# FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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## FILER

**MULTIMEDIA GAMES INC**

CIK:**896400**| IRS No.: **742611034** | State of Incorp.:**TX** | Fiscal Year End: **1231**
Type: **10KSB** | Act: **34** | File No.: **000-28318** | Film No.: **96687387**
SIC: **7900** Amusement & recreation services

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U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-KSB

[x] Annual Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year ended September 30, 1996

[ ] Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-28318

Multimedia Games, Inc.
(Name of Small Business Issuer in Its Charter)

| Texas | 74-2611034 |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification Number) |
| 7335 S. Lewis Avenue, Suite 204<br>Tulsa, Oklahoma | 74136 |
| (Address of Principal Executive Offices) | (Zip Code) |

(918) 494-0576
(Issuer's Telephone Number, Including Area Code)

Securities Registered Under Section 12(b) of the Exchange Act: NONE

Securities Registered Under Section 12(g) of the Exchange Act:

Common Stock, $.01 par value

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 x No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [ ]

State the issuer's revenues for its most recent fiscal year: $22,887,000

The aggregate market value of the voting stock held by non-affiliates of the issuer as of December 13, 1996 was $16,703,000.

The number of shares outstanding of the issuer's Common Stock as of December 13, 1996, was 4,026,783.

Transitional Small Business Disclosure Format (check one):

Yes ___ No X



PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

The Company provides satellite linked, high stakes bingo games and interactive high speed bingo games played on interconnected electronic player stations to participating bingo halls owned primarily by American Indian tribes located throughout the United States. The Company also provides proxy play services to bingo players located off Indian lands through its 49% interest in American Gaming Network L.L.C.

Prior to August 1995, the Company's principal business was to furnish the marketing and other operating services required in the conduct of high stakes bingo games conducted under the names MegaBingo, MegaCash and MegaBingo Lite. MegaBingo and MegaCash are bingo games played simultaneously at multiple bingo halls via a closed-circuit, television satellite link. As of September 30, 1996, the MegaBingo and MegaCash games were being played at 50 independently owned bingo halls located in Alabama, Arizona, California, District of Columbia, Idaho, Kansas, Minnesota, Montana, New Mexico, Oklahoma, Oregon, South Dakota, Texas and Washington, operated primarily on behalf of American Indian tribes. MegaBingo Lite provides smaller prizes to similarly linked Indian bingo halls. As of September 30, 1996, MegaBingo Lite was being delivered to 11 bingo halls located in the State of Oklahoma. For the year ended September 30, 1996, aggregate revenues derived from MegaBingo, MegaCash and MegaBingo Lite were $15,609,000 (68.2%) of the Company's total revenues of $22,887,000.

In August 1995, the Company introduced MegaMania, an interactive high-speed bingo game developed by the Company that is played on electronic player stations interconnected among participating Indian bingo halls. As of September 30, 1996, there were approximately 800 MegaMania player stations in operation at 20 Indian bingo halls located in 3 states. For the year ended September 30, 1996, revenues derived from MegaMania were $6,074,000 (26.5%) of the Company's total revenues for the period.

In February 1995, the Company formed a 50-50 partnership named "American Gaming Network" with Graff Pay-Per-View, Inc. ("Graff") to own and operate the rights and properties associated with the Company's proxy play services. In July, 1996, the Company entered into a series of transactions that resulted in the termination of Graff's interest in the partnership, the transfer of all rights and properties of the partnership to American Gaming Network L.L.C. ("AGN"), and the introduction of a new group of investors to provide working capital to AGN (see Note 3 of Notes to Consolidated Financial Statements). Since its inception in February 1995, AGN has continued to develop its properties and has conducted virtually no operations.

From April 1994 to December 1994, the Company derived its revenue principally as a fee for providing services to American Gaming and Entertainment, Ltd. ("AGE"), which owned



the MegaBingo and MegaCash games, pursuant to a Services Agreement entered into with AGE in April 1994 (the "AGE Services Agreement"). In December 1994, the Company acquired substantially all of the assets relating to the MegaBingo and MegaCash games from AGE for a purchase price of approximately $1.8 million, plus the assumption of certain liabilities relating to AGE's bingo gaming activities. Excluded from the assets acquired were all of the Integrated Gaming Services Agreements between AGE and various Indian tribes. The Company has continued to provide services with respect to the contracts retained by AGE pursuant to the AGE Services Agreement. Since the December 1994 acquisition, revenues and expenses of the MegaBingo and MegaCash games, including games serviced pursuant to the AGE Services Agreement, have been reflected in the financial statements of the Company at their gross amounts and not netted and recorded as service fee income.

Prior to April 1994, the Company was a development stage enterprise engaged in the development of bingo related games and services and conducted no operations.

Multimedia Games, Inc. (the "Company" or "Multimedia") was incorporated under the laws of the State of Texas on August 30, 1991. Unless the context

otherwise requires, the term the "Company" includes Multimedia Games, Inc., and its subsidiaries - TV Games, Inc., MegaBingo, Inc., and Multimedia Creative Services, Inc., as well as the activities conducted by the Company through its 49% interest in American Gaming Network L.L.C. The Company's executive offices are located at 7335 South Lewis Avenue, Suite 204, Tulsa, Oklahoma 74136, and its telephone number is (918) 494-0576.

MegaBingo(R), MegaCash(R), MegaBingo Lite(TM) and MegaMania(TM) are registered trademarks and tradenames of the Company, and all references herein are deemed to include the applicable tradename or trademark designation.

RISK FACTORS

The following risk factors should be carefully considered in connection with the other information and financial statements contained in this Report on Form 10-KSB.

GOVERNMENT REGULATION. In doing business with Indian tribes and participating in tribal gaming activities, the Company is subject to various Federal regulations and laws regarding the manner in which business can be transacted. The operation of gaming on Indian reservations is subject to the Indian Gaming Regulatory Act of 1988 (the "Gaming Act"), which also established the National Indian Gaming Commission (the "NIGC") with the authority to promulgate rules and regulations to enforce certain aspects of the Gaming Act and to protect Tribal interests involved in gaming activities. The NIGC has previously given favorable rulings regarding the Company's Integrated Gaming Service Agreements with the tribes and has determined them to be service contracts rather than management contracts, thereby allowing the Company to obtain more favorable terms than would have been permitted had the agreements been determined to be management contracts. In addition, on July 10, 1996, the NIGC issued its opinion that the Company's MegaMania game is a Class II rather than a Class III gaming activity. There can be no assurance however, that the NIGC will not enact additional



regulations or reinterpret existing regulations in a manner that would have a material and adverse effect upon the Company, including requiring the Company to restructure its existing arrangements with the tribes or requiring changes in the way the Company's games are conducted so that such games are classified as Class II. There also can be no assurances that the pending investigation by the U.S. Attorney (see "Item 1. Description of Business - Risk Factors - Pending Investigation") will not have a material and adverse effect upon the Company by requiring the Company to discontinue its MegaMania game or restructuring the game to meet the U.S. Attorney's definition of a Class II game. Any such restructuring of the Company's games has the additional risk that such games will no longer appeal to consumers or be acceptable to the Tribes. There can also be no assurance that the Gaming Act or other Federal laws and regulations will not be amended or adopted in response to pressure from state and local sources so as to limit the authority of Tribes to self-regulate Class II gaming or to change the definition of Class II gaming.

DEVELOPING OPERATING ENVIRONMENT. The environment in which the Company conducts its business is relatively new and presents significant operating challenges and uncertainties. The Gaming Act was adopted in 1988 and the development of the Federal, State and Tribal infrastructure to regulate the proliferation of Indian gaming activities has occurred only since that time. Fundamental issues concerning the scope and intent of the Gaming Act remain unresolved. The NIGC was not fully operational until February 1993, and prior to that the Bureau of Indian Affairs was responsible for certain functions now performed by the NIGC. As a result, the adoption and implementation of regulations in furtherance of the Gaming Act have moved cautiously and there is a comparative lack of case law or interpretation of such regulations or of the Gaming Act. Moreover, the Company is on the leading edge of the rapid advancement of technological innovation in Indian gaming and issues relating, for example, to electronic games or gaming on the Internet are either novel or lack historical precedent sufficient to enable companies to predict with certainty the outcome of planned actions.

TRIBAL REGULATION. Each Federally recognized Indian tribe has the standing of a sovereign nation. As such, without approval from the tribes, the tribes cannot be sued or otherwise held accountable under any but tribal laws. Each tribe which is a party to the Company's integrated service agreements has waived its sovereign immunity to the Company as it relates to equipment used in the conduct of games or to the revenues of the gaming facility. Although the Company has never experienced any difficulties in this regard, there can be no assurance that a particular tribe will not attempt to invoke its sovereign immunities with respect to obligations and/or contracts with the Company which, if successful, could have the effect of rendering the Company's contracts unenforceable.

In addition, gaming on Indian lands is generally closely administered by Tribal officials. Most Tribes have established a regulatory framework with agencies to administer the conduct of gaming on Indian lands. These regulations generally include licensing and approval procedures and reporting and audit requirements. Not all constituencies within each Indian tribe view gaming favorably, and changes in Tribal officials have in the past, and could in the future, result in a more difficult environment in which to conduct the Company's business at a particular Tribe.





DEPENDANCE UPON TRIBAL CONTRACTS. Virtually all of the Company's revenues are derived from contracts with Native Indian tribes. As of September 30, 1996, the Company had, either in its own name or through the AGE Services Agreement, written agreements with 51 Indian tribes that provide the Company with the exclusive right to conduct linked bingo operations on their respective Indian lands. No assurances can be given that any of such contracts will be renewed upon the expiration of their term or that, if renewed, the terms and conditions thereof will be favorable to the Company, nor can any assurances be given that a tribe or tribes will not cancel any of such agreements prior to expiration of their stated term. A failure to renew such contracts upon terms favorable to the Company or the cancellation of a significant number of such contracts would have a material adverse effect upon the Company's business and results of operations.

CUSTOMER DEMAND; COMPETITION. The Company's product development and marketing activities are based upon the Company's assessment of customer demand for gaming services in establishments in which the Company provides services. Significant changes in customer demand or preference for gaming products in a given geography, including competing gaming and other leisure activities, could have an adverse impact on the Company's business and results of operations.

PENDING INVESTIGATION. On October 16, 1996, the Company was advised by the Office of the U.S. Attorney in Tulsa, Oklahoma (the "U.S. Attorney"), that the Company was part of a criminal investigation to determine whether, in the opinion of the U.S. Attorney, the Company's MegaMania bingo game constituted Class II or Class III gaming, as defined by the Gaming Act. MegaMania has been designed and is operated as a Class II game within the definition of bingo set forth in the Gaming Act. In a written opinion dated July 10, 1996, the Company was informed by the NIGC of the NIGC's determination that MegaMania constituted a Class II game. The Company has relied on the NIGC's opinion in conducting its operations and believes that the NIGC made its determination with a complete and accurate understanding of the facts and the applicable law.

The Gaming Act classifies games that may be played on Indian land into three categories. Class I gaming includes traditional Indian social and ceremonial games and is regulated only by the tribes. Class II gaming includes bingo, pull-tabs, lotto, punch boards, tip jars, instant bingo, certain card games played under limited circumstances and other games similar to bingo if those games are played at the same location where bingo is played. Class III gaming consists of all forms of gaming that are not Class I or Class II, such as video casino games, slot machines, most table games (e.g., blackjack and craps) and keno.

Generally speaking, Class II gaming may be conducted on Indian lands if the state in which the Indian reservation is located permits such gaming for any purpose by any person. Class III gaming, on the other hand, may only be

conducted pursuant to a compact reached between the Indian tribe and the state in which the tribe is located.

No assurances can be given that the U.S. Attorney will not conclude that MegaMania is Class III gaming. If the U.S. Attorney does reach such a conclusion, the Company intends





to vigorously defend its position that MegaMania is a Class II game. It is unclear at this time how the U.S. Attorney and the NIGC would have their positions reconciled in the event the U.S. Attorney determines that MegaMania is Class III gaming. No assurances can be given that the Company will be successful on the merits. If MegaMania is ultimately determined to be Class III gaming, the loss of the MegaMania business would have a material adverse effect upon the Company's financial condition and results of operation.

ACCUMULATED DEFICIT; UNCERTAIN PROFITABILITY. Although the Company achieved net income of $40,000 in the fiscal year ended September 30, 1996 (as compared to $505,000 in the prior fiscal year), the Company has incurred an accumulated deficit of $2,574,000 since its inception in August 1991 through September 30, 1996. No assurances can be given that the Company will be able to maintain profitable operations in the future. In addition, such profits, if any, are not expected to be commensurate or proportional with any increases in revenues as the Company anticipates experiencing significant start-up costs related to the expansion of its MegaMania game as well as increases in general and administrative expenses associated with satisfying the regulatory and other operating uncertainties facing the Company in the developing operating environment in which the Company conducts its business.

FUTURE FINANCING. The Company's future business plans are dependent upon its ability to find financing on a timely basis with which to fund the Company's activities, including the placement of additional MegaMania player stations and related equipment and the development of new products. Any inability to obtain additional financing when needed could have a material adverse effect on the Company's ability to achieve its long-term objectives. Moreover, any additional financing may involve substantial dilution to the Company's then existing shareholders.

TECHNOLOGICAL INNOVATION. The Company believes that an important factor to its future success will include its continued development of new products that appeal to the tastes of consumers and the introduction of such products in a timely manner. Successful product development and introduction depends upon a number of factors, including the identification of products expected to appeal to consumer preferences and the timely completion of design and testing. Importantly, any new or modified gaming products will be designed and operated to meet the requirements of Class II gaming. The Company expects to continue to solicit the opinion of the NIGC as to whether any new or modified gaming products meet the definitions of Class II gaming, although there can be no assurance that the Company will always wait for a final opinion from the NIGC before introducing a new game or modifying an existing game. Interpretations and policies of the NIGC with respect to the requirements for Class II gaming will also affect the timing and nature of any new products. As a result of these and other factors, there can be no assurance that the Company will continue to develop and introduce new products in a timely manner that will achieve commercial success.

PRIZE FULFILLMENT. The prizes awarded under the Company's bingo games are based upon attaining an assumed level of gross game receipts and statistical assumptions as to the frequency of winners. To date, the Company has not experienced a "game deficit" where prize

allocations have exceeded game revenues; however, no assurances can be given that the Company will not experience abnormally high rates of jackpot prize wins in the future.

SIGNIFICANT OUTSTANDING OPTIONS AND WARRANTS. As of December 13, 1996, there were outstanding immediately exercisable stock options to purchase an aggregate of 140,418 shares of Common Stock at exercise prices ranging from $1.50 to $2.75 per share, and outstanding immediately exercisable warrants to purchase an aggregate of 404,970 shares of Common Stock at exercise prices ranging from $2.00 to $6.60 per share. In addition, there were outstanding additional warrants to purchase an aggregate of 2,042,143 shares of Common Stock at an exercise price of $8.00 per share that become exercisable on August 12, 1997, additional stock options to purchase 392,082 shares of Common Stock at exercise prices ranging from $1.50 to $4.375 per share that are generally exercisable in equal annual increments over four years commencing in 1997, and an option to exchange interests in AGN for up to 412,000 shares of the Company's common Stock at the equivalent of $3.00 per share (see "Note 3 of Notes to Consolidated Financial Statements"). The Company's Series A Preferred Stock is also convertible commencing in January 1997 into 671,590 shares of Common Stock at a conversion rate of five shares of Common Stock for each share of Series A Preferred Stock. To the extent that such stock options, warrants and Series A Preferred Stock are exercised or converted, dilution to the Company's shareholders will occur. Moreover, the terms upon which the Company will be able to obtain additional equity capital may be adversely affected, since the holders of such options, warrants and Series A Preferred Stock can be expected to exercise or convert them at a time when the Company would, in all likelihood, be able to obtain any needed capital on terms more favorable to the Company than the exercise terms provided in such securities.

ISSUANCE OF SHARES FOR NOTES. Of the 4,026,783 shares of Common Stock outstanding at December 13, 1996, 541,545 shares, or approximately 13.4%, of the total outstanding have been issued for promissory notes of the purchasers, including 291,545 shares purchased by the Chairman of the Board of the Company for a promissory note in the principal amount of $583,000. Although the Company believes that such notes are collectible when due for the full amount thereof, no assurances to that effect can be given.

SHARES AVAILABLE FOR FUTURE SALE; SALES BY AFFILIATES. Of the 4,026,783 shares of Common Stock outstanding at December 13, 1996, 895,070 of such shares are held by non-affiliates and are freely traded in the public market and 3,131,713 shares may be deemed "restricted securities" as that term is defined under the Securities Act, and in the future may be sold pursuant to a registration under the Securities Act, in compliance with Rule 144 under the Securities Act, or pursuant to another exemption therefrom. Of such restricted securities, 2,118,208 shares of Common Stock are expected to be registered for public sale under the Securities Act of 1933, as amended (the "Securities Act") on Form S-3 in early January, 1997. With respect to the remaining 1,013,505 of restricted shares, Rule 144 provides that, in general, a person holding restricted securities for a period of two years may, every three months thereafter, sell in brokerage transactions an amount of shares which does not exceed the greater of one percent (1%) of the Company's then outstanding Common Stock or the average weekly trading volume of the Common Stock during the four calendar weeks prior to




such sale. Rule 144 also permits, under certain circumstances, the sale of shares without any quantity limitations by a person who is not an affiliate of the Company and was not an affiliate at any time during the 90 day period prior to sale and who has satisfied a three year holding period. Of such 1,013,505 shares of "restricted" Common Stock, approximately 113,024 shares have been held for more than two years and are, therefore, eligible for immediate sale under Rule 144, subject to the volume limitations described above. Of the remaining 900,481 shares of "restricted" Common Stock, 34,940 shares will become eligible for sale under Rule 144 during the period ending September 30, 1997.

In addition, 671,590 shares of Common Stock issuable upon conversion of

the Series A Preferred Stock will become eligible for resale under Rule 144 beginning in January 1997.

REGISTRATION RIGHTS. Of the 1,013,505 shares of "restricted" Common Stock referred to above, 616,485 have "piggyback" registration rights. The Company has also granted registration rights to the holders of the 2,042,143 warrants described above, the 412,000 shares of Common Stock issuable upon the exercise of the put and call agreement described under "Note 3 of Notes to Consolidated Financial Statements" and the 404,970 shares of Common Stock issuable upon the exercise of other presently outstanding warrants and options. Exercise of these registration rights could cause the Company to incur substantial expenses and could adversely affect the Company's ability to obtain future equity or debt financing. Furthermore, the exercise of these warrants and stock options, and the conversion of the Series A Preferred Stock, and the sale of the underlying Common Stock (or even the potential of such exercise, conversion and sale) may have a depressive effect on the market price of the Company's securities.

Certain holders of restricted Common Stock have, directly or indirectly, entered into lock-up agreements with Walsh, Manning Securities, Inc. ("Walsh, Manning") that contractually restrict the sale of such shares without the consent of Walsh, Manning. Of the 3,131,713 shares of restricted Common Stock (including the 2,118,208 to be registered in the Form S-3 registration statement referred to above), approximately 2,544,467 of such shares are subject to such lock-up agreements.

ABSENCE OF DIVIDENDS. The Company has never declared or paid any cash dividends on its Common Stock. The Company intends to retain its earnings, if any, to finance the growth and development of its business and therefore does not anticipate paying any cash dividends on its Common Stock in the foreseeable future.

CURRENT GAMES

The MegaBingo, MegaCash and MegaBingo Lite games are telecast live to television monitors at each participating bingo hall by means of a closed-circuit, television satellite network which, except for the satellite, is designed, owned and operated by the Company. The Company's broadcast studio is currently located at the Cheyenne-Arapaho Lucky Star gaming facility which is approximately 20 miles west of Oklahoma City in Concho, Oklahoma. Prior to November, 1996, the Company's broadcast studio was located at the Muscogee (Creek)


gaming facility in Muscogee, Oklahoma, but was moved due to a dispute with that tribe. The studio houses the equipment needed to produce and televise the game drawings and verify winning cards, including television production equipment and satellite up-link equipment. The Company's central game computers and communications equipment are housed at the Company's principal offices in Tulsa, Oklahoma. MegaBingo and MegaCash game drawings are conducted on the floor of the Cheyenne-Arapaho bingo hall before live audiences of players, and MegaBingo Lite drawings are conducted in the broadcast studio. The Company's MegaBingo, MegaCash and MegaBingo Lite games, which are approximately twelve (12) minutes in duration, represent only a limited percentage of the total number of bingo games conducted by each participating bingo hall operator during any given bingo session.

