6.11 shall be a Loan Document.

6.12 Further Assurances.

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

7 NEGATIVE COVENANTS

Borrower shall not do any of the following without Bank's prior written consent:

7.1 Dispositions.

Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "**Transfer**"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) of Inventory in the

ordinary course of business; (b) of worn out or obsolete Equipment; and (c) in connection with Permitted Liens and Permitted Investments.

7.2 Changes in Business, Management, Ownership, or Business Locations.

(a) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower and such Subsidiary, as applicable, or reasonably related thereto; (b) liquidate or dissolve; or (c) (i) any Key Person ceases to hold such office with Borrower; or (ii) enter into any transaction or series of related transactions in which the stockholders of Borrower who were not stockholders immediately prior to the first such transaction own more than forty percent (40%) of the voting stock of Borrower immediately after giving effect to such transaction or related series of such transactions (other than by the sale of Borrower's equity securities in a public offering or to venture capital investors so long as Borrower identifies to Bank the venture capital investors prior to the closing of the transaction and provides to Bank a description of the material terms of the transaction).

Borrower shall not, without at least thirty (30) days prior written notice to Bank: (1) add any new offices or business locations, including warehouses (unless such new offices or business locations contain less than Ten Thousand Dollars (\$10,000) in Borrower's assets or property) or deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Ten Thousand Dollars (\$10,000) to a bailee at a location other than to a bailee and at a location already disclosed in the Perfection Certificate, (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization. If Borrower intends to deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Ten Thousand Dollars (\$10,000) to a bailee, and Bank and such bailee are not already parties to a bailee agreement governing both the Collateral and the location to which Borrower intends to deliver the Collateral, then Borrower will first receive the written consent of Bank, and such bailee shall execute and deliver a bailee agreement in form and substance satisfactory to Bank in its sole discretion.

7.3 Mergers or Acquisitions.

Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person. A Subsidiary may merge or consolidate into another Subsidiary or into Borrower.

7.4 Indebtedness.

Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

7.5 Encumbrance.

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

7.6 Maintenance of Collateral Accounts.

Maintain any Collateral Account except pursuant to the terms of Section 6.6 hereof.

7.7 Distributions; Investments.

(a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock; or (b) directly or indirectly make any Investment other than Permitted Investments, or permit any of its Subsidiaries to do so.

7.8 Transactions with Affiliates.

Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower, except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

7.9 Subordinated Debt.

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

7.10 Compliance.

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

8 EVENTS OF DEFAULT

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

8.1 Payment Default.

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

8.2 Covenant Default.

(a) Borrower fails or neglects to perform any obligation in Sections 6.2, 6.4, 6.5, 6.6, 6.7, 6.8(c), 6.10 or violates any covenant in Section 7; or

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

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

8.3 Material Adverse Change.

A Material Adverse Change occurs;

8.4 Attachment; Levy; Restraint on Business.

(a) (i) The service of process seeking to attach, by trustee or similar process, any funds of Borrower or of any entity under the control of Borrower (including a Subsidiary) on deposit or otherwise maintained with Bank or any Bank Affiliate, or (ii) a notice of lien or levy is filed against any of Borrower's assets by any government agency, and the same under subclauses (i) and (ii) hereof are not, within ten (10) days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any ten (10) day cure period; or

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

8.5 Insolvency

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

8.6 Other Agreements.

There is, under any agreement to which Borrower is a party with a third party or parties, (a) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of Fifty Thousand Dollars (\$50,000); or (b) any default by Borrower, the result of which could have a material adverse effect on Borrower's business;

8.7 Judgments.

One or more final judgments, orders, or decrees for the payment of money in an amount, individually or in the aggregate, of at least Fifty Thousand Dollars (\$50,000) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against Borrower and the same are not, within ten (10) days after the entry thereof, discharged or execution thereof stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions will be made prior to the discharge, stay, or bonding of such judgment, order, or decree);

8.8 Misrepresentations.

Borrower or any Person acting for Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Bank or to induce Bank to enter this

Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;

8.9 Subordinated Debt.

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

8.10 Governmental Approvals.

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

9 BANK'S RIGHTS AND REMEDIES

9.1 Rights and Remedies.

While an Event of Default occurs and continues Bank may, without notice or demand, do any or all of the following:

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

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

(c) settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Bank considers advisable, notify any Person owing Borrower money of Bank's security interest in such funds, and verify the amount of such account;

(d) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Borrower shall assemble the Collateral if Bank requests and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

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

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

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

(h) demand and receive possession of Borrower's Books; and

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

9.2 Power of Attorney.

Borrower hereby irrevocably appoints Bank as its lawful attorney-in-fact, exercisable upon the occurrence and during the continuance of an Event of Default, to (a) endorse Borrower's name on any checks or other forms of payment or security; (b) sign Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) settle and adjust disputes and claims about the Accounts directly with Account Debtors, for amounts and on terms Bank determines reasonable; (d) make, settle, and adjust all claims under Borrower's insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, and adverse claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of Bank or a third party as the Code permits. Borrower hereby appoints Bank as its lawful attorney-in-fact to sign Borrower's name on any documents necessary to perfect or continue the perfection of Bank's security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations have been satisfied in full and Bank is under no further obligation to make Credit Extensions hereunder. Bank's foregoing appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and Bank's obligation to provide Credit Extensions terminates.