The MegaBingo, MegaCash and MegaBingo Lite games allow customers to enter a participating bingo hall and purchase a bingo card for a game that will be played at a future designated time. The Company has contracted with the Cheyenne-Arapaho Nation to draw the bingo numbers on its reservation and to transmit the drawing of the numbers to all participating bingo halls by satellite. Prize money emanates from the proceeds of bingo card sales, with profits to the Company derived from revenues from bingo card sales remaining after prizes, bingo hall commissions and operating expenses are paid. The Company believes that its MegaBingo, MegaCash and MegaBingo Lite games are the only regularly scheduled multi-hall, high stakes bingo games in the United States.

In the MegaBingo game, which is conducted on the Company's satellite gaming network seven nights per week, a player pays either $3 for a single bingo game face card or $5 for a bingo game card consisting of three separate game faces. When a player covers his card after 50 balls or fewer are drawn and calls bingo, and his card is verified, the player is given the chance to win the jackpot prize of up to $1,000,000 (paid $100,000 cash and the remainder in the form of a 24-year annuity) by spinning the MegaBingo wheel. When there is no jackpot winner, the game continues until a player calls bingo. Once that player's card is verified, the player will receive a consolation prize of $2,500 if a $3 card was played, or $5,000 if a $5 card was played, as well as certain lesser prizes. MegaBingo Lite is similar to MegaBingo, but involves fewer halls and smaller prizes (e.g., jackpot prizes of $25,000). In the MegaCash game, which is conducted on the Company's network each Saturday and Sunday in matinee sessions, the player pays either $2 or $5 for the same single bingo game face card, which carries a jackpot of, respectively, $100,000 or, by spinning the MegaBingo wheel, up to $1,000,000. When there is no MegaCash jackpot winner after 50 balls are drawn, the game continues until bingo is called and a consolation winner is determined, of $2,500 or $5,000 respectively, as well as certain lesser prizes. Typically 13 games of MegaBingo and two of MegaCash are played each week.

In September 1995, the Company conducted a Mega-MegaBingo ("MegaMega") Bingo session. MegaMega was a special event providing an entire evening session of multi-hall bingo games operated on the MegaBingo network during which many significant prizes were awarded, including a "must go" $1,000,000 prize. The program operated for 90 minutes and included 11 different games with a total prize package of $1,450,000. The Company believes MegaMega was the largest single bingo program ever offered.



MegaMania utilizes interconnected electronic player stations throughout participating halls on the Company's inter-hall network. The Company has designed MegaMania, such that it (a) requires that sound strategic decisions be made rapidly and repeatedly by players in order to maximize prize payout, (b) presents game results in a fast-action color video presentation featuring state-of-the-art graphics and animation accompanied by sound, (c) pays back approximately 85% of the total amount wagered in prizes to players, (d) pits players against each other to win a common pooled prize in accordance with the rules of class II bingo, (e) costs only a quarter per card, per cycle, (f) pays out a prize of $25 to $150+ for every completed game (which is about 90 seconds duration), and (g) pays out other progressive jackpot prizes based on winning within a specified number of bingo balls drawn. As of September 30, 1996, 20 halls had approximately 800 electronic player stations playing MegaMania. The Company has plans to install additional electronic player stations playing MegaMania or to install MegaMania software on other vendors' machines within the next year. As of December 13, 1996, there were 21 halls with approximately 915 player stations playing MegaMania, after taking into account the removal of 139 player stations from the Muscogee (Creek) facilities in November 1996 due to a dispute with that tribe. Also at December 13, 1996, the Company was in the process of installing an additional 150 player stations at six new bingo halls.

AGN offers proxy play services of the MegaBingo game to off-reservation participants. AGN accepts orders and purchases bingo cards at on-reservation Indian bingo halls and plays those cards at the bingo halls on behalf of proxy play participants.

INTEGRATED GAMING SERVICES AGREEMENTS ("IGS AGREEMENTS")

Virtually all of the Company's revenues are derived from contracts with Native Indian tribes. The Company's contract with each bingo hall operator is typically for five years, and provides for a variety of integrated, multi-hall games on an exclusive basis. Participation in the network not only generates additional profit for the bingo hall, but also allows the bingo hall operators to advertise jackpot prizes well in excess of those offered by other bingo halls where the Company's games are not played, thus providing participating halls a competitive advantage.

The Company has IGS Agreements with approximately 50 Native Indian tribes, of which 18 agreements were renewed for five-year terms in 1995. About half of the remaining contracts have unexpired terms of between two and three years and the balance of the contracts are currently under negotiation and are being continued on a month to month basis pending negotiations.

In order to provide protection against the risk that prizes awarded to players in the MegaBingo and MegaCash games might exceed game revenues, the terms of the IGS Agreements with the various hall operators that conduct MegaBingo and MegaCash (the "MegaBingo Operators"), provide that a fixed percentage of gross game receipts from those games (the "MegaBingo Prize Allocation") is deposited in a prize allocation account from which prizes, prize fulfillment fees and bank fees are paid ("MegaBingo Prize Allocation Costs"). The



MegaBingo Operator and the Company are each entitled to a fee (the "MegaBingo Fee") which approximates 15% of gross game receipts increased by its share of cumulative game surplus and decreased, in the case of the Company, by 100% of all game deficits. A surplus (or deficit) exists to the extent that the MegaBingo Prize Allocation exceeds (or is exceeded by) the MegaBingo Prize Allocation Costs.

Under the terms of the IGS Agreements, specified initial portions of the MegaBingo Fee are deposited in separate prize reserve accounts for the MegaBingo Operators from which loans may be made to the prize allocation account in the event of a game deficit. However, during the past five years there has never been a game deficit and no loans have ever been made. Such loans from the MegaBingo Operators' prize reserve accounts would be liabilities of the Company and would have to be repaid when there are sufficient funds in the prize allocation account available for such purpose. Each MegaBingo Operator is entitled to the return of its prize reserve funds upon termination of its IGS Agreement. In addition, those parties who have completed their prize reserve funding obligations are entitled to receive formula-determined refunds of their respective prize reserve funds from time to time to the extent it is determined that such funds are not required to assure the payment of MegaBingo Prize Allocation Costs.

Under the IGS Agreements, the Company may procure such technical, marketing and other support as it determines to operate the games, and is obligated to obtain any licenses and approvals required for the operation of the games, to provide errors and omissions insurance coverage against the possibility of duplication of prize liabilities, and to guaranty the payment of prizes won in the games by letters of credit, performance bonds, insurance or other guarantees.

The IGS Agreements obligate the tribes to provide space to operate the games and to provide such advertising and promotion as they determine to be beneficial. The parties to the IGS Agreements have also constituted audit, legal, marketing and operations committees which provide oversight for the games and exercise specific approval functions mandated by the IGS Agreements.

PRIZE FULFILLMENT

The MegaBingo and MegaCash games are designed assuming a certain minimum level of gross game receipts, with MegaBingo Prize Allocation Costs averaged over long periods of time expected to be less than the MegaBingo Prize Allocation. In order to reduce the need for prize reserve account funds and to further reduce exposure to game deficits during periods of abnormally high rates of jackpot prize wins, the Company is party to an agreement (the "Risk Assumption Agreement") with SCA Promotions, Inc. ("SCA"), which specializes in prize fulfillment services, to pay jackpot prizes won during the term of the agreement. SCA owns warrants to purchase 45,682 shares of the Company's Common Stock at $2.00 per share and holds 12,563 shares of Series A Preferred Stock that are convertible in January 1997 into 62,815 shares of Common Stock.

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For an administrative fee (based on a fixed percentage of gross game sales receipts) and prize fulfillment fees (based on a varying percentage of gross game sales receipts) paid to SCA with funds from the MegaBingo Prize Allocation, the Company receives an amount equal to the present value of the jackpot prize payments less a deductible of $15,000. The Company also advances the first $37,000 of SCA's liability for each prize pay-off, which is subsequently deducted from fees due SCA. These prize fulfillment funds are then utilized to satisfy the obligation to the jackpot prize winner through a lump-sum cash payment or the purchase of an annuity.

SCA may cease its prize fulfillment responsibilities if its total cumulative prize payouts exceed its fees earned under the contract by $2,500,000. SCA is required at all times to maintain not less than $500,000 of prize fulfillment resources in the form of a performance bond or other mutually acceptable escrow arrangement. The Risk Assumption Agreement expires on February 28, 1997, and is currently being negotiated for extension.

GAMING EQUIPMENT

In support of its MegaBingo, MegaCash and MegaBingo Lite games, the Company utilizes, among other things, television production equipment, satellite transmission and reception equipment, computer hardware and software, conference calling equipment and specially printed ticket stocks typically imprinted with the game's logo. The Company has contracted with a vendor for satellite time to transmit the aforementioned games. With the exception of the computer software, which is custom developed by or on behalf of the Company, all other gaming equipment and supplies required for the operation of the aforementioned games are typically available off-the-shelf from a number of vendors. Under the IGS Agreements, any satellite dishes and monitoring equipment then dedicated for use thereunder revert to the bingo halls upon the expiration of such arrangements.

MegaMania electronic player stations, which consists primarily of electronic equipment and computer hardware, are placed in participating halls pursuant to an addendum to the IGS Agreements (the "IGS Addendum"). Pursuant to the IGS Addendum, the tribes typically purchase the MegaMania equipment from the Company by allocating to the Company a portion of the Tribes' share of MegaMania game revenues until the agreed purchase price of the stations have been paid. With the exception of the computer software, which is custom developed by or for the Company and remains the property of the Company (either outright or through licensing or joint venture arrangements with others) notwithstanding the ownership of the player stations by the Tribes, substantially all of the electronic equipment and computer hardware is available from a number of vendors, although significant lead times exist with respect to certain components.

MARKETING, ADVERTISING AND PROMOTION

The Company arranges national and local news coverage of the Company's games and currently provides press releases to local newspapers regarding recent jackpot wins as well as



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the introduction of the Company's games at new network halls. In addition, the Company has focused advertising and promotion, including direct mailings in localities near network halls advertising the availability of the Company's games (including discount coupons for new players) as well as the purchase of advertising space in specialized bingo newsletters. The Company's games typically are prominently featured in the participating halls' program materials, such as calendars and flyers, and on outdoor billboards near certain participating halls. Halls often provide free bus rides to players from nearby states and towns.

SERVICE MARKS AND PATENTS

The Company owns service marks for "MegaBingo(R)", "MegaCash(R)" and "MegaRacing(R)" registered with the United States Patent and Trademark Office, and a paid-up perpetual exclusive license to use the registered service mark, "MegaPick(TM)", in bingo activities. The Company also utilizes the trademarks "MegaBingo Lite(TM)" in connection with its special game introduced in a limited number of halls, "TV MegaBingo(TM)" in connection with its televised game and "MegaMania(TM)" in connection with its game played on electronic player stations. The Company relies on trade secrets, proprietary know-how and continuing technological innovation to develop and maintain its competitive position. However, there can be no assurance that, insofar as the Company relies on trade secrets and unpatented know-how, others will not independently develop similar technology or that secrecy will not be breached.

COMPETITION

Competition in the gaming industry is intense. The Company presently estimates that gaming is permitted in almost all states in some form, and gaming activities continue to expand. There are numerous national and international corporations and entities engaged in the gaming business. Competition in the gaming industry has increased substantially in recent years, more competitors participate in the industry each year, and most of the competitors have substantially greater financial and personnel resources than the Company.

Many forms of gaming are conducted both on and off Indian lands in the United States which, in a broad sense, may be deemed to be in competition with the Company's services. Although there is a general lack of reliable data regarding the effect of any one form of gaming on the level of business experienced by another, the Company is not aware of any data suggesting that revenues from any specific form of gaming are particularly sensitive to the level of wagering on other forms of gaming. The Company believes that its MegaBingo, MegaCash and MegaBingo Lite are the only multi-hall, high stakes bingo games currently available on or off Indian lands in the United States.

In addition to other bingo operations, the Company's activities may also compete with such other forms of gaming as lotto, table games, sports betting and pari-mutuel wagering. The extent to which the various forms of gaming conducted both on and off Indian lands in the United States may be competitive with the Company's services will depend upon several


factors, including the nature and location of the gaming activity and the demographics of the players' population.

EMPLOYEES

As of September 30, 1996, the Company had 71 full-time and part-time employees, consisting of 14 engaged in field operations, 13 in computer operations relating to bingo activities, seven in accounting functions, four in sales and marketing activities, 12 in other general administrative and executive functions and 21 full-time and part-time bingo hall employees. The Company does not have a collective bargaining agreement with any of its employees and considers its relationship with its current employees to be good. In addition, approximately 30 individuals were employed by tribes to operate the Company's games in their respective halls all of whom are reimbursed by the Company.

GOVERNMENTAL REGULATION

GENERAL. The operation of gaming on Indian reservations is subject to the Indian Gaming Regulatory Act of 1988 (25 U.S.C. Sections 2701, et seq.) (the "Gaming Act" or "IGRA"), which created the National Indian Gaming Commission (the "NIGC") to promulgate regulations to enforce certain aspects of IGRA. The NIGC became fully operational in February 1993, prior to which the Bureau of Indian Affairs was responsible for certain functions of the NIGC in

accordance with guidelines formulated by the Assistant Secretary of the Interior for Indian Affairs. Shortly after IGRA was enacted, the Federal Communications Commission ("FCC") and the United States Postal Service amended their regulations to allow the use of television, telephone and the United States mail for certain purposes in regard to Indian gaming, as long as the gaming was in compliance with IGRA. On questions of compliance, the FCC defers to the NIGC. Due to the relatively recent adoption of the foregoing provisions, it is anticipated that statutes and regulations may be amended in the future to correct initial deficiencies or to respond to changes in the gaming industry. Management of the Company believes that it is not in violation of any regulations or laws, but there is a risk that the regulations or laws may change, or that new interpretations may be given to existing laws and regulations, which may restrict or prohibit the games currently operated and planned by the Company.

INDIAN GAMING. IGRA classifies games that may be played on Indian land into three categories. Class I gaming includes traditional Indian social and ceremonial games and is regulated only by the tribes. Class II gaming includes bingo, pull-tabs, lotto, punch boards, tip jars, instant bingo, certain card games played under limited circumstances and other games similar to bingo if those games are played at the same location where bingo is played. The Company's operations have been designed as Class II games, and the NIGC has issued its opinion that the Company's games are, in fact, Class II. Class III gaming consists of all forms of gaming that are not Class I or Class II, such as video casino games, slot machines, most table games and keno.

IGRA provides that Indian tribes may engage in Class II gaming, including the conduct of high-stakes bingo games, if (i) the state in which the Indian reservation is located permits



such gaming for any purpose by any person, (ii) the gaming is not otherwise specifically prohibited on the Indian reservation by Federal law, (iii) the gaming is conducted in accordance with a tribal ordinance which has been approved by the NIGC, and (iv) several other requirements are met, including the requirement that an Indian tribe shall have the sole proprietary interest and responsibility for the conduct of gaming, and that primary management officials and key employees must be licensed by the tribe.

Under IGRA, the NIGC has the power to inspect and examine all Indian gaming facilities, to conduct background checks on all persons associated with Class II Indian gaming, to inspect, copy and audit all records of Indian gaming facilities, and to hold hearings, issue subpoenas, take depositions and adopt regulations in furtherance of its responsibilities. IGRA authorizes the NIGC to impose civil penalties for violations of its regulations or of the Act, and also imposes Federal criminal sanctions for illegal gaming on Indian reservations and for theft from Indian gaming facilities.

IGRA also regulates Indian gaming management contracts. The Act provides that the Gaming Commission may approve a management contract only after determining that the contract provides for (ii) adequate accounting procedures and verifiable financial reports, which must be furnished to the tribe, (ii) tribal access to the daily operations of the gaming enterprise, including the right to verify daily gross revenues and income, (iii) minimum guaranteed payments to the tribe, which must have priority over the retirement of development and construction costs, (iv) a ceiling on the repayment of development and construction costs, (v) a contract term not exceeding five years and a management fee not exceeding thirty percent of net revenues, provided that the NIGC may approve up to a seven year term and a forty percent return to the Manager if the Chairman of the NIGC is satisfied that the capital investment required, and the income projections for the particular gaming activity, justify the larger percentage and longer term. Certain other requirements for approval of a management contact are specified in the regulations promulgated by the NIGC.

IGRA requires the NIGC to review all management contracts and collateral agreements approved by the Bureau of Indian Affairs before the creation of the NIGC to ensure that such agreements are in compliance with IGRA. The NIGC has

determined that the IGS Agreements are service agreements and not management contracts, thereby allowing the Company to obtain more favorable terms than would have been permitted had the contacts been determined to be management contacts. There is no assurance however, that further reviews of the IGS Agreements by the NIGC or alternative interpretation of applicable laws and regulations will not require substantial modifications to the IGS Agreements and cause the operations of the Company to be marginally profitable or even unprofitable.

OFF-RESERVATION GAMING SERVICE. Through AGN, the Company plans to use proxy play services to bring bingo games to a regional or national off-reservation audience and as a result, may also be subject to rules promulgated by the NIGC, the FCC or other agencies governing whether a broadcast station, the Internet or cable network may carry information regarding the results of a Class II bingo game played on Indian lands. The Senate Committee



on Indian Affairs, when drafting IGRA, indicated that the intent of the law was to allow Indians to use the latest technological aids, including television, satellites and telephones, on and off the reservation, to conduct bingo games. In July 1995, the Chairman of the NIGC ruled that proxy play of bingo was allowed under IGRA. There can be no assurance, however, as regulations are reinterpreted or new laws enacted, that the Company's proposals to reach home viewers through commercial broadcasts, the Internet, or cable networks may not be constrained or prohibited.

OTHER. Existing federal and state regulations may also impose civil and criminal sanctions for various activities prohibited in connection with gaming operations including false statements on applications and failure or refusal to obtain necessary licenses described in the regulations. Violation of any of these existing or newly adopted regulations may have a substantial adverse effect on the Company.

ITEM 2. PROPERTIES

The Company leases approximately 9,440 sq.ft. of space for its executive offices located at 7335 S. Lewis Avenue, Tulsa, Oklahoma. The lease expires in October 2001. The Company also leases approximately 1,030 sq.ft. of office space for some of its computer programmers in the Pavilion Office Park Building in Dallas, Texas, which lease expires in June 1999. Aggregate annual rentals under the two leases are $107,000. The Company believes that such leases will be renewed as they expire or that alternative properties can be leased on acceptable terms. The Company also houses a portion of its satellite link equipment in a trailer located adjacent to the Cheyenne-Arapaho bingo hall in Concho, Oklahoma at no cost.

ITEM 3. LITIGATION

The Company is the subject of a criminal investigation by the Office of the U.S. Attorney in Tulsa, Oklahoma to determine whether, in the opinion of the U.S. Attorney, the Company's MegaMania bingo game constitutes Class II or Class III gaming, as defined by the Gaming Act. (See Part I, Item 1, Description of Business - Risk Factors - Pending Investigation.")

The Company is also the subject of various pending and threatened claims arising out of the ordinary course of business. Management believes that any liability resulting from such claims will not have a material adverse effect on the results of operations or the financial condition of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

Not applicable

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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The Company's Common Stock has been listed on the small cap market of the NASDAQ Stock Market ("NASDAQ") under the symbol MGAM since May 15, 1996. Prior to that, the Company's Common Stock was traded on the OTC Bulletin Board and in the over-the-counter market "pink sheets" under the symbol "MGAM". The following table sets forth the range of the quarterly high and low bid prices, as reported by the National Quotation Bureau, Incorporated, for the last two fiscal years. Over-the-counter market quotations reflect inter-dealer prices and do not reflect retail mark-ups, mark-downs or commissions, and may not represent actual transactions.