9.3 Protective Payments.

If Borrower fails to obtain the insurance called for by Section 6.5 or fails to pay any premium thereon or fails to pay any other amount which Borrower is obligated to pay under this Agreement or any other Loan Document, Bank may obtain such insurance or make such payment, and all amounts so paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then highest rate applicable to the Obligations, and secured by the Collateral. Bank will make reasonable efforts to provide Borrower with notice of Bank obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

9.4 Application of Payments and Proceeds Upon Default.

If an Event of Default has occurred and is continuing, Bank may apply any funds in its possession, whether from Borrower account balances, payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations in such order as Bank shall determine in its sole discretion. Any surplus shall be paid to Borrower or other Persons legally entitled thereto; Borrower shall remain liable to Bank for any deficiency. If Bank, in its good faith business judgment, directly or indirectly enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Bank shall have the option, exercisable at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by Bank of cash therefor.

9.5 Bank's Liability for Collateral.

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

9.6 No Waiver; Remedies Cumulative.

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

9.7 Demand Waiver.

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

10 NOTICES

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by electronic mail or facsimile transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address indicated below. Bank or Borrower may change its mailing or electronic mail address or facsimile number by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrower:

Cimetrix Incorporated
6979 South High Tech Drive
Salt Lake City, Utah 84047-3757
Attn: Jodi Juretich, Chief Financial Officer
Fax: (801) 256-6510
Email: jodi.juretich@cimetrix.com

If to Bank: Silicon Valley Bank
4750 West 2100 South, Suite 300
Salt Lake City, Utah 84120
Attn: Gary Jackson, Relationship Manager
Fax: (801) 975-1310
Email: gjackson@svb.com

11 CHOICE OF LAW, VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE

California law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Bank from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Bank. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in, or subsequently provided by Borrower in accordance with, Section 10 of this Agreement and that service so made shall be deemed completed upon the earlier to occur of Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of the Santa Clara County, California Superior Court) appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure §§ 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and orders applicable to judicial

proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure § 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies, foreclose against collateral, or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

12 GENERAL PROVISIONS

12.1 Successors and Assigns.

This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights or obligations under it without Bank's prior written consent (which may be granted or withheld in Bank's discretion). Bank has the right, without the consent of or notice to Borrower, to sell, transfer, assign, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights, and benefits under this Agreement and the other Loan Documents.

12.2 Indemnification.

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

12.3 Time of Essence.

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

12.4 Severability of Provisions.

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

12.5 Correction of Loan Documents.

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

12.6 Amendments in Writing; Waiver; Integration.

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

12.7 Counterparts.

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

12.8 Survival.

All covenants, representations and warranties made in this Agreement continue in full force until this Agreement has terminated pursuant to its terms and all Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) have been paid in full and satisfied. The obligation of Borrower in Section 12.2 to indemnify Bank shall survive until the statute of limitations with respect to such claim or cause of action shall have run.

12.9 Confidentiality.

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

Bank Entities may use the confidential information for reporting purposes and the development and distribution of databases and market analyses so long as such confidential information is aggregated and anonymized prior to distribution unless otherwise expressly prohibited by Borrower. The provisions of the immediately preceding sentence shall survive the termination of this Agreement.

12.10 Attorneys' Fees, Costs and Expenses.

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

12.11 Electronic Execution of Documents.

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

12.12 Captions.

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

12.13 Construction of Agreement.

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

12.14 Relationship.

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

12.15 Third Parties.

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

13 DEFINITIONS

13.1 Definitions.

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

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

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

"**Advance**" or "**Advances**" means an advance (or advances) under the Revolving Line.

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

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

"**Availability Amount**" is (a) the lesser of (i) the Revolving Line or (ii) the amount available under the Borrowing Base, minus (b) the outstanding principal balance of any Advances.

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

"**Bank Expenses**" are all audit fees and expenses, costs, and expenses (including reasonable attorneys' fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Borrower.

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

"**Borrower's Books**" are all Borrower's books and records including ledgers, federal and state tax returns, records regarding Borrower's assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

"**Borrowing Base**" is eighty percent (80%) of Eligible Accounts, as determined by Bank from Borrower's most recent Borrowing Base Certificate; provided, however, that Bank may decrease the foregoing percentage in its good faith business judgment based on events, conditions, contingencies, or risks which, as determined by Bank, may adversely affect Collateral.

"**Borrowing Base Certificate**" is that certain certificate in the form attached hereto as Exhibit C.

"**Borrowing Base Report**" is defined in Section 6.2(a).

"**Borrowing Resolutions**" are, with respect to any Person, those resolutions substantially in the form attached hereto as Exhibit E.

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

“**Cash Equivalents**” means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor’s Ratings Group or Moody’s Investors Service, Inc.; and (c) Bank’s certificates of deposit issued maturing no more than one (1) year after issue.

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

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

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

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

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

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

“**Control Agreement**” is any control agreement entered into among the depository institution at which Borrower maintains a Deposit Account or the securities intermediary or commodity intermediary at which Borrower maintains a Securities Account or a Commodity Account, Borrower, and Bank pursuant to which Bank obtains control (within the meaning of the Code) over such Deposit Account, Securities Account, or Commodity Account.