<TABLE>
<CAPTION>

| Fiscal Quarter | High | Low |
|---|---|---|
| <S> | <C> | <C> |
| October - December 1994 | $2.00 | $0.75 |
| January - March 1995 | 3.75 | 0.75 |
| April - June 1995 | 3.25 | 2.00 |
| July - September 1995 | 3.125 | 2.375 |
| October - December 1995 | 3.25 | 2.25 |
| January - March 1996 | 3.625 | 2.125 |
| April - June 1996 | 6.50 | 3.625 |
| July - September 1996 | 5.75 | 4.75 |

</TABLE>

There were 257 shareholders of record of the Common Stock on September 30, 1996 (327 shareholders at December 13, 1996).

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

BUSINESS OVERVIEW

Multimedia Games, Inc. and subsidiaries (the "Company") were organized to develop, promote and produce lawful gaming activities over the information highway, including but not limited to, satellites, television, telephone and the Internet. The Company provides satellite linked, high stakes bingo games and interactive high speed bingo games played on interconnected electronic player stations to participating bingo halls owned primarily by American Indian tribes located throughout the United States. The Company also provides proxy play services for its MegaBingo and MegaCash games to bingo players located off Indian lands through a subsidiary's 49% interest in American Gaming Network L.L.C. ("AGN")

Prior to August 1995, the Company's principal business was to furnish the marketing and other operating services required in the conduct of high stakes bingo games conducted under the names MegaBingo, MegaCash and MegaBingo Lite (the "MegaBingo Games"). MegaBingo and MegaCash are played simultaneously using a closed-circuit television satellite link at 50 independently owned bingo halls located in 14 states throughout the United States, operated primarily on behalf of American Indian tribes. MegaBingo Lite provides smaller prizes



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to similarly linked Indian bingo halls and is presently delivered to 11 bingo halls located in the State of Oklahoma.

In August 1995, the Company introduced MegaMania, an interactive high-

speed bingo game developed by the Company that is played on electronic player stations interconnected among participating Indian bingo halls. Significant revenue generation for MegaMania did not begin until March 1996. As of December 13, 1996, MegaMania is played at 21 independently owned American Indian bingo halls located in 6 different states, primarily Oklahoma.

RESULTS OF OPERATIONS

An analysis of the Company's revenues and direct gaming expenses were as follows for the years ended September 30, 1996 and 1995.

<TABLE>
<CAPTION>

| | 1996 | 1995 |
|---|---|---|
| <S> | <C> | <C> |
| MegaBingo, MegaCash and MegaBingo Lite: | | |
| Gross Revenues | $ 15,579,000 | $ 16,123,000(1) |
| Prizes and Related Costs | (9,697,000) | (9,706,000)(1) |
| Allotments to Hall Operators | (3,188,000) | (3,200,000)(1) |
| Net MegaBingo Margin | $ 2,694,000 | $ 3,217,000 |
| MegaMania: | | |
| Gaming Revenue, Net of Prizes(2) | $ 6,074,000 | $ 106,000 |
| Allotments to Hall Operators | (4,408,000) | (75,000) |
| Net MegaMania Margin | $ 1,666,000 | $ 31,000 |

</TABLE>

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(1) Not presented consistent with the service fee accounting used in the financial statements prior to December 22, 1994. See Note 1 of Notes to Consolidated Financial Statements.

(2) MegaMania gross revenues and prizes are netted for financial statement presentation purposes.

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto included under "Item 7 Financial Statements".

REVENUES - Total revenues for fiscal year 1996 were $22.9 million as compared to $17.1 million in 1995, a 33.7% increase. The increase is due to a 39.6% increase in gaming revenues over 1995, primarily as a result of the Company's new MegaMania game which generated revenues of $6.1 million during 1996 as compared to $.1 million in 1995. MegaBingo revenues decreased $.5 million in 1996 as compared to 1995, after eliminating the netting effects of the service fee accounting


used in 1995. The decrease in MegaBingo revenues is the net of (i) $1.0 million generated by the MegaBingo Lite network in 1996, (ii) the Company not conducting the one-time MegaMega game in 1996 as it did in 1995, (iii) player headcount being down at most bingo facilities across the country, and (iv) several bingo halls electing not to continue playing the MegaBingo game during 1996.

The Company expects MegaMania revenues to continue to increase over the coming year. MegaBingo revenues, however, may continue to decrease as the result of decreased MegaBingo play at the facilities of a major network tribe

subsequent to year end.

Non-gaming revenues during 1996 were $1.2 million, or $.4 million less than in 1995. The primary reason for the decrease was the discontinuance of the Company's business relationship with Graff which resulted in $.95 million in revenues in 1995 and only $.2 million up to the termination of the relationship in January 1996. The decrease in other revenues related to Graff was offset by $.5 million in software license revenues attributable to the license of the MegaBingo software for use in Canada and China to AI Software during 1996.

BINGO PRIZES AND RELATED COSTS - Bingo prizes and related costs increased $.7 million or 7.4% during 1996 as compared to 1995; however, after eliminating the netting effects of the service fee accounting in 1995 and the $.5 million in additional prizes related to the MegaBingo Lite network, such costs were actually $.6 million lower in 1996 as compared to 1995. The decrease in these costs is not commensurate with the decrease in revenues for MegaBingo discussed above because most of the prizes offered on the MegaBingo network are fixed in amount and are not sensitive to the volume of cards sold in a particular bingo session. Jackpot prize costs, which are insured, were consistent in their relation to MegaBingo revenues from 1996 to 1995. MegaMania revenues are recorded net of prize costs; therefore, MegaMania prizes have no effect on Bingo Prizes and Related Costs.

ALLOTMENTS TO HALL OPERATORS - Allotments to hall operators consist of the halls' share of the gaming income after prizes and allocable prize costs. Allotments to hall operators increased 142.7% to $7.6 million in 1996, as compared to $3.1 million in 1995. After eliminating the netting effects of the service fee accounting in 1995 and the $.2 million in hall commissions paid on the MegaBingo Lite network, such allotments to hall operators increased $4.1 million during 1996 as compared to 1995. The primary reason for the increase is hall commissions related to MegaMania which were $4.4 million in 1996. The decrease in hall commissions related to MegaBingo is caused by the decrease in MegaBingo revenues discussed above.

SALARIES AND WAGES - Salaries and wages increased $.3 million, or 18.3% during 1996 as compared to 1995; however, most of the increase came in the fourth quarter of 1996 and relates to additional personnel hired to assist in the installation, training and maintenance related to the MegaMania network.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES - Selling, General and Administrative Expenses increased $.7 million, or 27.5% during 1996 as compared to 1995. The increase relates primarily to MegaMania telecommunications, operational, training and support costs. Additionally, travel costs related to the sales, installation and maintenance efforts for MegaMania contributed to the increase.



AMORTIZATION AND DEPRECIATION - Amortization and depreciation increased $.3 million, or 111.6% during 1996 as compared to 1995. The increase results from MegaMania electronic player station and software programming costs capitalized during 1996. The Company made $1.8 million in capital additions during 1996.

INTEREST EXPENSE - Interest expense increased $.1 million to $.2 million in 1996, primarily as a result of interest expense recognized on the Bridge Debt related to financing costs and the value of warrants attached to the Bridge Debt.

FUTURE EXPECTATIONS AND FORWARD LOOKING STATEMENTS

This Annual Report and the information incorporated herein by reference contains various "forward-looking statements" within the meaning of Federal and state securities laws, including those identified or predicated by the words "believes," "anticipates," "expects," "plans," or similar expressions. Such statements are subject to a number of uncertainties that could cause the actual results to differ materially from those projected. Such factors include, but are not limited to, those described under "Item 1. Description of Business -

Risk Factors". Given these uncertainties, readers of this Annual Report are cautioned not to place undue reliance upon such statements.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1996, the Company had unrestricted cash and cash equivalents of $1.5 million, only a slight decrease from September 30, 1995. During the year ended September 30, 1996, $.2 million of cash was provided by operations versus $.7 million in 1995. The change is primarily due to decreased net income and cash used to build inventories, partially offset by an increase in amortization and depreciation. The Company added $1.8 million to fixed assets, consisting primarily of software development for MegaMania and hardware for MegaMania player stations and game operation. Financing activities which funded the investing activities consisted of a private placement of stock in February-March 1996 which generated $1.0 million in proceeds and a Bridge Debt placement in August 1996 which generated $.8 million in gross proceeds. In connection with the Bridge Debt, the Company issued 533,310 warrants to purchase common stock at $8.00 per warrant, including 173,310 warrants issued to the placement agent in the transaction. Upon completion of the November placement described below, the terms of the Bridge Debt warrants were amended to be identical to those issued in the November placement, including redemption provisions. Additional debt was incurred to help finance the acquisition of MegaMania player stations of approximately $.2 million which is due over the next two to three years. Working capital at September 30, 1996 was $.2 million.

Subsequent to year end, the Company completed a $3.4 million private placement of its common stock wherein purchasers acquired for $3.00, one share of common stock and a five-year warrant to acquire another share of common stock for $8.00. In the November placement, 1.2 million shares were sold and 1.5 million warrants were issued, including 350,000 warrants issued to the placement agent in the transaction. The warrants are redeemable by the



Company for $.10 if and when the Company's common stock price is greater than $12.00 for 20 consecutive trading days.

The November placement generated net cash proceeds of approximately $2.1 million in addition to repaying the outstanding Bridge Debt of $.8 million. The proceeds of the November placement will be used by the Company to expand its MegaMania network through the purchase and installation of additional MegaMania player stations and related equipment. The proforma effects of the November placement are reflected on the consolidated balance sheet under the columnar heading "proforma." The Company also has available $50,000 on a $100,000 line of credit with a financial institution.

The Company has plans to utilize the proceeds from the November placement to install an additional estimated 1,000 MegaMania player stations. The Company's ability to achieve this plan is dependent upon the performance of existing installations and new installations, competition, continued demand for the MegaMania game product and a lack of barriers from possible regulatory changes, as well as other risk factors discussed under Item 1, "Description of the Business - Risk Factors."

INFLATION AND OTHER COST FACTORS

The Company's operations have not been, nor are they expected to be, materially affected by inflation. However, the Company's operational expansion is affected by the cost of hardware components, which are not considered to be inflation sensitive, but rather sensitive to changes in technology and competition in the hardware markets. In addition, the Company expects it will continue to incur increased legal and other similar costs associated with compliance with regulatory requirements and the uncertainties present in the operating environment in which the Company conducts its business.

ACCOUNTING PRONOUNCEMENTS

See Note 1 of the Notes to Consolidated Financial Statements regarding

newly issued accounting pronouncements.

ITEM 7. FINANCIAL STATEMENTS

The financial statements filed in this Annual Report on Form 10-KSB are listed in the attached Index to Financial Statements.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None



PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A)OF THE EXCHANGE ACT

The executive officers and directors of the Company, and their respective ages and positions with the Company are as follows:

<TABLE>
<CAPTION>

| Name | Age | Position |
|---|---|---|
| <S> | <C> | <C> |
| Gordon T. Graves | 59 | Chairman of the Board, Chief Executive Officer and Director |
| Larry Montgomery | 58 | President, Chief Operating Officer and Director |
| Gordon Sjodin | 55 | Executive Vice President |
| Michael E. Newell | 45 | Vice President |
| Frederick E. Roll | 53 | Vice President and Secretary |
| Mike Howard | 33 | Vice President, Treasurer and Chief Financial Officer |
| Gregory Stern | 51 | Director |

</TABLE>

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GORDON T. GRAVES has been Chairman of the Board and a director of the Company since its inception, and has been Chief Executive Officer since September 1994. Since December 1993 and from 1989 to 1990, Mr. Graves has been the President of Graves Management, Inc., a management consultant and investment company. Mr. Graves, from 1992 through December 1993 was president and Chief Executive Officer of Arrowsmith Technologies, Inc. ("Arrowsmith"), a computer systems company, and from 1991 to 1993 Mr. Graves was employed by KDT Industries, Inc., a high-tech manufacturing and services company and affiliate of Arrowsmith, as, successively, Vice President of Corporate Development and President. From 1987 to 1989, Mr. Graves was the Chairman of the Board of Directors of Gamma International Ltd. (currently American Gaming and Entertainment, Ltd. ("AGE"), a company co-founded by him.



LARRY MONTGOMERY has been President and a director of the Company since November 1992. Since September 1994, Mr. Montgomery has been the Company's

Chief Operating Officer, having held the position of Chief Executive Officer from November 1992 through September 1994. From December 1991 until December 1993, Mr. Montgomery was also a private consultant to gaming companies. From 1989 through 1991, Mr. Montgomery was the President of Public Gaming Research Institute, and from 1987 to 1989 was the Executive Director of the Kansas State Lottery.

GORDON SJODIN has been Vice President of the Company since September 1994. In April 1994, Mr. Sjodin joined the Company's wholly-owned subsidiary, MegaBingo, Inc., as its Vice President - Sales and served in such position until September 1994, when he became President and Chief Executive Officer of MegaBingo, Inc. From August 1989 until April 1994, Mr. Sjodin was employed by AGE as, successively, Director, Sales and Marketing, and Director, Corporate Development.

MICHAEL E. NEWELL has been Vice President of the Company since September 1994. In April 1994, Mr. Newell joined MegaBingo, Inc. as its Vice President-Chief Operating Officer and served in such position until November 1995, when he became Senior Vice President- of game operations for the Company. From 1988 until April 1994, Mr. Newell was employed by AGE as Director, MegaBingo operations.

FREDERICK E. ROLL has been Vice President and Secretary of the Company since September 1994, having joined the Company in February 1994 as its acting general manager and Chief Financial Officer. From November 1990 until joining the Company, Mr. Roll was a certified public accountant in his own practice. From 1983 until October 1990, Mr. Roll was Chief Financial Officer, Vice President and an owner of Park Hill Nurseries, Ltd., a commercial nursery.

MIKE HOWARD has been Vice President and Treasurer since he joined the Company in March 1996. In June 1996, he was named as Chief Financial Officer of the Company. From May 1985 to March 1996, Mr. Howard worked in the business assurance practice of Coopers & Lybrand L.L.P., an international accounting firm, as a manager.

GREGORY STERN has been a director of the Company since December 1993. Mr. Stern has worked as an independent management consultant to The Littleton Group, since leaving RKS Associates, a venture capital firm, in 1989, where he served as a general partner.

All directors hold office until the next annual meeting of shareholders or until their successors are elected and qualified. Officers are appointed by the Board of Directors and serve at the discretion of the Board.

No family relationship exists between any of the directors or executive officers of the Company.





The Company has granted to the Placement Agent the right to have a representative of the Placement Agent attend meetings of the Company's Board of Directors as an observer.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.

In connection with the preparation of this Annual Report, it was determined that Larry Montgomery, Michael Newell, Frederick Roll, Daniel Sarnoff and Gordon Sjodin had failed to include in their original report on Form 3 filed in May 1996 when the Company's Common Stock became registered under Section 12(g) of the Exchange Act, certain options granted by the Company to such individuals in April 1996. The number of such options were as follows: Mr. Montgomery (5,000); Mr. Newell (3,000); Mr. Roll (2,500); Mr. Sarnoff (4,000); and Mr. Sjodin (4,500). As this determination was not made until after October 15, 1996, such persons also failed to report such options in a Form 5 which was required to be filed within 45 days after the end of the Company's fiscal year ended September 30, 1996. In addition, Graff Pay-Per-View, Inc. failed to file a Report on Form 4 with respect to the month of July, 1996, to report the sale by Graff of 275,000 shares of Common Stock to the Company (see Note 3 of Notes to Consolidated Financial Statements).

ITEM 10. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE. The following table sets forth certain information concerning the annual compensation for the Company's chief executive officer and each executive officer earning more than $100,000 for the fiscal year ended September 30, 1996 (the "named executive officers"):



SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

| | | Compensation | | Long Term Compensation Awards | |
|---|---|---|---|---|---|
| Financial Position | Year | Salary | Annual Options/ Warrants(#)(1) | Securities Underlying | All Other Compensation(2) |
| <S> | <C> | <C> | <C> | | <C> |
| Gordon T. Graves | 1996 | $ 65,423 | | | $ 485 |
| Chairman of the | 1995 | 46,364 (3) | | | -- |
| Board and Chief | 1994 | 19,121 (3) | | | -- |
| Executive Officer | | | | | |
| Larry Montgomery | 1996 | 100,939 | 5,000 | | 3,238 |
| President and Chief | 1995 | 108,000 | 13,000 | | 3,420 |
| Operating Officer | 1994 | 107,311 (4) | | | 623 |
| Gordon Sjodin | 1996 | 115,669 | 4,445 | | 3,309 |
| Vice President | 1995 | 108,000 | -- | | 13,206 |
| | 1994 | 41,540 (5) | 45,000 | | 623 |

</TABLE>

---

(1) Represents shares of Common Stock underlying options granted pursuant to the Company's 1994 Employee Stock Option Plan, 1996 Stock Incentive Plan and its Salaried Employee Participation Plan, and underlying warrants issued in lieu of compensation in July 1994 (see "Stock Plans" below); does not include shares of Common Stock underlying warrants acquired for investment (See "Item 12. Certain Relationships and Related Transactions").

(2) Represents contributions made by the Company on behalf of the named executive officers to the Company's 401(k) plan.

(3) Such amount (except for $1,129) was contributed by Mr. Graves to the Company.

(4) Includes $8,769 represented by a one-year note (subject to extension for three months) issued to Mr. Montgomery in July 1994 which accrued interest at 10% per annum and was subsequently converted into Series A preferred Stock.

(5) Mr. Sjodin joined the Company in April, 1994.

OPTION/WARRANT GRANT TABLE. The following table sets forth certain information regarding options and warrants granted by the Company during its fiscal year ended September 30, 1996 to the named executive officers (exclusive of warrants acquired for investment which are discussed in "Item 12. Certain Relationships and Related Transactions"):

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OPTION/WARRANT GRANTS IN LAST FISCAL YEAR

<TABLE>
<CAPTION>

| | Individual Grants | | | |
|---|---|---|---|---|
| Name | Number of Securities Underlying Options/ Warrants Granted (#) | % of Total Options/ Warrants Granted to Employees in Fiscal Year | Price Per Share | Expiration Date |
| <S> | <C> | <C> | <C> | <C> |
| Gordon T. Graves | -- | -- | -- | -- |
| Larry Montgomery | 5,000 | 3.1 | $4.00 | 4/1/06 |
| Gordon Sjodin | 4,500 | 2.8 | $4.00 | 4/1/06 |

</TABLE>

AGGREGATE OPTION/WARRANT EXERCISES AND YEAR-END OPTION TABLE. The following table sets forth certain information regarding stock options and warrants held as of September 30, 1996 by the named executive officers (exclusive of warrants acquired for investment as discussed in "Item 12. Certain Relationships and Related Transactions"). No named executive officer exercised any stock options or warrants during said period (except for warrants acquired for investment as described in "Item 12. Certain Relationships and Related Transactions"):

AGGREGATE OPTION/WARRANTS EXERCISES AND FISCAL YEAR-END OPTION VALUES

<TABLE>
<CAPTION>

| | Number of Unexercised Options/Warrants at Year End (#) | | Value of Unexercised In-The-Money Options/ Warrants at Year-End(*) | |
|---|---|---|---|---|
| | Exercisable | Unexercisable | Exercisable | Unexercisable |
| <S> | <C> | <C> | <C> | <C> |
| Gordon T. Graves | -- | -- | $ -- | $ -- |
| Larry Montgomery | 39,250 | 23,750 | 165,187 | 83,563 |
| Gordon Sjodin | 22,500 | 27,000 | 73,125 | 81,000 |

</TABLE>

---

(*) Calculated on the basis of the fair market value of the underlying securities at year-end, minus the exercise price.



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STOCK PLANS. In November 1994, the stockholders of the Company approved the Company's 1994 Employee Stock Option Plan (the "1994 Plan") and the 1994 Director Stock Option Plan ("Director Plan"), under which options to purchase an aggregate of 360,000 shares and 60,000 shares, respectively, of Common Stock were reserved for issuance. As of September 30, 1996, options to purchase 285,000 shares and 40,000 shares, respectively, of Common Stock were outstanding under the 1994 Plan and the Director Plan. No options granted

under the Director Plan had been exercised. As a result of the adoption of the Company's 1996 Stock Incentive Plan (the "1996 Plan"), no further options will be granted under the 1994 Plan or the Director Plan.

At September 30, 1996, options for an aggregate of 45,000 shares of Common Stock had been granted to Larry Montgomery and remained outstanding under the Company's 1993 Salaried Employee Participation Plan. Such Plan has been terminated and no further options will be granted thereunder.

In August 1996, the Board of Directors adopted the Company's 1996 Incentive Stock Plan (the "1996 Plan") pursuant to which 274,320 shares of Common Stock or Common Stock equivalents may be issued plus an additional number of shares or share equivalents equal to 10% of the number of shares of Common Stock issued by the Company after August 15, 1996 and prior to December 31, 2000.

The 1996 Plan will be administered by the Board of Directors of the Company or by a committee of the Board designated for such purpose (the "Administrator"). The Administrator will have authority, subject to the terms of the 1996 Plan, to determine when and to whom to make grants under the 1996 Plan, the number of shares to be covered by the grants, the types and terms of "Awards" to be granted under the 1996 Plan (which are stock based incentives and may include incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance shares and deferred stock purchases), the exercise or purchase price of the shares of Common Stock and Common Stock equivalents subject to the Awards, and to prescribe, amend and rescind rules and regulations relating to the 1996 Plan.

The Company has agreed with Walsh, Manning Securities, Inc., that the Company will not, without the consent of Walsh, Manning, grant options under the 1996 Plan to purchase more than 200,000 shares during the one (1) year period ending July 24, 1997, or more than 100,000 shares during each of the three one (1) year periods thereafter. As of September 30, 1996, the Company had not granted any options under the 1996 Plan. As of December 13, 1996, the Company had granted options to purchase 162,500 shares of Common Stock , all at an exercise price of $4.375 per share.

Under the terms of the 1996 Plan, Awards may be granted by the Administrator in its discretion to key employees (including officers and directors who are employees) of the Company and any of its subsidiary corporations as well as to consultants, advisors and other independent contractors to the Company.



The exercise price of stock appreciation rights and of non-qualified or incentive stock options may not be less than 100% of the fair market value of the underlying shares of Common Stock on the date of grant. Other Awards may be granted at such price as the Administrator determines.

Shares of Common Stock purchased upon the exercise of an option are to be paid for in cash or through the delivery of other shares of Common Stock with a value equal to the total option price or in a combination of cash and such shares, or with money lent by the Company to the optionee in compliance with applicable law and on terms and conditions to be determined by the Administrator.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of December 13, 1996, with respect to the number of shares of Common Stock, and of Series A Preferred Stock, owned by (i) each person known by the Company to own beneficially more than 5% of the outstanding shares of, respectively, the Common Stock and the Series A Preferred Stock, (ii) each director of the Company, (iii) each named executive officer, and (iv) all directors and executive officers of the Company as a group:

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<TABLE>
<CAPTION>

| | Common Stock | | Preferred Stock | |
|---|---|---|---|---|
| Beneficial Owner | Number of Shares Beneficially Owned | Percent of Class | Number of Shares Beneficially Owned | Percent of Class |
| <S> | <C> | <C> | <C> | <C> |
| Gordon T. Graves<br>1604 Crested Butte<br>Austin, Texas 78746 | 1,043,420 (1) | 23.6 | 80,175 (2) | 59.7% |
| SCA Promotions, Inc.<br>8300 Douglas Avenue<br>Suite 625<br>Dallas, Texas 75225 | 108,497 (3) | 2.6 | 12,563 | 9.4 |
| Frank T. Nickell<br>350 Park Avenue,<br>21st Floor<br>New York, New York 10022 | 108,497 (3)(4) | 2.6 | 12,563 (4) | 9.4 |
| Larry Montgomery<br>1920 S. West Union Road<br>Topeka, Kansas 66615 | 81,434 (5) | 2.0 | 1,411 | 1.1 |
| Gordon Sjodin<br>5804 E. 104th Street<br>Tulsa, Oklahoma 74137 | 45,233 (6) | 1.1 | 1,272 | (7) |
| Gregory Stern<br>130 Barton Road<br>Stow, Massachusetts 01775 | 13,334 (8) | (7) | -- | -- |
| All executive officers and directors as a group (eight persons) | 1,257,745 (9) | 27.4 | 83,351 | 62.1 |

</TABLE>

(1) Includes 272,727 shares held by Graves Properties, Ltd., a limited partnership controlled by Mr. Graves, and 400,875 shares issuable upon the conversion of the Series A Preferred Stock. Excludes an aggregate of 90,600 shares as to which Mr. Graves disclaims beneficial ownership, consisting of: (1) 44,100 shares beneficially owned by Cynthia Graves, Mr. Graves' wife, and (ii) 46,500 shares beneficially owned by the Gordon Graves Grandchildren Trust.

(2) Includes 75,000 shares held by Graves Properties Ltd., a limited partnership controlled by Mr. Graves.

(3) Represents shares issuable upon the exercise of presently exercisable warrants and 62,815 shares issuable upon the conversion of shares of the Series A Preferred Stock.



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(4) Does not include shares beneficially owned by SCA Promotions, Inc., in which Mr. Nickell is a principal shareholder, as to which Mr. Nickell disclaims any beneficial ownership.

(5) Includes 39,250 shares issuable upon exercise of options granted by the

Company and are exercisable and 5,129 shares issuable upon exercise of warrants issued by the Company and exercisable at such date. Also includes 7,055 shares issuable upon conversion of the Series A Preferred Stock.

(6) Includes 4,623 shares issuable upon exercise of warrants issued by the Company and exercisable at such date and 22,500 shares issuable upon exercise of options granted by the Company and are exercisable. Also includes 6,360 shares issuable upon conversion of the Series A Preferred Stock.

(7) Less than 1%.

(8) Includes 13,334 shares issuable upon the exercise of currently exercisable options.

(9) Includes 135,948 shares issuable upon exercise of options granted by the Company and are exercisable and 18,813 shares issuable upon exercise of warrants issued by the Company and exercisable. Also includes 416,755 shares issuable upon conversion of Series A Preferred Stock.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During 1996, Gordon Graves, the Company's Chairman of the Board, exercised warrants to purchase 291,545 shares of Common Stock at $2.00 per share. Such exercise was accomplished by the issuance to the Company of Mr. Graves' promissory note due in five years and bearing interest at 6% per annum. Also during 1996, Mr. Sjodin exercised for cash 2,500 warrants to purchase Common Stock at $1.50 per share.

In January 1995, Messrs. Graves (including a limited partnership controlled by Mr. Graves), Montgomery, Sjodin and Newell, along with other non-employee investors that included SCA, exchanged certain outstanding subordinated notes due them by the Company for shares of the Company's Series A Preferred Stock, at the exchange price of $10 principal amount of such notes for each share of Series A Preferred Stock. In connection with such exchange, the Company issued its substitute warrants for other warrants held by such parties (see Note 9 of Notes to Consolidated Financial Statements). As a result of such exchange, Mr. Graves (and such limited partnership) held 80,175 shares of Series A Preferred Stock and substitute warrants for the purchase of 291,545 shares of Common Stock; Messrs. Montgomery and Sjodin each held 534 shares of Series A Preferred Stock and substitute warrants for the purchase of 1,940 shares of Common Stock; and Mr. Newell held 107 shares of Series A Preferred Stock and substitute warrants for the purchase of 388 shares of Common Stock. All of the substitute warrants have an exercise price of $2.00 per share of Common Stock.



In August 1996, Mr. Graves, along with other investors acquired a 10% interest in AGN Venturer LLC, for $50,000 in cash and the several guarantee (i.e., 10%) of the $336,000 note payable to the Company by AGN (see Note 3 of Notes to Consolidated Financial Statements).

Mr. Nickell is a principal shareholder of SCA which indemnifies the Company against a portion of its prize fulfillment risk. The Company believes that the terms of the Risk Assumption Agreement with SCA are at least as favorable as could have been obtained with an unaffiliated third party (see "Item 1, Description of Business - Prize Fulfillment.")

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

Certain of the exhibits designated below have been previously filed with the Commission and, where indicated, are incorporated by reference.

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POWER OF ATTORNEY

Know all men by these presents, that each person whose signature appears below constitutes and appoints Mike Howard and Gordon T. Graves, and each of them singly, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities (including his or her capacity as a director or officer of Multimedia Games, Inc.) to sign any and all amendments (including post-effective amendments) to this Annual Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MULTIMEDIA GAMES, INC.

Dated: December 27, 1996

By: /s/ MIKE HOWARD
---
Mike Howard
Vice President - Finance and
Chief Financial Officer



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In accordance with the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<TABLE>

| <S> | <C> | <C> |
|---|---|---|
| /s/ GORDON T. GRAVES<br>Gordon T. Graves | Chairman of the Board<br>Chief Executive<br>Officer and Director | December 27, 1996 |
| /s/ LARRY MONTGOMERY<br>Larry Montgomery | President and Chief<br>Operating Officer<br>and Director | December 27, 1966 |
| /s/ FREDERICK E. ROLL<br>Frederick E. Roll | Vice President and<br>Controller | December 27, 1966 |
| /s/ MIKE HOWARD<br>Mike Howard | Vice President and<br>Chief Financial<br>Officer | December 27, 1996 |

/s/ GREGORY STERN Director December 27, 1996
---
Gregory Stern
</TABLE>





SUPPLEMENTAL INFORMATION TO BE
FURNISHED WITH REPORTS FILED PURSUANT TO
SECTION 15(d) OF THE EXCHANGE ACT BY
NON-REPORTING ISSUERS

The Registrant has not sent to its security holders any annual report covering the Registrant's last fiscal year, or any proxy statement, form of proxy or other proxy soliciting material with respect to any annual or meeting of security holders. In connection with its 1997 annual meeting of stockholders, the Company anticipates sending its 1996 annual report and proxy materials to security holders.





MULTIMEDIA GAMES, INC.
EXHIBIT INDEX

<TABLE>
<CAPTION>

| Exhibit No. | Title | Sequentially Numbered Pages |
|---|---|---|
| <S> | <C> | <C> |
| 3.1 | Articles of Incorporation | * |
| 3.2 | Bylaws | * |
| 10.1 | Form of Integrated Services Agreement | * |
| 10.2 | Contingent Grand Prize Risk Assumption Agreement dated October 1, 1995, between the Company and SCA Promotions, Inc. | |
| 10.3 | Lease Agreement dated October 10, 1996, between the Company and Intervest-Southern Oaks LP | |
| 10.4 | Form of 1992-3 Warrant Certificate Issued by the Company | * |
| 10.5 | Form of 1995 Warrant Certificate Issued by the Company | * |
| 10.6 | Form of Bridge Warrant | |
| 10.7 | Form of Private Placement Warrant | |
| 10.8 | Form of Bridge Note | |
| 10.9 | Registration Rights Agreement dated January 23, 1995 between the Company and holders of 1994 Original Warrants | * |
| 10.10 | Registration Rights Agreement dated January 23, 1995 between the Company and holders of 1995 Substitute Warrants | * |
| 10.11 | Registration Rights Agreement among the Company and holders of Bridge Warrants and Private Placement Warrants | |
| 10.12 | Stock Option Agreement dated October 24, 1992 between the Company and Larry Montgomery | * |
| 10.13 | 1994 Employee Stock Option Plan | * |

| | | |
|---|---|---|
| 10.14 | 1994 Director Stock Option Plan | * |
| 10.15 | 1996 Stock Incentive Plan | |
| 10.16 | Unit Purchase Agreement dated August 14, 1996 between the Company and the AGN Investor Group | |
| 10.17 | Right of first Refusal Agreement dated August 14, 1996 between the Company and the AGN Investor Group | |





| | |
|---|---|
| 10.18 | Put/Call Agreement dated August 14, 1996 between the Company and AGN Venturer LLC |
| 10.19 | Registration Rights Agreement between the Company and AGN Venturer LLC |
| 10.20 | Limited Liability Company Agreement of AGN Venturer LLC |
| 10.21 | Limited Liability Company Agreement of American Gaming Network LLC |
| 10.22 | Certificate of Merger of American Gaming Network LP into American Gaming Network LLC |
| 10.23 | Form of Several Guaranty of AGN Investor Group |
| 10.24 | Purchase Agreement dated June 25, 1996 between the Company and Graff Pay-Per-View, Inc. ("Graff") |
| 10.25 | Registration Rights Agreement between the Company and Graff |
| 10.26 | Form of Stock Purchase Agreement between the Company and Frank J. Skelly, III and Craig Gross |
| 10.27 | Form of Registration Rights Agreement between the Company and Frank J. Skelly, III and Craig Gross |
| 10.28 | Placement Agency Agreement dated July 24, 1996 between the Company and Walsh, Manning Securities, Inc. |
| 10.29 | Placement Agency Agreement dated January 29, 1996 between the Company and G-V Capital Corp. |
| 11.1 | Earnings Per Share Statement |
| 21.1 | Subsidiaries of Registrant |
| 23.1 | Consent of Coopers & Lybrand L.L.P. |
| 24.1 | Power of Attorney (included on page 32) |
| 27.1 | Financial Data Schedule |

* Indicates incorporated by reference to the Company's Form 10-KSB filed with the Commission for the fiscal year ended September 30, 1994.





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Consolidated Statements of Changes in Stockholders Equity, Years Ended September 30, 1996 and 1995 . . . . . F-6

Consolidated Statements of Cash Flows, Years Ended September 30, 1996 and 1995 . . . . . F-7

Notes to Consolidated Financial Statements . . . . . F-8
</TABLE>



REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
and Stockholders
Multimedia Games, Inc.

We have audited the accompanying consolidated balance sheet of Multimedia Games, Inc. and Subsidiaries as of September 30, 1996, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the two years in the period ended September 30, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Multimedia Games, Inc. and Subsidiaries as of September 30, 1996 and the consolidated results of their operations and their cash flows for each of the two years in the period ended September 30, 1996, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Tulsa, Oklahoma
December 18, 1996



MULTIMEDIA GAMES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 1996

<TABLE>

<CAPTION>

| ASSETS | Historical | Proforma (Unaudited - See Note 9) |
|---|---|---|
| <S> | <C> | <C> |
| Current Assets: | | |
| Cash and cash equivalents | $ 1,508,000 | $ 3,565,000 |
| Accounts Receivable: | | |
| Trade, net of allowance for doubtful accounts of $76,000 | 247,000 | 247,000 |
| Other | 45,000 | 45,000 |
| Inventory | 358,000 | 358,000 |
| Prepaid expenses | 92,000 | 92,000 |
| Total current assets | 2,250,000 | 4,307,000 |
| Restricted cash and cash equivalents | 1,534,000 | 1,534,000 |
| Note receivable from American Gaming Network LLC | 336,000 | 336,000 |
| Property and equipment, net | 2,616,000 | 2,616,000 |
| Other assets | 196,000 | 91,000 |
| Goodwill, net | 499,000 | 499,000 |
| Total assets | $ 7,431,000 | $ 9,383,000 |

</TABLE>

Continued



MULTIMEDIA GAMES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 1996

<TABLE>
<CAPTION>
Continued

| LIABILITIES AND STOCKHOLDERS' EQUITY | Historical | Proforma (Unaudited See Note 9) |
|---|---|---|
| <S> | <C> | <C> |
| Current liabilities: | | |
| Notes payable | $ 50,000 | $ 50,000 |
| Current portion of long-term debt | 197,000 | 197,000 |
| Due to American Gaming Network LLC | 99,000 | 99,000 |
| Accounts payable and accrued expenses | 1,292,000 | 1,292,000 |
| Halls' share of surplus | 120,000 | 120,000 |
| Prize fulfillment fees payable | 320,000 | 320,000 |
| Total current liabilities | 2,078,000 | 2,078,000 |

| | | |
|---|---|---|
| Bridge notes payable | 800,000 | -- |
| Long-term debt | 787,000 | 787,000 |
| Other long-term liabilities | 1,372,000 | 1,372,000 |
| Commitments and Contingencies (Note 11) | | |
| Stockholders' equity: | | |
| Preferred stock, Series A, $.01 par value, 2,000,000 shares authorized, 134,318 shares issued and outstanding | 1,000 | 1,000 |
| Common stock, $.01 par value, 10,000,000 shares authorized, 2,859,200 shares and 4,018,033 proforma shares issued and 2,825,201 shares and 3,984,034 proforma shares outstanding | 29,000 | 40,000 |
| Additional paid-in capital | 6,296,000 | 9,071,000 |
| Stockholder notes receivable | (1,271,000) | (1,271,000) |
| Treasury stock, 33,999 shares at cost | (87,000) | (87,000) |
| Accumulated deficit | (2,574,000) | (2,608,000) |
| Total stockholders' equity | 2,394,000 | 5,146,000 |
| Total liabilities and stockholders' equity | $ 7,431,000 | $ 9,383,000 |

</TABLE>

See notes to consolidated financial statements.



MULTIMEDIA GAMES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

<TABLE>
<CAPTION>

| | 1996 | 1995 |
|---|---|---|
| <S> | <C> | <C> |
| Revenues: | | |
| Gaming revenue | $ 21,653,000 | $ 14,841,000 |
| MegaBingo services fee | | 669,000 |
| Other | 1,234,000 | 1,602,000 |
| Total revenues | 22,887,000 | 17,112,000 |
| Operating costs and expenses: | | |
| Bingo prizes and related costs | 9,697,000 | 9,026,000 |
| Allotments to hall operators | 7,596,000 | 3,130,000 |
| Salaries and wages | 1,659,000 | 1,402,000 |
| Selling, general and administrative expenses | 3,149,000 | 2,470,000 |
| Amortization and depreciation | 529,000 | 250,000 |
| Other | 55,000 | 243,000 |
| Total operating costs and expenses | 22,685,000 | 16,521,000 |
| Operating income | 202,000 | 591,000 |
| Interest income | 51,000 | 31,000 |

| | | |
|---|---|---|
| Interest expense | (213,000) | (117,000) |
| Net income | $ 40,000 | $ 505,000 |
| Earnings (loss) per common and equivalent share, 2,872,258 and 1,555,471 shares, respectively | $ (.04) | $ .26 |
| Earnings (loss) per common and equivalent share assuming full dilution, 2,872,258 and 1,679,067 shares, respectively | $ (.04) | $ .24 |

</TABLE>

See notes to consolidated financial statements.





MULTIMEDIA GAMES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

<TABLE>
<CAPTION>

| | Preferred Stock | | Common Stock | | |
|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Additional Paid-in Capital |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Balance, October 1, 1994 | -- | $ -- | 1,311,008 | $ 13,000 | $2,345,000 |
| Common stock issued for legal and consulting services | 7,841 | -- | 1,000 | -- | 80,000 |
| Preferred stock issued in exchange for notes payable | 120,977 | 1,000 | -- | -- | 1,208,000 |
| Sale of common stock | -- | -- | 267,273 | 3,000 | 547,000 |
| Compensation recognized and adjustment to unearned compensation | -- | -- | -- | -- | (10,000) |
| Exercise of common stock warrants | -- | -- | 260,667 | 2,000 | 520,000 |
| Sale of preferred stock | 7,500 | -- | -- | -- | 75,000 |
| Preferred stock dividends ($.70 per preferred share) | -- | -- | -- | -- | -- |
| Net income | -- | -- | -- | -- | -- |
| Balance, September 30, 1995 | 136,318 | 1,000 | 1,839,948 | 18,000 | 4,765,000 |
| Exercise of common stock warrants | -- | -- | 28,332 | -- | 50,000 |
| Sale of common stock | -- | -- | 699,375 | 8,000 | 941,000 |
| Exercise of common stock warrants by Chairman | -- | -- | 291,545 | 3,000 | 580,000 |
| Purchase of treasury stock | -- | -- | -- | -- | -- |
| Issuance of treasury stock | -- | -- | -- | -- | (47,000) |
| Redemption of preferred stock | (2,000) | -- | -- | -- | (20,000) |
| Preferred stock dividends ($1.10 per preferred share) | -- | -- | -- | -- | -- |
| Value of warrants associated with Bridge Notes | -- | -- | -- | -- | 27,000 |
| Net income | -- | -- | -- | -- | -- |
| Balance, September 30, 1996 | 134,318 | $ 1,000 | 2,859,200 | $ 29,000 | $6,296,000 |

<CAPTION>

| | Stockholder Notes Receivable | Treasury Stock / Unearned Compensation | Accumulated Deficit | Total Stockholders' Equity (Deficit) |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Balance, October 1, 1994 | $ -- | $ (21,000) | $(2,874,000) | $ (537,000) |
| Common stock issued for legal and consulting services | -- | -- | -- | 80,000 |
| Preferred stock issued in exchange for notes payable | -- | -- | -- | 1,209,000 |
| Sale of common stock | (200,000) | -- | -- | 350,000 |
| Compensation recognized and adjustment to unearned compensation | -- | 21,000 | -- | 11,000 |
| Exercise of common stock warrants | -- | -- | -- | 522,000 |
| Sale of preferred stock | -- | -- | -- | 75,000 |
| Preferred stock dividends ($.70 per preferred share) | -- | -- | (96,000) | (96,000) |
| Net income | -- | -- | 505,000 | 505,000 |
| Balance, September 30, 1995 | (200,000) | -- | (2,465,000) | 2,119,000 |
| Exercise of common stock warrants | -- | (14,000) | -- | 36,000 |
| Sale of common stock | -- | -- | -- | 949,000 |
| Exercise of common stock warrants by Chairman | (583,000) | -- | -- | -- |
| Purchase of treasury stock | 200,000 | (808,000) | -- | (608,000) |
| Issuance of treasury stock | (688,000) | 735,000 | -- | -- |
| Redemption of preferred stock | -- | -- | -- | (20,000) |
| Preferred stock dividends ($1.10 per preferred share) | -- | -- | (149,000) | (149,000) |
| Value of warrants associated with Bridge Notes | -- | -- | -- | 27,000 |
| Net income | -- | -- | 40,000 | 40,000 |
| Balance, September 30, 1996 | $(1,271,000) | $ (87,000) | $(2,574,000) | $ 2,394,000 |

</TABLE>

See notes to consolidated financial statements.