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

“**Country Limitation Schedule**” is that certain schedule of the EXIM Bank listed on http://www.exim.gov/tools/country/country_limits.html.

“**Credit Extension**” is any Advance, or any other extension of credit by Bank for Borrower’s benefit.

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

“**Default Rate**” is defined in Section 2.3(b).

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

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

“**Designated Deposit Account**” is Borrower’s deposit account, account number 3300570396, maintained with Bank.

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

“Effective Date” is defined in the preamble hereof.

“Eligible Accounts” means Accounts which arise in the ordinary course of Borrower’s business that meet all Borrower’s representations and warranties in Section 5.3. Bank reserves the right at any time after the Effective Date to adjust any of the criteria set forth below and to establish new criteria in its good faith business judgment. Unless Bank otherwise agrees in writing, Eligible Accounts shall not include:

- (a) Accounts for which the Account Debtor is Borrower’s Affiliate, officer, employee, or agent;
- (b) Accounts that the Account Debtor has not paid within ninety (90) days of invoice date regardless of invoice payment period terms;
- (c) Accounts with credit balances over ninety (90) days from invoice date;
- (d) Accounts owing from an Account Debtor, in which fifty percent (50%) or more of the Accounts have not been paid within ninety (90) days of invoice date;
- (e) Accounts owing from an Account Debtor which does not have its principal place of business in the United States, unless such Accounts are otherwise Eligible Accounts that (i) Bank approves of in writing and (ii) are properly qualified by the EXIM Bank’s most recent Country Limitation Schedule, which shall not at any time exceed One Hundred Fifty Thousand Dollars (\$150,000) in the aggregate;
- (f) Accounts owing from an Account Debtor which does not have its principal place of business in the United States, unless such Accounts are otherwise Eligible Accounts that (i) Bank approves of in writing and (ii) are covered in full by credit insurance satisfactory to Bank, less any deductible;
- (g) Accounts billed and/or payable outside of the United States (sometimes called foreign invoiced accounts);
- (h) Accounts owing from an Account Debtor to the extent that Borrower is indebted or obligated in any manner to the Account Debtor (as creditor, lessor, supplier or otherwise - sometimes called “contra” accounts, accounts payable, customer deposits or credit accounts);
- (i) Accounts owing from an Account Debtor which is a United States government entity or any department, agency, or instrumentality thereof unless Borrower has assigned its payment rights to Bank and the assignment has been acknowledged under the Federal Assignment of Claims Act of 1940, as amended;
- (j) Accounts for demonstration or promotional equipment, or in which goods are consigned, or sold on a “sale guaranteed”, “sale or return”, “sale on approval”, or other terms if Account Debtor’s payment may be conditional;

(k) Accounts owing from an Account Debtor where goods or services have not yet been rendered to the Account Debtor (sometimes called memo billings or pre-billings);

(l) Accounts subject to contractual arrangements between Borrower and an Account Debtor where payments shall be scheduled or due according to completion or fulfillment requirements where the Account Debtor has a right of offset for damages suffered as a result of Borrower's failure to perform in accordance with the contract (sometimes called contracts accounts receivable, progress billings, milestone billings, or fulfillment contracts);

(m) Accounts owing from an Account Debtor the amount of which may be subject to withholding based on the Account Debtor's satisfaction of Borrower's complete performance (but only to the extent of the amount withheld; sometimes called retainage billings);

(n) Accounts subject to trust provisions, subrogation rights of a bonding company, or a statutory trust;

(o) Accounts owing from an Account Debtor that has been invoiced for goods that have not been shipped to the Account Debtor unless Bank, Borrower, and the Account Debtor have entered into an agreement acceptable to Bank in its sole discretion wherein the Account Debtor acknowledges that (i) it has title to and has ownership of the goods wherever located, (ii) a bona fide sale of the goods has occurred, and (iii) it owes payment for such goods in accordance with invoices from Borrower (sometimes called "bill and hold" accounts);

(p) Accounts for which the Account Debtor has not been invoiced;

(q) Accounts that represent non-trade receivables or that are derived by means other than in the ordinary course of Borrower's business;

(r) Accounts for which Borrower has permitted Account Debtor's payment to extend beyond ninety (90) days;

(s) Accounts arising from chargebacks, debit memos or others payment deductions taken by an Account Debtor;

(t) Accounts arising from product returns and/or exchanges (sometimes called "warranty" or "RMA" accounts);

(u) Accounts in which the Account Debtor disputes liability or makes any claim (but only up to the disputed or claimed amount), or if the Account Debtor is subject to an Insolvency Proceeding, or becomes insolvent, or goes out of business;

(v) Accounts owing from an Account Debtor, whose total obligations to Borrower exceed twenty-five percent (25%) of all Accounts, for the amounts that exceed that percentage, unless Bank approves in writing; and

(w) Accounts for which Bank in its good faith business judgment determines collection to be doubtful, including, without limitation, accounts represented by "refreshed" or "recycled" invoices.

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

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

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

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

“**EXIM Bank**” means the Export Import Bank of the United States of America.