MULTIMEDIA GAMES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

<TABLE>
<CAPTION>

| | 1996 | 1995 |
|---|---|---|
| <S> | <C> | <C> |
| Cash flows from operating activities: | | |
| Net income | $ 40,000 | $ 505,000 |
| Adjustments to reconcile net income to cash provided by (used for) operating activities: | | |
| Amortization and depreciation | 529,000 | 250,000 |
| Software license fee (Note 4) | (500,000) | -- |
| Other non-cash expenses | 84,000 | 31,000 |
| (Increase) decrease in: | | |
| Accounts and notes receivable | (367,000) | (468,000) |
| Inventory | (358,000) | -- |
| Other | (75,000) | (9,000) |

| | | |
|---|---|---|
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 361,000 | 390,000 |
| Net cash provided by (used for) operating activities | (286,000) | 699,000 |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (1,294,000) | (364,000) |
| Net cash acquired in the purchase of MegaBingo assets | -- | 355,000 |
| Other | -- | (2,000) |
| Net cash provided by (used for) investing activities | (1,294,000) | (11,000) |
| Cash flows from financing activities: | | |
| Proceeds from sale of common stock | 985,000 | 819,000 |
| Proceeds from sale of preferred stock | -- | 75,000 |
| Proceeds from debt | 1,062,000 | 1,102,000 |
| Principal repayments of debt | (171,000) | (1,131,000) |
| Payment of preferred stock dividends | (149,000) | (96,000) |
| Preferred stock redemption | (10,000) | -- |
| Financing Costs | (166,000) | -- |
| Net cash provided by (used for ) financing activities | 1,551,000 | 769,000 |
| Net change in cash and cash equivalents | (29,000) | 1,457,000 |
| Cash and cash equivalents, beginning of period | 1,537,000 | 80,000 |
| Cash and cash equivalents, end of period | $ 1,508,000 | $ 1,537,000 |
| Supplemental disclosure of interest paid: | $ 102,000 | $ 141,000 |

</TABLE>

See notes to consolidated financial statements.



MULTIMEDIA GAMES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS - Multimedia Games, Inc. and its subsidiaries (the "Company") were organized to develop, promote and produce lawful gaming activities over the information highway, including but not limited to, satellites, television, wires and the Internet. The Company provides satellite linked, high stakes bingo games and interactive high speed bingo games played on interconnected electronic player stations to participating bingo halls owned primarily by American Indian tribes located throughout the United States. The Company also provides proxy play services for its MegaBingo and MegaCash games to bingo players located off Indian lands through a subsidiary's 49% interest in American Gaming Network L.L.C. ("AGN")

Prior to August 1995, the Company's principal business was to furnish the marketing and other operating services required in the conduct of high stakes bingo games conducted under the names MegaBingo, MegaCash and MegaBingo Lite (the "MegaBingo Games"). MegaBingo and MegaCash are played simultaneously using a closed-circuit television satellite link at independently owned bingo halls located in several states throughout the United States, operated primarily on behalf of American Indian tribes. MegaBingo Lite provides smaller prizes to similarly linked Indian bingo halls located in the State of Oklahoma.

In August 1995, the Company introduced MegaMania, an interactive high-speed bingo game developed by the Company that is played on electronic

player stations interconnected among participating Indian bingo halls. Significant revenue generation for MegaMania did not begin until March 1996.

The Company's games are currently designed to be operated as Class II games as defined by the Indian Gaming Regulatory Act of 1988 ("IGRA"). IGRA classifies gaming on Indian lands into three classes. Class I gaming includes traditional Indian social and ceremonial games and is regulated only by the tribes. Class II gaming includes bingo, pull-tabs, lotto, punch boards, tip jars, instant bingo, certain card games played under limited circumstances and other games similar to bingo if those games are played at the same location where bingo is played. Class III gaming consists of all forms of gaming that are not Class I or Class II, such as video casino games, slot machines, most table games and keno. ( See Note 11.)





Generally speaking, Class II gaming may be conducted on Indian lands if the state in which the Indian reservation is located permits such gaming for any purpose by any person. Class III gaming, on the other hand, may be conducted pursuant to a compact reached between the Indian tribe and the state in which the tribe is located.

MegaBingo(R), MegaCash(R), MegaBingo Lite(TM) and MegaMania(TM) are registered trademarks and tradenames of the Company, and all references herein are deemed to include the applicable tradename or trademark designation.

CONSOLIDATION PRINCIPLES - These financial statements include the activities of Multimedia Games, Inc. and its three wholly owned subsidiaries, MegaBingo, Inc. ("MBI"), Multimedia Creative Services, Inc. and TV Games, Inc. ("TV Games"). All intercompany transactions have been eliminated in consolidation.

These financial statements also include TV Games' allocable share of income or losses (to the extent of the Company's investment basis) from American Gaming Network L.L.C ("AGN"), which is accounted for under the equity method.

CASH AND CASH EQUIVALENTS - For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with remaining maturities when purchased of three months or less to be cash equivalents.

RESTRICTED CASH AND CASH EQUIVALENTS - Restricted cash and cash equivalents include $246,000 held in reserve for MegaBingo prizes under the provisions of the Integrated Services Agreements with the tribes and $1,288,000 representing the present value of investments held by the Company's prize fulfilment firm related to outstanding jackpot prize winner annuities.

INVENTORY - Inventory consists primarily of computer equipment components for MegaMania player stations. Inventory is carried at the lower of cost, (first-in, first-out) or market.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost. The cost of property and equipment is depreciated over its estimated useful life using the straight line method. Predominately all of the Company's property and equipment is depreciated over five years. Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in operations.

Under the provisions of the Integrated Services Agreements with the tribes, any MegaBingo satellite dishes and monitoring equipment purchased and placed at the hall locations revert to the ownership of the tribe at the end of the agreement. This provision does not apply to MegaMania related equipment.

GOODWILL--The amount paid for the assets of MegaBingo plus the liabilities assumed in excess of the fair value of the identifiable assets purchased has been recorded as goodwill. The Company amortizes goodwill over 20 years using the straight-line method. Goodwill is reported net of accumulated amortization in the accompanying financial statements. Accumulated amortization amounted to $48,000 and $20,000 at September 30, 1996 and 1995, respectively.

The Company continually re-evaluates the carrying amount of goodwill as well as the amortization period to determine whether current events and circumstances warrant adjustments to the carrying value and/or estimates of useful lives. The specific methodology of future pre-interest cash flows associated with the assets of the MegaBingo business is used for this evaluation. At this time, the Company believes that no impairment of goodwill has occurred and that no reduction of the estimated useful life is warranted.

INCOME TAXES - The Company applies the provisions of Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes." Under SFAS No. 109, deferred tax liabilities or assets arise from differences between the tax basis of assets or liabilities and their basis for financial reporting, and are subject to tests of realizability in the case of deferred tax assets. The amount of deferred tax liabilities or assets is calculated by applying the provisions of enacted tax laws to determine the amount of taxes payable or refundable currently or in future years. A valuation allowance is provided for deferred tax assets to the extent realization is not judged to be more likely than not.

TREASURY STOCK - The Company utilizes the cost method for accounting for its treasury stock acquisitions and dispositions.

ACCOUNTING ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the



reported amounts of revenues and expenses during the reporting period. Examples include provisions for bad debts and inventory obsolescence, asset lives of equipment, the tax valuation allowance and the provision for and disclosure of litigation and loss contingencies. Actual results may differ from these estimates in the near term.

INCOME (LOSS) PER COMMON SHARE - Income (loss) per common share is computed on the basis of the weighted average shares of common stock outstanding for the years ended September 30, 1996 and 1995. Options and warrants are common stock equivalents and, along with contingent stock issuances, are considered in the computation of income per common share using the treasury stock method when they are dilutive. To determine income per common share, net income is adjusted for preferred stock dividends, whether paid or not.

REVENUE - Revenues from the operation of the MegaBingo, MegaMania and other bingo games are recognized as the gaming session for which the cards were purchased occurs. MegaMania revenues are recorded net of prizes awarded.

From April 1994 to December 1994, the Company principally derived its revenue under a services agreement (the "AGE Services Agreement") to operate the MegaBingo and MegaCash games for American Gaming and Entertainment ("AGE"). Such revenues consisted of a fee equal to 95% of the net operating cash flow generated in the conduct of such games and payments to the Company for expenses incurred by the Company in the course of operating such bingo activities. These revenues were recorded as the cash flow was generated and as the expenses were incurred, respectively.

Revenues from the sale of electronic player stations is recorded when the units are delivered to the purchaser. Lease revenues from the lease of the MegaMania player stations, which are generally based on a percentage of revenue generated by the player stations, are reflected in other revenue and recognized as the revenues are generated by the player stations.

Project development revenue relates to amounts paid to the Company for Internet development activities undertaken for Graff Pay-Per-View, Inc. (See Note 3).

Revenues related to certain intellectual property sold to Graff were recognized when the related documentation evidencing the transfer of the Company's ownership rights was executed.





IMPACT OF FINANCIAL ACCOUNTING PRONOUNCEMENTS - In March 1995, Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of," was issued. The statement establishes accounting standards for the impairment of long-lived assets, such as property and equipment and intangibles. The Company does not believe the new standard will significantly impact its financial statement evaluation of impairment of long-lived assets.

In October 1995, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" was issued. The statement requires the computation of compensation for grants of stock, stock options and other equity instruments issued to employees based on fair value. The compensation calculated is to be either recorded as an expense in the financial statements or, alternatively, disclosed. The Company anticipates it will elect the disclosure method of complying with the new standard. Under existing accounting rules, the Company's stock option grants have not resulted in compensation expense. Accordingly, under the provisions of the new statement, pro forma net income to be disclosed may be lower than net income reported in the financial statements.

These pronouncements will be effective for the Company in fiscal 1997.

2. MEGABINGO TRANSACTIONS

In December 1993, MBI entered into an Asset Purchase Agreement with AGE to purchase substantially all of the assets used by AGE in its bingo gaming activities (the "AGE Assets"), including the assets used in the conduct of the MegaBingo and MegaCash games but excluding the Integrated Services Agreements between AGE and various Indian tribes (the "AGE Contracts"). At the same time, MBI purchased for $100,000 an option to enter into the AGE Services Agreement to provide AGE, on an exclusive basis, the services required by AGE to conduct its bingo activities pursuant to the AGE Contracts.

On April 15, 1994, MBI exercised its option and entered into the AGE Services Agreement. On December 23, 1994, MBI purchased the AGE Assets pursuant to the AGE Asset Purchase Agreement for a purchase price consisting of cash and notes aggregating $1.8 million, plus the assumption of certain specified liabilities of AGE. The notes were paid in 1995 out of the proceeds of bank debt and the issuance of preferred





stock by the Company, at which time the fee payable under the AGE Services Agreement increased to 100% of the net cash flow generated by the AGE Contracts retained by AGE plus expenses.

The AGE Services Agreement expires on April 15, 1997, subject to extension by MBI for an additional two years if MBI has not, in its own name, entered into Integrated Services Agreements with tribes accounting for 90% or more of the aggregate gross player attendance in AGE's bingo operations as of April 15, 1994. As of September 30, 1996, MBI had not entered into Integrated Services Agreements with tribes accounting for 90% of such gross player attendance and anticipates exercising its option to extend the AGE Services Agreement for an additional two years.

Service fees for the period October 1, 1994 to December 22, 1994 amounted to $669,000 which included $132,000 representing MBI's share of cash flow and $537,000 in payments to MBI by AGE for associated expenses. Since December 23, 1994, the acquisition date, the revenues and expenses of the MegaBingo Games have been reflected in the financial statements at their gross amounts and not netted and recorded as a services fee.

Virtually all of the Company's revenues are derived from the Integrated Services Agreements with various tribes. The Company, in its name and in the name of AGE, has written agreements with approximately 50 American Indian tribes that provide the Company with the exclusive right to conduct bingo operations on their respective Indian lands. Approximately 20 of these agreements were renewed for five (5) year terms in 1995 and half of the remaining contracts have unexpired terms of between two and three years. The remaining contracts are being continued on a month to month basis pending negotiations.

Approximately 43% and 39% of revenues (inclusive of MegaBingo and MegaMania revenues) during the years ended September 30, 1996 and 1995, respectively, were derived from halls operated by four tribes, including 22% and 11% derived from two tribes in 1996.

3. GRAFF TRANSACTIONS

In July 1995, the Company entered into a series of agreements (the

"Agreements") with Graff Pay-Per-View ("Graff") in which Graff purchased a 33% interest in certain previously developed intellectual property from the Company for $500,000. The





$500,000 was paid in the form of a note payable to the Company which bore interest at 8% and was payable over three years.

Pursuant to the Agreements, the Company and Graff each contributed their ownership interests in the intellectual property to a joint venture, American Gaming Network, JV. ("AGN JV"). AGN JV was established to pursue the development of gaming opportunities over the Internet.

In addition, Graff agreed to pay the Company an additional $450,000 to develop a business plan for AGN JV and design certain new products for use on the Internet. At September 30, 1995, the Company's development efforts were substantially complete, and it therefore recognized the entire amount as revenue in fiscal year 1995. At September 30, 1995, $375,000 had been received under such provisions, and $75,000 was due July 31, 1996.

Graff also purchased 100,000 shares of the Company's common stock for $2.75 per share. The $275,000 purchase price was paid in the form of a note, of which $75,000 was paid prior to September 30, 1995. The remaining $200,000 was due August 1, 1996 and was shown as a reduction of equity. In connection with the above transactions, Graff was granted a warrant to acquire 175,000 shares of the Company's common stock at $2.50 per share. The Company subsequently reduced the exercise price of such warrant to $2.25 per share and upon exercise of the warrant by the payment of cash, the Company granted an additional 175,000 warrants to Graff which are exercisable at $3.50 per share and remain unexercised.

Pursuant to the Agreements, Graff was to provide the needed capital to finance AGN JV. During 1996, Graff indicated that it did not intend to provide further funding for AGN JV and that it wanted a third party to assume its contractual obligations to AGN JV and the Company. Although not obligated to do so, because of the decision by Graff not to further fund the efforts of AGN JV, the Company provided approximately $336,000 to AGN JV for development activities which are to be reimbursed to the Company by AGN JV.

At June 30, 1996, Graff was indebted to the Company for a total of approximately $800,000, $200,000 of which was presented as a direct reduction of equity at June 30, 1996. Additionally, Graff owned 275,000 shares of the Company's common stock and held warrants to purchase an additional 175,000 shares of common stock at $3.50 per share.





In July 1996, the Company entered into an agreement with Graff whereby the Company accepted the 275,000 shares of the Company's common stock

owned by Graff as payment for amounts owed by Graff to the Company ($808,000 at the time). Additionally, Graff's interest in AGN was acquired for $100,000 in cash and a note for $400,000 (the $400,000 Graff Note") payable in three years by a new entity ("AGN Venturers LLC") established by the Company. Graff retained its 175,000 warrants. Contemporaneously, the Company sold AGN Venturers LLC to a group of investors ("Investors"), one of which is a related party who acquired 10% of AGN Venturers LLC, for $100,000, an agreement of the Investors to contribute $400,000 to AGN JV and a several Investor guarantee of AGN JV's note payable to the Company in the amount of $336,000. The $336,000 note payable by AGN JV to the Company is in reimbursement of amounts advanced by the Company as described above. At September 30, 1996, $99,000 of the proceeds from the Investors which was deposited to the accounts of the Company had not been transferred to AGN JV's bank account.

Simultaneously with the sale of AGN Venturers LLC, the Company and the Investors entered into a put and call agreement pursuant to which, during a one year window commencing in August 1997, the Investors can put AGN Venturers LLC's interest in AGN JV to the Company for 278,666 shares of the Company's common stock plus a number of common shares equal to the principal paid on the $400,000 Graff Note divided by three. Under the call provisions of the agreement, the Company can, during such one year window period, call one-half of AGN Venturers LLC's interest in AGN JV for 278,666 shares of the Company's common stock plus a number of common shares equal to the principal paid on the $400,000 Graff note divided by three. As of the date of these financial statements, management of the Company cannot determine what specific value, if any, should be assigned to the put and call agreement, but believes such value is not significant. Accordingly, no amounts have been recorded in the financial statements related to the put and call agreement.

Also in July 1996, the Company entered into agreements with two investors whereby each investor purchased 125,000 of the shares of common stock previously owned by Graff for $2.75 per share. Notes were issued to the Company for the purchase price of the stock bearing interest at 10.5% and payable in one year. The notes receivable will be shown as a reduction of equity until such time as the notes are collected.





4. DISTRIBUTION AND LICENSING AGREEMENT WITH NETWORK GAMING

In December 1995, the Company entered into distribution and licensing agreements with Network Gaming International Corporation (formerly AI Software, Inc.; "Network Gaming"), a company with its principal offices located in Vancouver, British Colombia.

For $500,000, Network Gaming purchased and was appointed the exclusive distributor of the Company's MegaBingo and MegaCash systems and other game software for use in Canada and China. The revenue from the sale of the license agreement is reflected as other revenue in the accompanying financial statements.

The Company purchased (for $500,000) and was appointed the exclusive distributor of all Network Gaming bingo and other game software, including future games that are being developed or will be developed, for use in the United States of America Native Indian market, including the "off reservation" market, and the State of Texas. The cost of the license is reflected in property and equipment and is being amortized over five years, the term of the agreement.

5. PROPERTY AND EQUIPMENT

At September 30, 1996, the Company's property and equipment consisted of the following:

<TABLE>

| <S> | <C> |
|---|---|
| Gaming and satellite equipment | $ 2,158,000 |
| Software costs | 1,103,000 |
| Other | 58,000 |
| Total property and equipment | 3,319,000 |
| Less accumulated depreciation | (703,000) |
| Property and equipment, net | $ 2,616,000 |

</TABLE>

Depreciation expense amounted to $479,000 and $229,000 during the years ended September 30, 1996 and 1995, respectively. The net book value of capitalized software cost at September 30, 1996, was $901,000. Depreciation expense related to software cost amounted to $159,000 and $4,000 during the years ended September 30, 1996 and 1995, respectively.





6. NOTES PAYABLE

Notes payable consist of the Company's outstanding borrowings on its revolving line of credit with its financial institution and $800,000 in Bridge Debt. The revolving line of credit is in the amount of $100,000, under which there were $50,000 in outstanding borrowings at September 30, 1996. The revolving line of credit bears interest at Chase Manhattan Bank N.A. prime rate (8 1/4% at September 30, 1996) plus 1/2% and matures on August 15, 1997. Interest is payable monthly.