“**Foreign Currency**” means lawful money of a country other than the United States.

“**Funding Date**” is any date on which a Credit Extension is made to or for the account of Borrower which shall be a Business Day.

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

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

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

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

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

“**Indemnified Person**” is defined in Section 12.2.

“**Initial Audit**” is Bank’s inspection of Borrower’s Accounts, the Collateral, and Borrower’s Books.

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

“**Intellectual Property**” means all of Borrower’s right, title, and interest in and to the following:

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

(f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

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

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

“**IP Agreement**” is that certain Intellectual Property Security Agreement executed and delivered by Borrower to Bank dated as of the Effective Date.

“**Japanese Deposit Account**” is defined in Section 6.6.

“**Key Person**” is any of Borrower’s Robert H. Reback and Jodi M. Juretich, who are, as of the Effective Date, the Chief Executive Officer and Chief Financial Officer, respectively.

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

“**Loan Documents**” are, collectively, this Agreement, the Perfection Certificate, the IP Agreement, the SVB Control Agreement, any note, or notes or guaranties executed by Borrower, and any other present or future agreement between Borrower and/or for the benefit of Bank in connection with this Agreement, all as amended, restated, or otherwise modified.

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

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

“**Obligations**” are Borrower’s obligations to pay when due any debts, principal, interest, Bank Expenses and other amounts Borrower owes Bank now or later, whether under this Agreement, the Loan Documents, or otherwise, including, without limitation, all obligations relating to letters of credit (including reimbursement obligations for drawn and undrawn letters of credit), cash management services, and foreign exchange contracts, if any, and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank, and to perform Borrower’s duties under the Loan Documents.

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

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

“**Payment/Advance Form**” is that certain form attached hereto as Exhibit B.

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

“**Permitted Indebtedness**” is:

(a) Borrower’s Indebtedness to Bank under this Agreement and the other Loan Documents;

(b) Indebtedness existing on the Effective Date and shown on the Perfection Certificate;

- (c) Subordinated Debt;
- (d) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;
- (e) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;
- (f) Indebtedness secured by Liens permitted under clauses (a) and (c) of the definition of "Permitted Liens" hereunder;
- (g) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (f) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

"Permitted Investments" are:

- (a) Investments (including, without limitation, Subsidiaries) existing on the Effective Date and shown on the Perfection Certificate and;
- (b) Investments consisting of Cash Equivalents;
- (c) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of Borrower;
- (d) Investments consisting of deposit accounts in which Bank has a perfected security interest;
- (e) Investments accepted in connection with Transfers permitted by Section 7.1;
- (f) Investments (i) by Borrower in Subsidiaries not to exceed Fifty Thousand Dollars (\$50,000) in the aggregate in any fiscal year and (ii) by Subsidiaries in other Subsidiaries not to exceed Fifty Thousand Dollars (\$50,000) in the aggregate in any fiscal year or in Borrower;
- (g) Investments consisting of (i) travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business, and (ii) loans to employees, officers or directors relating to the purchase of equity securities of Borrower or its Subsidiaries pursuant to employee stock purchase plans or agreements approved by Borrower's Board of Directors;
- (h) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business; and

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

“**Permitted Liens**” are:

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

(b) Liens for taxes, fees, assessments or other government charges or levies, either (i) not due and payable or (ii) being contested in good faith and for which Borrower maintains adequate reserves on its Books, provided that no notice of any such Lien has been filed or recorded under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder;

(c) purchase money Liens (i) on Equipment acquired or held by Borrower incurred for financing the acquisition of the Equipment securing no more than Fifty Thousand Dollars (\$50,000) in the aggregate amount outstanding, or (ii) existing on Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the Equipment;

(d) Liens of carriers, warehousemen, suppliers, or other Persons that are possessory in nature arising in the ordinary course of business so long as such Liens attach only to Inventory, securing liabilities in the aggregate amount not to exceed Fifty Thousand Dollars (\$50,000) and which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

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

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

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

(h) non-exclusive license of Intellectual Property granted to third parties in the ordinary course of business; and

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

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

“**Prime Rate**” is the “prime rate” of interest, as published from time to time by The Wall Street Journal in the “Money Rates” section of its Western Edition newspaper. In the event The Wall Street Journal or such rate is no longer published or available, Bank shall select a comparable rate.

“**Quick Assets**” is, on any date, Borrower’s unrestricted cash maintained with Bank and net accounts receivable.

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

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

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

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

“**Revolving Line**” is an Advance or Advances in an amount equal to One Million Dollars (\$1,000,000).

“**Revolving Line Maturity Date**” is September 26, 2012.

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

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

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

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

“**SVB Control Agreement**” is that certain Securities Account Control Agreement by and among SVB Securities, Penson Financial Services, Inc., Borrower, and Bank of even date herewith.

“**Tangible Net Worth**” is, on any date, the consolidated total assets of Borrower minus (a) any amounts attributable to (i) goodwill, (ii) intangible items including unamortized debt discount and expense, Patents, Trademarks, Copyrights, and research and development expenses except prepaid expenses, (iii) notes, accounts receivable and other obligations owing to Borrower from its officers or other Affiliates, and (iv) reserves not already deducted from assets, minus (b) Total Liabilities, plus (c) Subordinated Debt.