In August 1996, Bridge Debt was raised in anticipation of the Company's private placement of equity securities which was completed in November 1996 (the "November Placement"). The Bridge Debt bears interest at 10.5%, is due in one year and is mandatorily redeemable from the proceeds of the November Placement. (see Note 9). In connection with the Bridge Debt, redeemable warrants representing the right to purchase 173,310 common shares were issued to the placement agent and 360,000 redeemable warrants were issued to the purchasers of the Bridge Debt (collectively, the "Bridge Warrants"). Each Bridge Warrant represents the right to purchase one share of common stock at $8.00 per share (subject to adjustments) and has identical terms as the warrants issued in the November Placement. The value assigned to the Bridge Warrants as well as the remainder of the Bridge Debt issuance costs have been treated as an adjustment to the effective interest rate of the Bridge Debt. Approximately $84,000 in interest cost was recognized during 1996 related to the value of the Bridge Warrants and issuance costs and an additional $28,000 will be recognized in the first quarter of fiscal 1997. The Bridge Debt was converted into common stock and warrants in connection with the November Placement and therefore has been reflected as long-term notes payable in the accompanying consolidated balance sheet.

7. LONG-TERM DEBT

In August 1995, the Company entered into a Revolving Credit and Term

Loan Agreement (the "Credit Agreement"), which as amended, provided for a term loan in the amount of $837,000 and a revolving line of credit discussed in Note 6 above. The proceeds of the original loan along with 12,500 shares of the Company's Series A preferred stock were used to satisfy debt incurred in the purchase of the AGE Assets (see Note 2). Principal of $9,510 and interest are payable monthly until October 31, 1998, at which time all outstanding principal and interest are due. The interest rate is the Chase Manhattan Bank, N.A. prime rate plus 1/2%.





The term loan is collateralized by substantially all of the tangible and intangible assets of Multimedia Games, Inc. and MBI. The debt is also guaranteed by the Company's Chairman/Chief Executive Officer. The Credit Agreement contains covenants which, among other things, require the Company to maintain a minimum net worth, debt service coverage ratio and gross gaming revenues, all as defined by the Credit Agreement.

The remainder of long-term debt consists primarily of debt used to finance the purchase of electronic gaming player station components. The debts are due in monthly payments plus interest at approximately 12%. The debts are collateralized by the equipment purchased and to the extent of approximately $100,000, are guaranteed by the Company's Chairman/Chief Executive Officer. Subsequent to year end, approximately $120,000 was borrowed under similar terms, but without a guarantee.

Based upon the borrowing rates currently available to the Company for bank borrowings with similar terms, the Company believes that the carrying amount of these borrowings at September 30, 1996, approximates fair value.

At September 30, 1996, aggregate future maturities of long-term debt are as follows: 1997 - $197,000; 1998 - $195,000 and 1999 - $592,000.

8. INCOME TAXES

The provision for income taxes (benefit) consisted of the following for the years ended September 30, 1996 and 1995:

<TABLE>
<CAPTION>

| <S> | 1996 <C> | 1995 <C> |
|---|---|---|
| Current: | | |
| Federal | $ 32,000 | $ 204,000 |
| State | 5,000 | 32,000 |
| Deferred | (37,000) | (236,000) |
| Net income tax expense | $ -- | $ -- |

</TABLE>

A reconciliation of the expected income tax expense based upon the federal statutory rate of 34% and the taxes reflected in tax expense is as follows for the years ended September 30, 1996 and 1995:

<TABLE>
<CAPTION>

| <S> | 1996 <C> | 1995 <C> |
|---|---|---|
| Expected federal income tax expense | $ 14,000 | $ 171,000 |
| State tax expense | 1,000 | 21,000 |
| Nondeductible meals | 13,000 | 10,000 |
| Use of net operating losses for which valuation allowances existed | (28,000) | (202,000) |
| Net income tax expense | $ -- | $ -- |

</TABLE>





Differences between the book value and the tax basis of the Company's assets and liabilities and net operating losses results in deferred tax assets and liabilities as follows:

<TABLE>
<CAPTION>

| <S> | 1996 <C> | 1995 <C> |
|---|---|---|
| Deferred tax asset - current: | | |
| Accounts receivable allowance | $ 29,000 | $ 21,000 |
| Vacation accrued | 23,000 | 19,000 |
| Valuation allowance | (52,000) | (40,000) |
| Net current deferred taxes | $ -- | $ -- |
| Deferred tax asset - noncurrent: | | |
| Net operating losses | $ 749,000 | $ 787,000 |
| Deferred tax liability - noncurrent | | |
| Goodwill | (6,000) | (3,000) |
| | 743,000 | 784,000 |
| Valuation Allowance | (743,000) | (784,000) |
| Net noncurrent deferred taxes | $ -- | $ -- |

</TABLE>

In spite of the generation of profits in the past two years, the Company

has provided a valuation allowance for all deferred tax assets in excess of deferred tax liabilities due to the lack of historical operational profitability and the number of new products/ventures in which the Company is involved.

At September 30, 1996, the Company's operating loss carryforward for income tax purposes was approximately $1,972,000. Because of the private placement of equity in November 1996, the Company's use of its net operating loss carryforwards will be limited to approximately $800,000 in any one taxable year. The Company's net operating loss carryforwards expire $573,000 in 2008 and $1,399,000 in 2009.





9. STOCKHOLDERS' EQUITY

Series A Preferred Stock

During fiscal year 1995, the Company's stockholders voted to amend the Company's articles of incorporation to provide for the issuance of up to 2,000,000 shares of preferred stock in series as defined by the Board of Directors. In January 1995, the Board of Directors approved a Series A preferred stock which is cumulative, voting and has a par value of $.01 per share. The Series A preferred stock is subject to redemption at the election of the Company for $10 per share.

In February 1995, holders of certain outstanding debt of the Company elected to convert the indebtedness into 106,476 shares of the Series A preferred stock and 5,841 shares of the Series A preferred stock were issued in satisfaction of amounts owed for professional services. Additionally in 1995, 12,500 shares of the Series A preferred stock were issued in satisfaction of $125,000 principal amount of MBI's promissory notes issued to AGE in connection with the purchase of the AGE Assets. In late 1995, an additional 11,501 shares of Series A preferred stock were issued for cash and in satisfaction of outstanding indebtedness. During 1996, 2,000 outstanding Series A preferred shares were canceled in exchange for a combination of the cancellation of amounts owed to the Company and cash.

Beginning in January 1997, the Series A preferred stock is convertible into common stock at the rate of five shares of common for one share of Series A preferred stock. Based on the number of shares of Series A preferred stock outstanding at September 30, 1996, an additional 671,590 shares of common stock would be issued if a full conversion were to occur. Of the Series A preferred stock outstanding, 80,175 shares (convertible into 400,875 common shares) are owned by or under the control of the Company's Chairman/Chief Executive Officer.

The Series A preferred stock has a liquidation preference over the Company's common stock equal to $10 per share of Series A preferred stock, or $1,343,000 in the aggregate at September 30, 1996. The holders of the Series A preferred stock are entitled to a cumulative preferred dividend, payable quarterly, at the rate of $1.10 per share per annum. In the event the Company remains in arrears for more than two quarters,

holders of the Series A preferred stock voting as a class are entitled to elect a majority of the Company's Board of Directors.

Common Stock

In February and March 1996, the Company completed a private placement (the "March Placement") of 589,375 shares of its common stock at a price of $2.00 per share, including 39,875 shares issued to the placement agent. The March Placement generated net proceeds after offering costs of approximately $949,000. The shares sold were subject to a provision in a registration rights agreement which required the Company to issue 1/10th of a share for each share originally issued in the March Placement for each 90 day period after the closing date that the Company has failed to file a registration statement with the SEC. Because of the pending offering of Bridge Debt and the November Placement, the Company was unable to file the registration statement until November 1996, and accordingly an additional 110,000 shares were issued pursuant to this provision.

Concurrently with the March Placement, the Board of Directors authorized the exercise by the Company's Chairman/Chief Executive Officer of previously issued common stock purchase warrants to acquire 291,545 shares of the Company's common stock at $2.00 per share. Such exercise was accomplished by the issuance to the Company of a note bearing interest at 6% and due in five years. The purpose of this exercise at this time was to maintain current ownership levels in the Company's common stock in order to avoid a change in ownership for tax purposes which could limit the amount of net operating losses available in any future annual period to offset taxable income of the Company.

In November 1996, the Company completed a private placement of approximately 1.2 million shares of the Company's common stock for $3.00 per share. Each of the 1.2 million shares sold was accompanied by a redeemable warrant to purchase an additional share of the Company's common stock for $8 (a "Redeemable Warrant"). After nine months, each Redeemable Warrant may be called by the Company for $.10 when the closing bid price of the Company's common stock has been at least $12.00 for 20 consecutive trading days. Redeemable Warrants totaling 350,000 were granted to the placement agent in connection with the November Placement. Proceeds from the November Placement (which included the conversion of the Bridge Debt discussed below) are intended to finance the expansion of the Company's MegaMania network. The proforma effects of the November Placement have been reflected on the





consolidated balance sheet under the heading "proforma" as though the November Placement had been completed as of September 30, 1996.

The November Placement was preceded by a private placement of bridge debt financing in the amount of $800,000 (the "Bridge Debt") which was completed in early August 1996. Redeemable Warrants representing 360,000 shares accompanied the Bridge Debt and an additional 173,310 Redeemable Warrants were granted to the placement agent. The Bridge Debt was converted into common stock and Redeemable Warrants in connection with the completion of the November Placement.

Common Stock Warrants

In connection with past financing arrangements and as compensation for

consulting and professional services, the Company has issued warrants to purchase its common stock. The following tables summarize such warrant activity for 1996 and 1995:



1995 ACTIVITY:

<TABLE>
<CAPTION>

| Exercise Price Per Share | Expiration Date | Number of Warrants Outstanding October 1, 1994 | Granted | Exercised | Expired/ Canceled | Number of Warrants Outstanding September 30, 1995 |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| $1.00 | Dec 94-Oct 95 | 16,000 | - | - | 10,000 | 6,000 |
| $1.40 - 1.50 | Jul 95-Dec 95 | 106,000 | 13,000 | 85,667 | - | 33,333 |
| $2.00 | Sep 97-Jan 98 | 7,273 | 387,177 | - | - | 394,450 |
| $2.50 | Mar 2000 | - | 185,000 | 175,000 | - | 10,000 |
| $2.75 | May 97-Jul 97 | 470,942 | - | - | 387,177 | 83,765 |
| $3.50 | Jul 2000 | - | 175,000 | - | - | 175,000 |
| $4.00 | Jul 2000 | - | 18,750 | - | - | 18,750 |
| $6.60 | Jul 98 | 23,550 | - | - | - | 23,550 |
| | | 623,765 | 778,927 | 260,667 | 397,177 | 744,848 |

</TABLE>

1996 ACTIVITY:

<TABLE>
<CAPTION>

| Exercise Price Per Share | Expiration Date | Number of Warrants Outstanding October 1, 1995 | Granted | Exercised | Expired/ Canceled | Number of Warrants Outstanding September 30, 1996 |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| $1.00 | Oct 95 | 6,000 | - | 6,000 | - | - |
| $1.50 | Oct 95-Dec 95 | 33,333 | - | 13,332 | 20,001 | - |
| $2.00 | Sep 97-Jan 98 | 394,450 | - | 291,545 | - | 102,905 |
| $2.50 | Mar 2000 | 10,000 | - | - | - | 10,000 |
| $2.75 | May 97-Jul 97 | 83,765 | - | 9,000 | - | 74,765 |
| $3.50 | Jul 2000 | 175,000 | - | - | - | 175,000 |
| $4.00 | Jul 2000 | 18,750 | - | - | - | 18,750 |
| $6.60 | Jul 98 | 23,550 | - | - | - | 23,550 |
| $8.00 | Aug 2001 | - | 533,310 | - | - | 533,310 |
| | | 744,848 | 533,310 | 319,877 | 20,001 | 938,280 |

</TABLE>

Other than with respect to the $8.00 warrants, which are not exercisable until August 1997, all of the above warrants are currently exercisable.

10. STOCK OPTION AND EMPLOYEE BENEFIT PLANS

During fiscal year 1993, the Company's Board of Directors approved a Salaried Employee Participation Plan (the "1993 Plan") and reserved an aggregate of 200,000 shares of common stock to be issued thereunder. Options issued under the 1993 Plan vest ratably over a five-year period from the date of grant. No further grants of options will be made under the 1993 Plan.

In November 1994, the stockholders of the Company approved the Company's 1994 Director Stock Option Plan (the "Director Plan") and the Company's 1994 Employee Stock Option Plan (the "1994 Employee Plan") previously adopted by the Board of Directors, pursuant to which 60,000 shares and 360,000 shares, respectively, of the Company's common stock were reserved for issuance. No further grants of options will be made under either the Director Plan or the 1994 Employee Plan.

In August 1996, the Board of Directors of the Company approved the 1996 Stock Incentive Plan (the "1996 Plan"). Under the 1996 Plan, various stock based incentive awards may be made including incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance shares or deferred stock purchases. The total number of shares of common stock or common stock equivalents that may be issued under the 1996 Plan is 274,320 plus an amount equal to 10% of the number of shares of common stock issued by the Company after August 15, 1996 and prior to December 31, 2000. As a result of the shares of common stock issued in the November Placement, a total of 403,000 shares of common stock or common stock equivalents were available for grant under the 1996 Plan. The Company has agreed with the placement agent of its November Placement that it will not grant options under the 1996 Plan to purchase more than 200,000 shares during the one year period ending July 24, 1997, or more than 100,000 shares during each of the three one year periods thereafter. In order to have grants made which qualify as incentive stock options, the 1996 Plan must be approved by the Company's stockholders before August 1997.



The activity relating to stock option issuances under the above plans are as follows for each of the two years ending September 30, 1996:

1995 ACTIVITY:

<TABLE>
<CAPTION>

| Exercise Price Per Share | Expiration Date | Number of Options Outstanding October 1, 1994 | Granted | Exercised/ Expired/ Canceled | Number of Options Outstanding September 30, 1995 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| 1993 PLAN: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| $1.50 | Oct 97 | 65,000 | - | 20,000 | 45,000 |
| 1994 DIRECTOR PLAN: | | | | | |
| $2.50 | Jul 2004 | 40,000 | - | - | 40,000 |
| 1994 EMPL-OYEE PLAN | | | | | |
| $2.00 | Mar 2005 | - | 91,000 | - | 91,000 |
| $2.50 | Jul 2004 | 130,000 | - | - | 130,000 |
| $2.75 | Jul 2005 | - | 24,500 | - | 24,500 |
| | | 235,000 | 115,500 | 20,000 | 330,500 |

</TABLE>





1996 ACTIVITY:

<TABLE>
<CAPTION>

| Exercise Price Per Share | Expiration Date | Number of Options Outstanding October 1, 1995 | Granted | Exercised/ Expired/ Canceled | Number of Options Outstanding September 30, 1996 | Exercisable September 30, 1996 |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| 1993 PLAN: | | | | | | |
| $1.50 | Oct 97 | 45,000 | - | - | 45,000 | 27,000 |
| 1994 DIRECTOR PLAN: | | | | | | |
| $2.50 | Jul 2004 | 40,000 | - | - | 40,000 | 26,668 |
| 1994 EMPL-OYEE PLAN | | | | | | |
| $2.00 | Mar 2005 | 91,000 | | 35,000 | 56,000 | 14,000 |
| $2.50 | Jul 2004 | 130,000 | | 10,000 | 120,000 | 60,000 |
| $2.50 | Feb 2006 | - | 75,000 | - | 75,000 | - |
| $2.75 | Jul 2005 | 24,500 | - | 9,500 | 15,000 | 3,750 |
| $3.00 | Oct 2005 | - | 60,000 | 60,000 | - | - |
| $4.00 | Apr 2006 | - | 26,000 | 7,000 | 19,000 | - |
| | | 330,500 | 161,000 | 121,500 | 370,000 | 131,418 |

</TABLE>

Subsequent to September 30, 1996, the Company's Board of Directors granted 162,500 options to employees throughout the Company pursuant to the 1996 Plan. The options vest ratably over a four year period, are exercisable at a price of $4.375 per share and expire ten years from the date of grant. The Company expects to continue to issue stock options to new employees as they are hired and to current employees as incentives from time to time.

During 1994, the Company established an employee savings plan pursuant to Section 401(K) of the Internal Revenue Code. The plan provides for the employees to make tax deferred deposits into the plan to the extent of 6% of their annual base compensation. The Company matches half of

the allowed employee contributions and such Company contributions amounted to $34,000 and $21,000 for the years ended September 30, 1996 and 1995.





11. COMMITMENTS AND CONTINGENCIES

Pending Investigation

On October 16, 1996, the Company was advised by the Office of the U.S. Attorney in Tulsa, Oklahoma (the "U.S. Attorney") that the Company was part of a criminal investigation to determine whether, in the opinion of the U.S Attorney, the Company's MegaMania bingo game constituted Class II or Class III gaming, as defined by the Indian Gaming Regulatory Act of 1988 (the "Gaming Act"). MegaMania has been designed and is operated as a Class II game within the definition of bingo set forth in the Gaming Act. In a written opinion dated July 10, 1996, the Company was informed by the National Indian Gaming Commission ("NIGC"), of the NIGC's determination that MegaMania constituted a Class II game. The Company has relied on the NIGC's opinion in conducting its operations and believes that the NIGC made its determination with a complete and accurate understanding of the facts and the applicable law. The Company is unaware of any circumstances that would have caused the investigation by the U.S. Attorney or on what basis the U.S. Attorney could conclude that MegaMania is not a Class II game.

No assurances can be given that the U.S. Attorney will not conclude that MegaMania is Class III gaming. If the U.S. Attorney does reach such a conclusion, the Company intends to vigorously defend its position that MegaMania is a Class II game. No assurances can be given that the Company will be successful on the merits. If MegaMania is ultimately determined to be Class III gaming, the loss of the MegaMania business would have a material adverse effect upon the Company's financial condition and results of operation.

Litigation

The Company is a party to various lawsuits and claims arising out of the ordinary course of its business. No accrual for potential loss has been made in the accompanying financial statements as management does not believe that the likelihood of a material loss is probable at this time.

Prize Fulfillment Firm

In order to reduce the need for prize reserve account funds and to further reduce exposure to game deficits during periods of abnormally high rates of jackpot prize wins,





MBI has engaged a related party firm specializing in prize fulfillment services to pay jackpot prizes won during the term of a prize fulfillment agreement. The prize fulfillment agreement specifies a

maximum cumulative liability over the term of the contract, in exchange for fees based on gross game receipts. Prize fulfillment premiums amounted to $3,041,000 and $3,278,000 for the years ended September 30, 1996 and 1995, respectively. The current arrangements with such firm expire on February 28, 1997 and are currently being negotiated for extension. There can be no assurance that the prize fulfillment agreement will be available at all or on commercially acceptable terms upon the expiration of the existing agreement.

Under the terms of the prize fulfillment agreement, the Company is reimbursed for prizes awarded at an amount equal to the present value for the jackpot prize payments less a deductible which is $15,000 per occurrence. These prize fulfillment funds are then utilized to satisfy the obligation to the jackpot prize winner through a lump-sum cash payment or the purchase of an annuity.

In those cases where the prize winner elects an annuity, the obligation has historically been discharged by purchasing annuity contracts from insurance companies rated by A.M. Best as A+, with the prize winner listed as the sole beneficiary. Purchased annuity contracts entered into by AGE prior to April 15, 1994, which provide for various insurance companies to make payments directly to prize winners over a specified period of time in the aggregate amount of approximately $7,808,000 are outstanding at September 30, 1996. The outstanding amounts include 23 annuity contracts aggregating approximately $6,168,000 which were purchased from an insurance carrier that is currently under an Order of Rehabilitation to the Michigan State Commissioner of Insurance. Under this Order, payments under all such contracts will continue until ordered otherwise by the State of Michigan. It is unknown at this time as to whether further court actions will result in reductions in amounts owed under these annuity contracts. There can be no assurance that this or any other insurance company responsible for outstanding annuities will continue to fulfill all their obligations under the annuity contracts.