“**Total Liabilities**” is on any day, obligations that should, under GAAP, be classified as liabilities on Borrower’s consolidated balance sheet, including all Indebtedness, but excluding all Subordinated Debt.

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

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

[Signature page follows.]

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

BORROWER:

CIMETRIX INCORPORATED

By: /s/ Jodi M. Juretich

Name: Jodi M. Juretich

Title: Chief Financial Officer

BANK:

SILICON VALLEY BANK

By: /s/ Gary Jackson

Name: Gary Jackson

Title: Relationship Manager

EXHIBIT A

The Collateral consists of all of Borrower's right, title and interest in and to the following personal property:
All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles, commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

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

EXHIBIT B – LOAN PAYMENT/ADVANCE REQUEST FORM

DEADLINE FOR SAME DAY PROCESSING IS NOON PACIFIC TIME

Fax To: _____

Date: _____

LOAN PAYMENT:

CIMETRIX INCORPORATED

From Account # _____
(Deposit Account #)

To Account # _____
(Loan Account #)

Principal \$ _____

and/or Interest \$ _____

Authorized Signature: _____

Phone Number: _____

Print Name/Title: _____

LOAN ADVANCE:

Complete *Outgoing Wire Request* section below if all or a portion of the funds from this loan advance are for an outgoing wire.

From Account # _____
(Loan Account #)

To Account # _____
(Deposit Account #)

Amount of Advance \$ _____

All Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on the date of the request for an advance; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date:

Authorized Signature: _____

Phone Number: _____

Print Name/Title: _____

OUTGOING WIRE REQUEST:

Complete only if all or a portion of funds from the loan advance above is to be wired.

Deadline for same day processing is noon, Pacific Time

Beneficiary Name: _____

Amount of Wire: \$ _____

Beneficiary Bank: _____

Account Number: _____

City and State: _____

Beneficiary Bank Transit (ABA) #: _____

Beneficiary Bank Code (Swift, Sort, Chip, etc.): _____

(For International Wire Only)

Intermediary Bank: _____

Transit (ABA) #: _____

For Further Credit to: _____

Special Instruction: _____

By signing below, I (we) acknowledge and agree that my (our) funds transfer request shall be processed in accordance with and subject to the terms and conditions set forth in the agreements(s) covering funds transfer service(s), which agreements(s) were previously received and executed by me (us).

Authorized Signature: _____

2nd Signature (if required): _____

Print Name/Title: _____

Print Name/Title: _____

Telephone #: _____

Telephone #: _____

EXHIBIT C - BORROWING BASE CERTIFICATE

Borrower: Cimatrix Incorporated

Lender: Silicon Valley Bank

Commitment Amount: \$1,000,000

ACCOUNTS RECEIVABLE

1. Accounts Receivable (invoiced) Book Value as of _____	\$ _____
2. Additions (Please explain on next page)	\$ _____
3. Less: Intercompany / Employee / Non-Trade Accounts	\$ _____
4. NET TRADE ACCOUNTS RECEIVABLE	\$ _____

ACCOUNTS RECEIVABLE DEDUCTIONS (without duplication)

5. 90 Days Past Invoice Date	\$ _____
6. Credit Balances over 90 Days	\$ _____
7. Balance of 25% over 90 Day Accounts (Cross-Age or Current Affected)	\$ _____
8. Foreign Account Debtor Accounts (EXIM Approved Country – up to \$150,000)	\$ _____
9. Other Foreign Account Debtor Accounts	\$ _____
10. Foreign Invoiced and/or Collected Accounts	\$ _____
11. Contra / Customer Deposit Accounts	\$ _____
12. U.S. Government Accounts	\$ _____
13. Promotion or Demo Accounts; Guaranteed Sale or Consignment Sale Accounts	\$ _____
14. Accounts with Memo or Pre-Billings	\$ _____
15. Contract Accounts; Accounts with Progress / Milestone Billings	\$ _____
16. Accounts for Retainage Billings	\$ _____
17. Trust / Bonded Accounts	\$ _____
18. Bill and Hold Accounts	\$ _____
19. Unbilled Accounts	\$ _____
20. Non-Trade Accounts (If not already deducted above)	\$ _____
21. Accounts with Extended Term Invoices (Net 90+)	\$ _____
22. Chargebacks Accounts / Debit Memos	\$ _____
23. Product Returns / Exchanges	\$ _____
24. Disputed Accounts; Insolvent Account Debtor Accounts	\$ _____
25. Concentration Limits (25% limit)	\$ _____
26. TOTAL ACCOUNTS RECEIVABLE DEDUCTIONS	\$ _____
27. Eligible Accounts (#4 minus #26)	\$ _____
28. ELIGIBLE AMOUNT OF ACCOUNTS (80% of #27)	\$ _____

BALANCES

29. Maximum Loan Amount	\$1,000,000
30. Total Funds Available [Lesser of #29 or #28]	\$ _____
31. Present balance owing on Line of Credit	\$ _____
32. RESERVE POSITION (#30 minus #31)	\$ _____

[Continued on following page.]