The Company is not responsible for any obligations to prize winners prior to April 15, 1994, whether in lieu of annuities or in respect of shortfalls on annuities or otherwise (except for specifically assumed liabilities which amounted to approximately $84,000 at September 30, 1996). Further, the Company is not responsible for prize annuities awarded during the period April 15, 1994 through December 22, 1994, except as to the obligation to discharge obligations of the MegaBingo operations with the assets of the







MegaBingo operation and under the indemnification provisions of the AGE Services Agreement. The present value, at September 30, 1996, of the prize annuities awarded from April 15, 1994 to December 22, 1994, which are not reflected in the financial statements, amount to approximately $273,000. The present value of the prize annuities and market value of the related treasury investments at September 30, 1996 of prize annuities awarded subsequent to December 23, 1994 through September 30, 1996 was approximately $1,288,000, which has been reflected as restricted investments and other long-term liabilities in the accompanying financial statements.

Beginning in August of 1994, the Company began a policy of funding prize annuities with United States Treasury Bills with maturities which correspond to the due dates of the annuity payments. Under its arrangements with the prize fulfillment firm, the prize fulfillment firm purchases the treasury securities and administrates payments to the winners. The Company believes that this annuity payment structure will minimize the risk of annuity defaults on future prizes awarded.

Operating Leases

The Company leases its executive offices and other corporate offices under non-cancelable operating leases. Future minimum rentals by fiscal year under these arrangements are as follows:

<TABLE>

| <S> | <C> |
|---|---|
| 1997 | $107,000 |
| 1998 | 107,000 |
| 1999 | 104,000 |
| 2000 | 94,000 |
| 2001 | 94,000 |

</TABLE>

Rental expense during fiscal years 1996 and 1995 amounted to $117,000 and $68,000, respectively.

12. RELATED PARTY TRANSACTIONS

Of $1,266,000 of short-term debt issued in 1994, and converted into preferred stock in 1995, the Company's Chairman/Chief Executive Officer, president, prize fulfillment firm and a principal of the prize fulfillment firm purchased $802,000, $5,000, $126,000 and $126,000, respectively, and received warrants to purchase 291,545, 1,940, 45,682 and 45,682 shares of the Company's common stock at $2.75 per share, respectively. Each





of these four parties also elected to exchange such notes and warrants for Series A preferred stock and warrants to acquire shares of the Company's common stock at $2.00 per share. In connection with the exchange of the notes and warrants, the Company's Chairman/Chief Executive Officer, president, the prize fulfillment firm and a principal of the prize fulfillment firm received 80,175, 534, 12,563, and 12,563 shares of Series A preferred stock, respectively, and 291,545, 1,940, 45,682 and 45,682 warrants to acquire the Company's common stock at $2.00 per share, respectively. In connection with amounts loaned to the Company, the four received interest of $19,000, $0, $3,000 and $3,000, respectively, during fiscal year 1995. See also Notes 3, 9 and 11.

13. MEGAMANIA LEASES

The Company sells its electronic player stations to its customers for cash or through revenue sharing arrangements. Under the revenue sharing arrangements, a portion of the revenue from the player stations is paid to the Company until the sales price of the unit, plus interest, is recovered. Approximately $64,000 was received under such provisions during 1996 and is reflected within Other revenues in the accompanying Consolidated Statements of Operations. Outstanding principal under equipment sales pursuant to such revenue sharing arrangements amounted to $910,000 at September 30, 1996. Generally, title to the player stations transfers to the lessee at the end of the of the lease period. Revenue from the equipment sales earned pursuant to revenue sharing is recorded as revenue as it is earned because the Company generally must continue to operate the MegaMania network in order to realize the sales proceeds. There can be no assurance that the Company will realize the entire amount shown as outstanding at September 30, 1996, because customers could elect to remove the player stations prior to their being fully paid for or because the economic performance of the player stations at a particular location is not sufficient to amortize the principal of the revenue sharing obligation.

The cost and net book value at September 30, 1996 of MegaMania lease equipment amounted to $428,000 and $407,000, respectively. MegaMania lease equipment is depreciated over a three year period unless the rate of payments being received indicates transfer of title will occur to the lessee on a more rapid rate.





14. CONCENTRATIONS OF CREDIT RISK

The Company maintains its cash in bank deposit accounts which at times may exceed the federal depository insurance limits. As of September 30, 1996 and 1995, the Company had concentrations of cash in one bank totaling $1,397,000 and $1,468,000, respectively. The Company has not experienced any losses on such accounts in the past.

Accounts receivable represent short-term credit granted to the Company's clients for which collateral is generally not required. Substantially all of the Company's accounts receivable are from Native American Indian tribes or their gaming enterprises. Additionally, a large percentage of these tribes have their reservations and gaming operations in the state of Oklahoma. Despite the industry and geographic concentrations related to the Company's clients, due to the historical experience of the Company on receivable collections, management considers credit risk limited with respect to accounts receivable.





<TABLE>
<CAPTION>

| Exhibit No. | Title |
|---|---|
| <S> | <C> |
| 3.1 | Articles of Incorporation* |
| 3.2 | Bylaws* |
| 10.1 | Form of Integrated Services Agreement* |
| 10.2 | Contingent Grand Prize Risk Assumption Agreement dated October 1, 1995, between the Company and SCA Promotions, Inc. |
| 10.3 | Lease Agreement dated October 10, 1996, between the Company and Intervest-Southern Oaks LP |
| 10.4 | Form of 1992-3 Warrant Certificate Issued by the Company* |
| 10.5 | Form of 1995 Warrant Certificate Issued by the Company* |
| 10.6 | Form of Bridge Warrant |
| 10.7 | Form of Private Placement Warrant |
| 10.8 | Form of Bridge Note |
| 10.9 | Registration Rights Agreement dated January 23, 1995 between the Company and holders of 1994 Original Warrants* |
| 10.10 | Registration Rights Agreement dated January 23, 1995 between the |

| | |
|---|---|
| | Company and holders of 1995 Substitute Warrants* |
| 10.11 | Registration Rights Agreement among the Company and holders of Bridge Warrants and Private Placement Warrants |
| 10.12 | Stock Option Agreement dated October 24, 1992 between the Company and Larry Montgomery* |
| 10.13 | 1994 Employee Stock Option Plan* |
| 10.14 | 1994 Director Stock Option Plan* |
| 10.15 | 1996 Stock Incentive Plan |
| 10.16 | Unit Purchase Agreement dated August 14, 1996 between the Company and the AGN Investor Group |
| 10.17 | Right of first Refusal Agreement dated August 14, 1996 between the Company and the AGN Investor Group |



| | |
|---|---|
| 10.18 | Put/Call Agreement dated August 14, 1996 between the Company and AGN Venturer LLC |
| 10.19 | Registration Rights Agreement between the Company and AGN Venturer LLC |
| 10.20 | Limited Liability Company Agreement of AGN Venturer LLC |
| 10.21 | Limited Liability Company Agreement of American Gaming Network LLC |
| 10.22 | Certificate of Merger of American Gaming Network LP into American Gaming Network LLC |
| 10.23 | Form of Several Guaranty of AGN Investor Group |
| 10.24 | Purchase Agreement dated June 25, 1996 between the Company and Graff Pay-Per-View, Inc. ("Graff") |
| 10.25 | Registration Rights Agreement between the Company and Graff |
| 10.26 | Form of Stock Purchase Agreement between the Company and Frank J. Skelly, III and Craig Gross |
| 10.27 | Form of Registration Rights Agreement between the Company and Frank J. Skelly, III and Craig Gross |
| 10.28 | Placement Agency Agreement dated July 24, 1996 between the Company and Walsh, Manning Securities, Inc. |
| 10.29 | Placement Agency Agreement dated January 29, 1996 between the Company and G-V Capital Corp. |
| 11.1 | Earnings Per Share Statement |
| 21.1 | Subsidiaries of Registrant |
| 23.1 | Consent of Coopers & Lybrand L.L.P. |
| 24.1 | Power of Attorney (included on page 32) |
| 27.1 | Financial Data Schedule |

* Indicates incorporated by reference to the Company's Form 10-KSB filed with the Commission for the fiscal year ended September 30, 1994.

EXHIBIT 10.2

# GRAND PRIZE FULFILLMENT-AGREEMENT
## SCA Contract CC#1426

This Agreement is entered into as of the 1st day of October, 1995 by and between MegaBingo, Inc., an Oklahoma corporation with a principal place of business at 7335 S. Lewis, Suite 302, Tulsa, Oklahoma 74136 ("MEGABINGO") and SCA Promotions, Inc. a Texas corporation with a principal place of business at 8300 Douglas Avenue, Suite 625, Dallas, TX 75225 ("SCA").

## BACKGROUND

MegaBingo is in the business of providing technical, financial and other services for the conduct of lawful games of chance ("GAMES"). The Games that are covered by this Agreement are set forth on Exhibits hereto designated Exhibit A-1... n. MegaBingo has offered and may hereafter offer prizes in the Games ("GRAND PRIZES").

SCA is in the contingent prize risk assumption business for sweepstakes and other lawful promotions and games.

The parties hereto desire that SCA assume contingent prize risk on behalf of MegaBingo.

The parties hereto have determined to base their business relationship upon the following terms and conditions.

## TERMS AND CONDITIONS

1. Contract Terms.
   This Agreement shall apply to Grand Prizes won in Games conducted from October 1, 1995 through December 31, 1996. MegaBingo shall have the option to extend the term hereof for a period of 12 months by providing SCA notice of its exercise of such option to extend the term no later than October 31, 1996.



2. Prize Fulfillment Resources
   Upon commencement of this Agreement, SCA shall provide to MegaBingo prize fulfillment resources ("PRIZE FULFILLMENT RESOURCES") of not less than five hundred thousand ($500,000.00) by any combination of:
   a. Performance bond
   b. Mutually acceptable escrow arrangement.

3 . Game Schedules.

Schedules for each of the Games are, and with respect to Games devised after the date hereof, may from time to time hereafter be, executed by MegaBingo and SEA and attached hereto or incorporated herein by reference to this Agreement and designated Exhibit Al ... A-n. . Each of the Games Schedules shall set forth and the corresponding card, ticket or play price (the "CARD PRICE"), the amount of the Grand Prize ("GRAND PRIZE AMOUNT"), the odds of winning the particular game ("GAME ODDS"), the expected payout per entry ("EP"), the amount of each Grand Prize that SEA is required to reimburse (the "FULFILLMENT LEVEL"), the deductible amount paid by MegaBingo (the "DEDUCTIBLE") and the compensation to be paid to SEA with respect to such Game ("SEA COMPENSATION").

The standards to which the applicable Game must conform (the "GAME STANDARDS"), additional conditions to payment of the Grand PRIZES by SEA (the "PRIZE FULFILLMENT CONDITIONS"), the provisions by which MegaBingo notifies SEA of a Grand Prize win and verifies its authenticity (the "NOTIFICATION AND VERIFICATION PROVISIONS") are set forth in Exhibit B attached hereto.

4. Restrictions on SEA's Liability.
Anything herein to the contrary notwithstanding, in no event shall SCA be obligated to a liability of more than $2,500,000.00 over and above the compensation paid SCA by MegaBingo. If and/or when the net liability reaches $2,500,000.00, SCA must notify MegaBingo whether they intend to continue coverage for the games. If not, then MegaBingo is free to obtain other prize fulfillment coverage. SCA has thirty days from the day the net liability reaches $2,500,000 to notify MegaBingo of its intentions. SCA will give MegaBingo at least thirty days notice of cancellation.

5. SCA's Compensation.
MegaBingo shall pay SCA's Compensation v,,within fifteen (15) days for the monthly periods of the 1st through the last day of each month (each such monthly period is hereinafter referred to as a "PERIOD").



3

Any fees payable that are not paid within thirty (30) days of when due shall bear interest at ' the lesser of twelve percent (12%) per annum or the maximum rate allowable under applicable law thereafter until paid.

6. Reporting.

MegaBingo shall provide SCA with daily report of the results of each Game played the prior day ("GAME REPORTS").

7. SCA charges l be based on the installment values of prizes payable. In the event Wheel Spin participant elects cash option then the savings in prize cost shall be divided equally between MegaBingo and SCA.

8. Grand Prize Annual Payments.
At MegaBingo's request, SCA will agree to pay a Grand Prize winner directly. SCA will provide a contract with MegaBingo to pay the winner directly ("Prize Winner Payment Contract"), the form of which is shown in Exhibit C. SCA will also indemnify MegaBingo ("Indemnification") against claims arising from SCA's failure to pay the winner under the Prize Winner Payment Contract, the form of which is shown in Exhibit D. The Indemnification will be guaranteed by an account on deposit with an institution such as Merrill Lynch. A pledge agreement which establishes the guarantee, will be established by SCA thin 30 days of providing the Indemnification. The Pledge Agreement is shown as part of Exhibit E.

9. Disputes.
MegaBingo and SCA agree the resolution of all disputes hereunder shall be by binding arbitration pursuant to the Texas General Arbitration Act. The site of said arbitration shall be in Dallas, Texas.

10. Notices.
Except for specific Prize Notification provisions set forth in the applicable Game Schedule, all notices shall be made in writing to the parties' addresses first set for-the above.

WHEREFORE, the undersigned have executed this Agreement by their duly authorized representatives as of the day and year first above written.



4

MEGABINGO INC.

By:

Title:

SCA PROMOTIONS, INC.

By:

Title:



Exhibit A

Covered Games



Exhibit B

GAME STANDARDS AND CONDITIONS

I. Game Standards

The Games shall be conducted by MegaBingo Inc. on various Indian reservations throughout the United States. The Games will be conducted in compliance with the customary rules of Bingo, except as otherwise specified herein.

All game faces on bingo cards used in the Games shall measure 5 columns x 5 lines. Each column shall contain 5 numbers, with numbers ranging from 1 to 15- for the first column which shall be referred to as the B column, 16 to 30 for the second column which shall be referred to as the I Column and so on until the highest available number for column 5, which shall be referred to as the 0 column is 75. The center square on each card shall not contain a number and shall be deemed covered in all Games. There shall be no repetition of numbers on any game face on any individual card.

Each card sold for the Games will have an individual identification number (the Master Control Number), with each card being assigned a specific and unique set of numbers (as described above) by a formula. The identification number of each card sold (and the algorithm that relates the identification number to its set of numbers) will reside into a central computer prior to commencement of a Game. All calls made during the Games will be entered into that computer. MegaBingo shall notify SCA of the serial number (and a method of relating that serial number to an identification number) for

each card sold prior to beginning the Games and it shall make a record showing the calls made during the Games available to SCA for its confirmation-nation procedure. Notification to a mutually acceptable third party shall constitute notice to SCA. SCA agrees not to disclose this information to any third party or to use this information for any purpose other than to verify or validate winners.

Each session shall not exceed two (2) hours in duration. Each session will be transmitted by satellite to the participating bingo halls. MegaBingo will advise SCA which halls will be participating in the Games prior to Games start-up and will advise SCA of any changes in this information as halls are added or deleted.

MegaBingo shall provide all reasonable and necessary security measures to insure the secrecy of the relationship between the Game card identification numbers and the set of numbers on the faces of each card.



7

Employees of MegaBingo, advertising agencies and promotional companies involved in the Games and their immediate families (spouse and dependent children), agents, successors, and assignees shall be ineligible to participate in the Games and shall not be eligible for any prize covered herein. The parties hereto acknowledge, that SCA is not liable for any prize fulfillment to Game participants in violation of this term.

MegaBingo warrants that the Games shall be implemented only where it (and the procedures specified in this Exhibit) are lawful. In the event the actual conditions of the Games are materially different from those represented by MegaBingo, this Contract shall be null and void unless such changes are made with the express written consent of SCA.

Bingo Card Generation

The cards used in the Games must comply with the following generation specifications. Any modifications or deviations from same are subject to approval by SCA prior to use.

A card shall have up to four game faces, each consisting of five (5) columns by five (5) rows. Each of the twenty-five (25) resulting cells contains a unique number in the range of 1 to 75 inclusive, except for the center cell which is a wild card or conceded cell. The card is further limited by specifying that each column contains a restricted range of numbers as follows:

<TABLE>

<CAPTION>

| Column | Column | Low | High# |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| B | 1 | 1 | 15 |
| I | 2 | 16 | 30 |
| N | 3 | 31 | 45 |
| G | 4 | 46 | 60 |
| O | 5 | 61 | 75 |

</TABLE>

The possible combinations for each of Columns B,I,G,O are three thousand three (3,003) = ( 15! ) / ( 10! 5! ).

The possible combinations for Column N are (1,365) = (15!) / ( 11! 4! ).

Each of the 3,003 combinations is numbered in sequence using a procedure similar to the following:





<TABLE>
<CAPTION>

| Combination #1 Column B | Combination #3003 Column B |
|---|---|
| <S> | <C> |
| 1 | 11 |
| 2 | 12 |
| 3 | 13 |
| 4 | 14 |
| 5 | 15 |

</TABLE>

Each possible Column B combination is assigned a unique number.

Each of the first 1,365 combinations of the N Column is numbered using a procedure similar to the following:

<TABLE>
<CAPTION>

| Combination #1 Column N | Combination #1365 Column N |
|---|---|
| <S> | <C> |
| 31 | 42 |
| 32 | 43 |

| | | | |
|---|---|---|---|
| | 33 | | 44 |
| | 34 | | 45 |

</TABLE>

The next 1,365 combinations (of the N Column) are numbered and sequenced repeating the procedure immediately above. The remaining 273 four-number combinations are computer selected from the population of 1,365 possible N-Column combinations such that no combination repeats.

The numbered combinations in each column are then shuffled and reordered so that each consecutive group of three hundred (300) combinations contains approximately one hundred (100) occurrences of each of the fifteen numbers in the population for that column,

Bingo cards are then generated using a computer model that can be visualized as a 5-wheel speedometer with each wheel consisting of 3,003 distinct positions.

Each position on four of the wheels contains a combination of five numbers. The middle wheel contains combinations of four numbers in each position. The combinations of numbers on each wheel corresponds in content and sequence to the shuffled and reordered sequences for the B,I,N,G,O column described earlier.





A set of 3,003 bingo cards are then generated by aligning the five wheels so that the combination number of corresponding positions on each wheel are the same. This set is referred to as the master reference deck.

Additional decks are generated by rotating the relative positions of the five wheels.

Just prior to the commencement of card generation in each hall, one or more decks are assigned to that hall. The deck is then cut at random to reassign a new initial card. The cards are numbered in sequence (the serial number) as generated for sale. Additionally the date of printing is stamped on the card. As an additional cosmetic measure, the numbers in each column are printed in random order.

MegaBingo Inc. stores the following information in its computer:

1) The deck(s) assigned to each hall.

2) The cut (O - 3,002) applicable to each hall.

3) The date of printing and card serial number associated ,with each card generated for sale and sold.

Prize Fulfillment Conditions

For the purposes of this Agreement, the term "Prize Fulfillment" shall be defined as the arrangement for the provision of monetary or other compensation to the winners of Grand Prizes in the Games.

SCA and MegaBingo agree that for each session, all prize awards will be made on a parimutuel basis, (the Grand Prizes for any session will be divided equally among winning contestants).

GRAND PRIZES

SCA obligations for prize funding shall be scheduled on an exhibit to this contract which summarizes all information pertinent to any game for which SCA has assumed prize liability.



10
GRAND PRIZE PROCEDURE

Prior to 10:00 am on the second business day following a session in which there is a potential Grand Prize, MegaBingo will furnish the following information to SCA:

A) Complete identification of each winning card with:

1) Identification Number

2) Serial Number

3) Date Stamp

B) Name, Address, and Telephone Number(s) of Each Winner(s).

The names and likeness of Games winners may be used by SCA for promotional purposes without further compensation to MegaBingo if SCA gains approval to use such winners, names and likenesses. MegaBingo will use its best efforts to assist SCA in gaining such approval.

PRIZE VERIFICATION PROCEDURES

I) Except as provided in Paragraph 3 herein below, payment by SCA shall be made if and only if SCA receives all of the following documents ("Payment

Instructions"):

A) a certificate from MegaBingo stating the following:

1. $ was won in a Game conducted in conjunction with (the "Game") on (date) (the "Win Date"). The name, address and telephone number of the winner(s) thereof and the portion of the Grand Prize payable to each winner thereof is an follows:
(name, address, telephone number and Grand Prize portion for each winner)

2. The Game in which the Grand Prize was won was conducted as outlined in this agreement

3. The amount of the non-annuity portion of the Grand Prize paid or to be paid to the winner(s) of the Grand Prize or reimbursed or to be reimbursed to Hall Operators for such payment by them is $

4. The amount of funds to be paid by SCA pursuant to this Payment



11
Instruction is $

B) a certificate from Wackenhut Security (or other security firm employed by the Hall in which the drawing was held in the Game in which the Grand Prize was won) stating the following:

"1. The undersigned is the security firm employed by the bingo hall in which the drawing was held in the (Name of Game on (the Win Date).