Explanatory comments from previous page:

The undersigned represents and warrants that this is true, complete and correct, and that the information in this Borrowing Base Certificate complies with the representations and warranties in the Loan and Security Agreement between the undersigned and Silicon Valley Bank.

COMMENTS:

CIMETRIX INCORPORATED

By: _____
Authorized Signer

Date: _____

BANK USE ONLY	
Received by: _____	AUTHORIZED SIGNER
Date: _____	
Verified: _____	AUTHORIZED SIGNER
Date: _____	
Compliance Status:	Yes No

EXHIBIT D

COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK
FROM: CIMETRIX INCORPORATED

Date: _____

The undersigned authorized officer of Cimetrix Incorporated (“**Borrower**”) certifies that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the “**Agreement**”):

(1) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below; (2) there are no Events of Default; (3) all representations and warranties in the Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; (4) Borrower, and each of its Subsidiaries, has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except as otherwise permitted pursuant to the terms of Section 5.9 of the Agreement; and (5) no Liens have been levied or claims made against Borrower or any of its Subsidiaries relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Bank.

Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with GAAP consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

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

<u>Reporting Covenant</u>	<u>Required</u>	<u>Complies</u>
Monthly financial statements with Compliance Certificate (“CC”)	Monthly within 30 days	Yes No
Annual financial statement (CPA Audited) + CC	FYE within 150 days	Yes No
10-Q, 10-K and 8-K	Within 5 days after filing with SEC	Yes No
Borrowing Base Certificate and A/R & A/P Agings	Monthly within 30 days	Yes No
Board Projections	Earlier of (A) 15 days after approval by Board of Directors, or (B) January 31 st of each fiscal year, or as updated	Yes No
Statements of Balances at Japanese Deposit Account	Monthly within 30 days	Yes No
The following Intellectual Property was registered (or a registration application submitted) after the Effective Date (if no registrations, state “None”)		

<u>Financial Covenant</u>	<u>Required</u>	<u>Actual</u>	<u>Complies</u>
Maintain on a Monthly Basis:			
Minimum Adjusted Quick Ratio	1.50:1.00	:1.00	Yes No
Minimum Tangible Net Worth	\$ *	:1.00	Yes No

* \$500,000 required as of the Effective Date plus, for each quarter after 12/31/11, 50% of new equity or bridge financings which constitutes subordinated debt (increasing quarterly)

Schedule 1 to Compliance Certificate

Financial Covenants of Borrower

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

Dated: _____

I. **Adjusted Quick Ratio** (Section 6.7(a))

Required: 1.50:1.00

Actual:

- | | | |
|----|--|----------|
| A. | Aggregate value of the unrestricted cash of Borrower at Bank | \$ _____ |
| B. | Aggregate value of the net accounts receivable of Borrower | \$ _____ |
| C. | Quick Assets (the sum of lines A and B) | \$ _____ |
| D. | Aggregate value of Obligations to Bank | \$ _____ |
| E. | Aggregate value of liabilities that should, under GAAP, be classified as liabilities on Borrower's consolidated balance sheet, including all Indebtedness, and not otherwise reflected in line E above that matures within one (1) year, but excluding the aggregate value of Indebtedness of Borrower subordinated to Borrower's Indebtedness to Bank | \$ _____ |
| F. | Current Liabilities (the sum of lines D and E) | \$ _____ |
| G. | Aggregate value of all amounts received or invoiced by Borrower in advance of performance under contracts and not yet recognized as revenue | \$ _____ |
| H. | Line F minus line G | \$ _____ |
| I. | Adjusted Quick Ratio (line C divided by line H) | _____ |

Is line I equal to or greater than 1.50:1.00?

_____ No, not in compliance

_____ Yes, in compliance

II. **Tangible Net Worth** (Section 6.7(b))

Required: \$500,000 required as of the Effective Date plus, for each quarter after December 31, 2011, 50% of new equity or bridge financings which constitutes subordinated debt (increasing quarterly)

Actual:

- | | | |
|----|---|---------|
| A. | Aggregate value of total assets of Borrower | \$_____ |
| B. | Aggregate value of goodwill of Borrower | \$_____ |
| C. | Aggregate value of intangible assets of Borrower | \$_____ |
| D. | Aggregate value of any reserves not already deducted from assets | \$_____ |
| E. | Aggregate value of liabilities that should, under GAAP, be classified as liabilities on Borrower's consolidated balance sheet, including all Indebtedness | \$_____ |
| F. | Aggregate value of Indebtedness of Borrower subordinated to Borrower's Indebtedness to Bank | \$_____ |
| G. | Tangible Net Worth (line A minus line B minus line C minus line D minus line E plus line F) | \$_____ |

Required: \$500,000 required as of the Effective Date plus, for each quarter after December 31, 2011, 50% of new equity or bridge financings which constitutes subordinated debt (increasing quarterly)

Actual:

Is line G equal to or greater than \$_____?

_____ No, not in compliance

_____ Yes, in compliance

EXHIBIT E

FORM OF CORPORATE BORROWING RESOLUTIONS
[see attached]

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13a - 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert H. Reback, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cimetric Incorporated for the quarter ended September 30, 2011.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2011

/s/ Robert H. Reback

Robert H. Reback
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULE 13a - 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jodi M. Juretich, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cimatrix Incorporated for the quarter ended September 30, 2011.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2011

/s/ Jodi M. Juretich

Jodi M. Juretich

Chief Financial Officer

(Principal Financial and Accounting Officer)

EXHIBIT 32.1

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

In connection with the Quarterly Report of Cimatrix, Incorporated (the "Company") on Form 10-Q for the quarter ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert H. Reback, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2011

/s/ Robert H. Reback

Robert H. Reback
President and Chief Executive Officer
(Principal Executive Officer)

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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

EXHIBIT 32.2

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

In connection with the Quarterly Report of Cimatrix, Incorporated (the "Company") on Form 10-Q for the quarter ended September 30, 2011, I, Jodi M. Juretich, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2011

/s/ Jodi M. Juretich

Jodi M. Juretich

Chief Financial Officer

(Principal Financial and Accounting Officer)

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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

FOR IMMEDIATE RELEASE**Cimetrix Announces Third Quarter 2011 Financial Results***Solid Growth in Services and New Design Wins Positions Company for Industry Rebound*

SALT LAKE CITY, UT — November 10, 2011— Cimetrix Incorporated (OTCQB: CMXX, www.cimetrix.com), a leading provider of [factory connectivity](#) and [equipment control software solutions](#) for the global semiconductor, photovoltaic, LED, and other electronics industries, today reported financial results for its third quarter and nine months ended September 30, 2011 as follows:

Third Quarter 2011 Financial Results Highlights:

- Total revenue declined 32% year-over-year to \$1,769,000 from \$2,610,000 (revenue increased by 10% year-over-year excluding the special \$1 million sale in the third quarter of 2010)
- Compared to the second quarter of 2011, total revenue decreased 22%
 - Software revenue decreased 31% to \$1,171,000 from \$1,698,000
 - Professional Services revenue increased 5% to \$598,000 from \$571,000
- Professional Services revenue increased 151% year-over-year
- Net income for the third quarter was \$3,000, the ninth consecutive quarter of profitability

Nine Month 2011 Financial Results Highlights:

- Total revenue increased 17% year-over-year to \$6,091,000 from \$5,194,000
- Total software revenue decreased 2% year-over-year to \$4,539,000 from \$4,609,000
- Professional Services revenue increased 165% to \$1,552,000 from \$585,000
- Net income was \$518,000, compared to net income of \$1,890,000 in the first nine months of 2010

Management Comments:

“The Cimetrix strategy to diversify into new markets and to add more value to our customers through equipment control products is working,” said [Bob Reback](#), President and CEO of Cimetrix. “That strategy has enabled us to increase our service revenue to offset the periodic decline in software revenue from machine shipments, which we know can experience significant quarter-to-quarter variations. Professional Services work is a key software engineering capability that assists customers developing new equipment, which will lead to future, higher margin run-time license revenue.

“The industry-wide slowdown in equipment orders led to a decline of almost 40% in new software license revenue in the third quarter. We responded quickly to these market conditions, and were able to maintain profitability while continuing to invest in our software products. That has allowed us to support both our current customers as well as the development of our next generation products. We expect to maintain profitability during this down cycle. In addition, we are winning new customers for both our factory connectivity and our equipment control products, which we believe positions us well for significant growth once the market turns up. With a secure cash position, no debt, and a strong and growing customer base, we are executing in the short term and poised for continued growth in the long term.”

Third Quarter 2011 Customer and Product Development Highlights:

- ***Cimetrix achieves its ninth consecutive quarter of profitability.*** Even with the rapid downturn in the capital equipment markets for the semiconductor, solar and LED industries, which saw Cimetrix new software licenses decline 38% quarter-to-quarter, Cimetrix’s new business model enabled the Company to maintain profitability while continuing to invest in its product portfolio.
- ***Major increase in revenue from Professional Services.*** Service revenue for the first nine months of 2011 more than doubled to \$1,552,000 compared to the \$585,000 for the first nine months of 2010. Cimetrix

Professional Services delivers vital support to our customers as they develop and deploy new systems worldwide. That success will lead to long-term growth in runtime licenses associated with the equipment shipments. Included in third quarter services revenue are three equipment control projects using CIMControlFramework™ to be used for high-volume applications.

- ***New connectivity design wins.*** The Company secured five design wins for factory connectivity products from new customers developing semiconductor production and testing equipment. One of those design wins was for an innovative new application that will be used by one of the world's largest semiconductor manufacturers. In addition, Cimetrix continues to work with some of the world's largest semiconductor capital equipment makers to support EDA/Interface A installations for two of the industry's highest volume semiconductor manufacturers.

About Cimetrix Incorporated

Cimetrix (OTCQB & OTCBB: CMXX) develops and supports factory automation software products for the global semiconductor, photovoltaic, LED, and other electronics industries. Cimetrix [factory connectivity](#) software allows for rapid and reliable implementation of the [SEMI SECS/GEM](#), [GEM300](#), [PV2](#), and [EDA](#) standards. Our flexible [equipment control](#) framework software is the latest technology that enables equipment suppliers to design and implement their supervisory control, material handling, operator interface, platform and process control, and automation requirements of manufacturing facilities. Cimetrix products can be found in virtually every 300mm semiconductor factory worldwide and include [CIMControlFramework™](#), [CIMConnect™](#), [CIM300™](#), and [CIMPortal™](#). The added value of Cimetrix passionate [Support](#) and [Professional Services](#) delivers an outstanding solution for precision equipment companies worldwide.

Cimetrix is an active member of Semiconductor Equipment and Materials International ([SEMI](#)), including the SEMI PV Group, and participates in various International SEMATECH Manufacturing Initiative ([ISMI](#)) programs. For more information, please visit www.cimetrix.com.

Safe Harbor Statement:

The matters discussed in this news release include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements about the Company's prospects for future growth and results of operations are forward-looking statements. The comments made by the Company's senior management in regards to future revenue and results are based on current expectations and involve risks and uncertainties that may adversely affect expected results including but not limited to recovery of the economic markets into which the Company sells products, increased capital expenditures by semiconductor chip manufacturers, market acceptance of the Company's products, the timing and degree of adoption of Interface A by the semiconductor industry, the ability of the Company to control its costs associated with providing products and services, the mix between products and services (which generally have higher associated costs of revenue) provided by the Company, the competitive position of the Company and its products, which include CODE, CIMConnect, CIM300 and CIMPortal product families, the economic climate in the markets in which the Company's products are sold, technological improvements, and other risks discussed more fully in filings by the Company with the Securities and Exchange Commission. Many of these factors are beyond the control of the Company. Reference is made to the Company's most recent filing on Form 10-K, which further details such risk factors.

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CIMETRIX INCORPORATED AND SUBSIDIARIES
Consolidated Condensed Balance Sheets

	September 30, 2011	December 31,
	(Unaudited)	2010
ASSETS		
Current assets:		
Cash	\$ 843,000	\$ 1,559,000
Accounts receivable, net	916,000	673,000
Prepaid expenses and other current assets	60,000	33,000
Total current assets	1,819,000	2,265,000
Property and equipment, net	126,000	100,000
Goodwill	64,000	64,000
Other assets	20,000	20,000
	\$ 2,029,000	\$ 2,449,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 316,000	\$ 332,000
Accrued expenses	339,000	570,000
Deferred revenue	232,000	237,000
Current portion of notes payable and capital lease obligations	-	5,000
Total current liabilities	887,000	1,144,000
Long-term liabilities:		
Notes payable - related parties, net	-	396,000
Long-term portion of notes payable	-	376,000
Total long-term liabilities	-	772,000
Total liabilities	887,000	1,916,000
Commitments and contingencies		
Stockholders' equity:		
Common stock; \$.0001 par value, 100,000,000 shares authorized, 45,234,256 and 44,842,767 shares issued, respectively	4,000	4,000
Additional paid-in capital	33,579,000	33,488,000
Treasury stock, 25,000 shares at cost	(49,000)	(49,000)
Accumulated deficit	(32,392,000)	(32,910,000)
Total stockholders' equity	1,142,000	533,000
	\$ 2,029,000	\$ 2,449,000

CIMETRIX INCORPORATED AND SUBSIDIARIES
Consolidated Condensed Statements of Operations
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues:				
New software licenses	\$ 922,000	\$ 2,131,000	\$ 3,853,000	\$ 3,989,000
Software license updates and product support	249,000	241,000	686,000	620,000
Total software revenues	<u>1,171,000</u>	<u>2,372,000</u>	<u>4,539,000</u>	<u>4,609,000</u>
Professional services	598,000	238,000	1,552,000	585,000
Total revenues	<u>1,769,000</u>	<u>2,610,000</u>	<u>6,091,000</u>	<u>5,194,000</u>
Operating costs and expenses:				
Cost of revenues	872,000	373,000	2,653,000	976,000
Sales and marketing	257,000	327,000	809,000	734,000
Research and development	331,000	216,000	1,051,000	459,000
General and administrative	288,000	413,000	990,000	1,038,000
Depreciation and amortization	13,000	7,000	36,000	20,000
Total operating costs and expenses	<u>1,761,000</u>	<u>1,336,000</u>	<u>5,539,000</u>	<u>3,227,000</u>
Income from operations	<u>8,000</u>	<u>1,274,000</u>	<u>552,000</u>	<u>1,967,000</u>
Other income (expenses):				
Interest income	1,000	-	3,000	-
Interest expense	(6,000)	(23,000)	(37,000)	(77,000)
Total other expenses, net	<u>(5,000)</u>	<u>(23,000)</u>	<u>(34,000)</u>	<u>(77,000)</u>
Income before income taxes	3,000	1,251,000	518,000	1,890,000
Provision for income taxes	-	-	-	-
Net income	<u>\$ 3,000</u>	<u>\$ 1,251,000</u>	<u>\$ 518,000</u>	<u>\$ 1,890,000</u>
Net Income per common share:				
Basic	<u>\$ 0.00</u>	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ 0.04</u>
Diluted	<u>\$ 0.00</u>	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ 0.04</u>
Weighted average number of shares				
outstanding:				
Basic	45,318,000	45,386,000	45,178,000	46,564,000
Diluted	46,374,000	46,817,000	46,577,000	47,744,000