2. The bingo balls used for said drawing were taken by this security firm directly from the drawing area immediately after said game, placed in a sealed container by this security firm and delivered by this security firm to Midstates Analytical Laboratories of Tulsa, Oklahoma."

C) one of more certificates from either Wackenhut Security (or other security firm employed by the Hall in which the drawing was held in the game in which the Grand Prize was won) or from each of the security organizations employed by the bingo halls where the winner(s) of the Grand Prize won the Grand Prize stating the following:

"The undersigned is the security firm employed by the bingo hall in which the drawing was held in the game on (the Win Date). The serial number of each winning bingo card held by each winner of the date or a portion thereof is on the list of game cards sold in said game and that said list was delivered by

MegaBingo, Inc. to this security firm prior to the start of said game."

or

"The undersigned is the security firm for the bingo hall in which a winner or winners of the Grand Prize or a portion thereof won the such prize on (the Win Date) - The serial number of each winning game card held by each such winner in said hall is on the list of game cards sold in said hall and said list was delivered by MegaBingo, Inc. to this security firm prior to the start of said game."

D) of more certificates from Midstates Analytical Laboratories of Tulsa, Oklahoma stating the following:

1. The undersigned Lab has performed weight and size tests on the bingo balls which MegaBingo, Inc. has purported would be used in the games.





2. The undersigned Lab received from the (name of sen firm referred to in certificate (b) above) bingo balls which said security firm purported to be the bingo balls used in the drawing of the game conducted on (the Win Date) and said bingo balls were found to be within the following tolerances for weight and size, to wit: the weight of each ball has not changed from the original test weight by more than 15% and the diameter of each ball has not changed from the original test diameter by more than 10%."





EXHIBIT D

Re: Indemnification of MegaBingo re: Prize Winner Payment Contract #_____

Dear Mike:

For consideration received, SCA Promotions, Inc. agrees to indemnify MegaBingo, Inc. against claims arising from SCA Promotions' failure to pay the winner as required in the above referenced Prize Winner Payment Contract.

SCA agrees to place assets in a separate account, or subaccount with Merrill Lynch which is pledged to indemnify MegaBingo, Inc. as the Sponsor of the

MegaBingo game.

The Pledge Agreement is attached to this letter of indemnification. The assets will be placed in the referenced account within thirty days of the date of this letter. Copies of the account statements will be supplied to MegaBingo.

Sincerely,

Jack Saltiel



EXHIBIT E

SECURITY AGREEMENT FOR
PLEDGE OF PERSONAL PROPERTY

This Security Agreement for Pledge of Personal Property is entered into between MEGABINGO, INC., a corporation with its principal place of business located at 7335 South Lewis, Suite 302, Tulsa, Oklahoma 74136 ("Secured Party"), and SCA PROMOTIONS, INC. a Texas corporation with its principal place of business located at 8300 Douglas Avenue, Suite 625, Dallas, Texas 75225 (the "Pledgor"), effective as of the I day of October, 1995.

RECITALS

A. Pledgor is engaged in the business of providing coverage for the risk of loss associated with the conduct of certain games, contests and promotions.

B. Secured Party is in the business of conducting lawful games of chance.

C. Pledgor is indebted to the winner of a certain game, contest or promotion conducted by Secured Party, as evidenced by that certain Prize Winner Payment Contract dated between Pledgor and the winner (the "Payment Contract"), in the principal sum of $_____ (the debt"). Pledgor has also indemnified Secured Party from any loss in connection with the Payment Contract pursuant to a separate indemnification agreement between Secured Party and Pledgor (the "Indemnity").

D. Pledgor and the Secured Party desire to have Pledgor grant the Secured Party a security interest in certain collateral as security for Pledgor's performance of the terms and conditions of the Payment Contract and the Indemnity as well as certain obligations set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, the parties hereto agree as follows:



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THIS AGREEMENT IS SUBJECT TO ARBITRATION AGREEMENTS

1. Security Interests.

Pledgor hereby creates and grants to the Secured Party a security interest in the collateral described in paragraph 2 hereof to secure the payment and performance of the obligations of Pledgor under the Payment Contract.

2. Collateral.

The collateral in which the security interest is created is Account Number (the "Account") in the name of Pledgor at Merrill Lynch Pierce, Fencer & Smith Inc., 2121 Avenue of the Stars, Century City, California 90067 ("Merrill Lynch"), which Account has a present balance of $_____. The Account is sometimes hereinafter referred to as the "Collateral," and the Collateral is, contemporaneously with the execution of this Agreement, hereby deposited with Merrill Lynch.

3. Obligation Secured.

The security interest created hereby secures the performance and discharge of each and every obligation, covenant and agreement of Pledgor contained in the Indemnity and herein.

4. Warranties and Representations of Pledgor.

Pledgor warrants and represents that:

(a) the Collateral is free and clear of any security interest (other than the security interest herein granted), liens, restrictions or encumbrances; and

(b) Pledgor has full right and power to transfer the Collateral to the Secured Party free and clear thereof and to enter into and carry out this Agreement;

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5. Other Covenants of Pledgor and Secured Part .

5.1 Covenants of Pledgor. Pledgor hereby covenants and agrees:

(a) to make all payments to satisfy the Payment Contract;

(b) to notify the Secured Party in writing within Five (5) business days of Pledgor's payment of each installment required to be paid by Pledgor under the Payment Contract, and

(c) not to withdraw from, or reduce the balance of, the Account except in partial or full satisfaction of its obligations under the Payment Contract, the Indemnity or this Agreement.

5.2 Covenants of Secured Party. Secured Party hereby covenants and agrees:

(a) to acknowledge in writing to Pledgor the receipt by Secured Party of written notice from Pledgor of all payments made by Pledgor in satisfaction of the Payment Contract;

(b) to release Pledgor from any obligation of indemnification to Secured Party under the Indemnity with respect to each payment made thin Fifteen (15) business days of Secured Party's receipt of written notice of payment from Pledgor, and Secured Party hereby acknowledges that its failure to acknowledge in writing its receipt of written notice of payment from Pledgor shall be deemed a release of Pledgor from any and all obligation to Secured Party under the Indemnity with respect to that Payment Contract; and

(c) that Pledgor may withdraw from the Account any balance remaining after all payments required under the Payment Contract have been made and thereafter use such remaining balance as Pledgor shall choose in the exercise of its sole discretion and without further obligation to Secured Party.

6. Events of Default.

As used herein, "Event of Default" shall be any or all of the following:

(a) The failure of Pledgor punctually and properly to observe, keep or perform any covenant, agreement or condition required by the Indemnity or this Agreement to be observed, kept or performed;

(b) The failure of Pledgor to punctually and properly to pay the prize evidenced by the Payment Contract in accordance with the terms thereof,



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(c) The making by Pledgor of an assignment for the benefit of its creditors, or the consent by Pledgor to the appointment of a receiver or a liquidator of itself or of any substantial portion of its assets, or the seizure by a receiver, trustee or other officer appointed by any court or any sheriff, constable, marshal or similar governmental officer, under color of legal authority, of any substantial portion of the assets of Pledgor and holding possession thereof for a period of thirty (30) days; or the assumption of jurisdiction, custody or control of any of the assets of Pledgor under the provisions . of any other now existing or future law providing for reorganization, dissolution, liquidation or winding up of persons or corporations, if Pledgor shall not have been restored to custody and control of such assets within thirty (30) days after the date of such assumption; or if a final judgment for the payment of money shall be rendered against Pledgor and, within thirty (30) days after the entry thereof, such judgment shall not have been discharged or execution thereof stayed pending appeal, or if, within thirty (30) days after the expiration of any such stay, such judgment shall not have been discharged.

7. Disposition of Collateral on Default.

Upon the occurrence of any event of default, the Secured Party may elect to sell, or otherwise dispose of the Collateral or any part thereof or to accept or take title to the Collateral or any party thereof in satisfaction of the Debt of the Pledgor to the Secured Party, such disposition of the Collateral to be made as authorized by the Texas Business and Commerce Code after the giving by the Secured Party of such notice or notification as may be required by said code. In the event of any such sale or other disposition of the Collateral, all reasonable costs incurred in the preparation of the Collateral for such sale or disposition, all reasonable attorneys' fees and legal expenses connected therewith shall be and become part of the obligations of Pledgor secured by the Collateral, together with interest thereon at a rate equal to the lesser of (i) two (2) percentage points over the prime rate as reflected in the Money Rates Section of the Wall Street Journal, or (ii) the highest lawful rate, until the prize is paid in full. However, in no event will the Pledgor have any liability beyond the assets in the Account at the time of the event of default.

8. Waiver.

No failure or delay by Secured Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, and no single or partial exercise thereof shall preclude any other or further exercise or the exercise of any other right, power or privilege.





9. Severability.

Should any one or more or the provisions hereof be determined to be illegal or unenforceable, all other provisions hereof shall be given effect separately therefrom and shall not be affected thereby.

10. Notices.

All notices, requests or other communications required hereunder shall be in writing and shall be given by personal delivery, national overnight courier, facsimile transmission, or certified or registered mail, to either party at the respective addresses set forth in the first paragraph of this Agreement, or to such other address as shall be specified in writing by such party to the other party in accordance vath the terms and conditions of this Section. All notices, requests or other communications shall be deemed effective (i) immediately if delivered personally or by facsimile transmission, (ii) the next business day if delivered by national overnight courier, or (iii) Three (3) business days after deposit vath the United States Postal Service, postage prepaid, if delivered by certified or registered mail.

11. Assignment of Secured Party.

This Agreement and the security interest created hereby shall be assignable by the Secured Party, shall inure to the benefit of Secured Party's successors and assigns, and shall be binding upon the Pledgor and its successors and assigns.

12. Choice of Law.

It is the intention of the parties that the laws of Texas should govern the validity of this Agreement, the construction of its terms and the interpretation of the rights and duties of the parties.

13. Arbitration.

Any dispute relating to the interpretation or performance of this Agreement shall be resolved at the request of either party only through final and binding arbitration. Such arbitration shall be conducted by a panel of

Three (3) arbitrators in Dallas, Texas. Either party may initiate arbitration of any dispute under this Agreement by giving written notice to the other party of the commencement of arbitration proceedings. Within Ten (10) days after the date of that written notice initiating arbitration, each party shall have selected a single arbitrator and





notified the other party of the identity of its selection. The two selected arbitrators shall together select the third arbitrator thin the next ten-day period. Each party shall bear the cost of the arbitrator selected by it, and the two parties shall share equally the costs of the third arbitrator.

The arbitration shall be an expedited proceeding in which discovery and testimony are limited. Each party shall be limited to Two (2) depositions. Neither party shall be permitted to conduct discovery by written interrogatories. The arbitration hearing shall commence within Thirty (30) days after the date of the written notice initiating arbitration. Each party shall be limited to a total of Six (6) hours in which to present its case over a time period for both presentations wch shall not to exceed Two (2) consecutive calendar days. All time expended by a party in cross examining the other party's witnesses shall be charged to the party conducting that cross examination. Each party shall be lifted to Two (2) witnesses who may testify orally. All other testimony shall be by written declarations limited to Five (5) pages per witness. The written decision of the arbitrators shall be rendered within Ten (10) days after the conclusion of all oral testimony. Except as set forth in this paragraph, the then-current commercial arbitration rules of the American Arbitration Association ("AAA") shall govern the conduct of any arbitration proceeding.

If judicial enforcement of the award of the arbitrators is sought by either party, judgment may be entered upon such award in any court of competent jurisdiction. The prevailing party in the arbitration, or in any such judicial enforcement of the arbitration award, shall be entitled to recover all of its attorneys' fees and costs from the other party. The duty of the parties to arbitrate any dispute relating to the interpretation or performance of this Agreement shall survive the termination of this Agreement.

14. Paragraph Headings.

Paragraph and other headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning of this Agreement or its interpretation.

15. Entire Agreement.

This Agreement constitutes the entire agreement between the parties hereto, and there are no agreements, understandings, restrictions, warranties or representations between the parties other than those set forth herein or herein provided for.



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SECURED PARTY:
MEGABINGO, INC.

By: _____
Nelson Johnson
President

PLEDGOR:
SCA PROMOTIONS, INC.

By: _____
Robert D. Hamman
President

EXHIBIT 10.3

# OFFICE LEASE AGREEMENT

THIS LEASE AGREEMENT made this 10th day of October, 1996, between INTERVEST-SOUTHERN OAKS LIMITED PARTNERSHIP, herein called "Lessor", and MULTIMEDIA GAMES, INC., herein called "Lessee".

## WITNESSETH

IN CONSIDERATION of the covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. Leased Premises. Lessor hereby leases and lets unto Lessee space in the office center known as SOUTHERN OAKS OFFICE BUILDING herein called the "Leased Premises", being the space designated as SUITE #210, #204 and #302, shown on Exhibit "A" attached hereto, and being approximately 9,441 square feet.

2. Term. The term of this Lease shall be for a period of five (5) years and five (5) months beginning on the commencement date, as hereinafter defined, except that if the commencement date, shall be a day other than the first day of a month, then the period of time between the commencement date the first day of the month next following shall be added to the term of the Lease. the term of this Lease shall not be extended except by written instrument signed by both parties and in the event Lessee does not surrender possession of the premises at the end of the term it shall be from month to month, and such monthly tenancy shall be subject to the covenants, conditions, rules and regulations herein contained and shall be for and upon a rental equal to 150 percent of the rental as herein reserved for the last month of the term hereof, and such tenancy may be terminated by thirty (30) days written notice given by either party to the other of his or its intention so to do, but nothing in this paragraph shall be construed as a consent by the Lessor to the occupancy of said Premises after the end of the term hereof.

3. Commencement Date. The commencement date of this Lease shall be the first day of October, 1996, or such earlier date as Lessor may, with the agreement of Lessee, deliver the Leased Premises to Lessee ready for Lessee's occupancy.

4. Rentals. As rental for the use and possession of the Lease Premises during the term hereof, Lessee agrees to pay the Lessor, as such place or places as Landlord shall designate from time to time in writing, and without set-off, abatement, deduction, or counterclaim, the sum

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of Ninety-Four Thousand Four Hundred Ten and no/100 Dollars ($94,410.00) per year payable in monthly installments of Seven Thousand Eight Hundred Sixty-Seven and 50/100 Dollars ($7,867.50) on or before the first calendar month following the commencement date of this Lease (unless the commencement date is the first day of a calendar month, in which event the rent shall commence on that date), and continuing in the same amount on the first day of each and every calendar month thereafter during the term of this Lease. In the event the commencement date is a day other than the first day of the calendar month, Lessee agrees to pay upon signing of this Lease a prorated portion of a month's rental representing the period of time between the commencement date and the first day of the next calendar month.

Lessor acknowledges receipt, upon the execution of this Lease by Lessee, of the sum of $-0- representing a prepayment of the first full or partial month's rental for the Leased Premises.

No rent shall be due until March 1, 1997.

5. Security Deposit. Lessee shall deposit with Lessor the sum of Two Thousand Four Hundred Thirty-Three and 33/100 Dollars ($2,433.33), receipt of which is hereby acknowledged, as security for the full performance of each and all of the provisions of this Lease. If Lessee defaults in any particular provision, Lessor may use, apply or retain without prejudice to any other remedy, the whole or any part of the security (1) to the extent of any sum due to Lessor, or (2) to make any required payment on Lessee's behalf, or (3) to compensate Lessor for any expense or damage caused by Lessee's default. On Lessor's demand, Lessee shall promptly pay to Lessor a sum equivalent to the amount by which the security deposit was so depleted. Lessee shall pay the deposit directly to Lessor in trust. Lessor shall have the authority to use or apply the deposit only on the default and for the purposes, described above as the purpose of the security deposit. On termination of this Lease, provided Lessee is not then in default, Lessor shall return to Lessee all the security deposit then in Lessor's possession. If Lessor transfers its interest in the premises during the term hereof, Lessor shall assign the security deposit to the transferred and thereafter shall have no further liability for the return of said deposit.

6. Late Charge. Lessee agrees to pay a "late charge" equal to ten percent (10%) of the monthly rent installment as herein provided when any installment of rent is paid more than ten (10) days after the due date thereof. Landlord shall provide Tenant written notice of when rent is due. It is hereby understood that this charge is for extra expenses incurred by the Lessor and shall not be considered interest. It is further agreed that this provision does not grant Lessee an unconditional right to cure any default on his part to pay rent as provided in paragraph 4, nor does it limit Lessor's rights denoted in paragraph 18, infra.

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7. Use and Assignment. Lessee shall use and occupy the premises for general office only and no other purpose and shall not assign this Lease or sublet the Leased Premises or any part thereof without the written consent of the Lessor, which consent shall not be unreasonably withheld. Lessee shall neither permit on the Leased Premises any act, sale nor storage that may be prohibited under standard forms of fire insurance policies, nor use the Leased Premisses for any such purpose. In addition, no use shall be made or permitted to be made that shall result in (a) waste on the premises, (b) a public or private nuisance that may disturb the quiet enjoyment of other tenants in the Building, (c) improper, unlawful or objectionable use, including sale or storage of materials generating an odor on the premises, or (d) noises or vibrations that may disturb other tenants. Lessee shall comply with all governmental regulations and statutes affecting the Leased Premises either now or in the future.

8. Utilities, Maintenance, Etc. Lessor shall furnish for ordinary office occupancy heating, air conditioning, utilities, general maintenance, janitorial service except on Saturdays, Sundays, and Holidays, free parking and shall provide a lobby directory in the Building. Lessee agrees that Lessor shall not be liable for failure to supply any such heating, air conditioning, utilities, general maintenance, janitor service or parking; however, Lessor agrees to use his best efforts to supply or resume the supply of such services.

9. Parking Area. In common with others, the Lessee is hereby granted the right of non-exclusive use of the parking area provided by Lessor; however, the Lessor reserves the right to promulgate rules and regulations with respect to the use of the parking area by the Lessee, his employees, and his customers.

10. Alterations. Lessee shall make no alterations in or additions or improvements to said Leased Premises without first obtaining the written consent of Lessor, which shall not be unreasonably withheld or delayed, and all additions and improvements made by Lessee (except only movable office furniture and fixtures) shall become the property of Lessor on the termination of the occupancy of the premises, or at Lessor's option, removed at Lessee's expense. Lessee, at Lessee's sole cost and expense may provide improvements as shown on Exhibit "A".

11. Lessee's Property. All equipment and trade fixtures installed in or on the Building by Lessee shall remain the property of Lessee and may be removed by Lessee upon termination of the Lease or the occupancy of the premises, with the exception of any additions or improvements to said Leased Premises as stated in the above Article 10.

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12. Rules and Regulations. Lessee and Lessee's agents, employees, and invitees, will comply fully with all requirements of the rules of the building which are attached hereto and made a part hereof as though fully set out herein. Lessor shall at all times have the right to change such rules and regulations or to amend them in such reasonable manner as may be deemed advisable for safety, care, and cleanliness of the Building and for preservation of good order therein, forwarded to Lessee in writing and shall be carried out and observed by Lessee. Lessee shall further be responsible for the compliance with such rules and regulations by the employees, servants, agents, visitors, and invitees of Lessee.

13. Indemnity by Lessee. Lessee shall at all times protect, save harmless and indemnify Lessor against all causes of action, claims, demands, suits, judgments, and liability of every kind and character which may arise, be imposed or incurred as a consequence of or arising out of any act, default, negligence or omission, willful or otherwise, on the part of the Lessee, its agents or employees, or arising out of the conduct by Lessee of its business upon the Leased Premises.

14. Liability to Lessee. Lessor will carry no insurance on the property of Lessee and Lessor shall incur no liability to Lessee, its employees or invitees for damages caused by or resulting from fire, explosion, windstorm, tornado, earthquake, leakage of water, gases, steam, rain, snow, falling plaster, glass breakage, theft, burglary, robbery, vandalism, riot or any other casualty or other risks incident to the extended coverage applicable under standard fir insurance contracts, and from the acts or omission of other tenants, their employees or invitees or trespassers.

15. Damage, Destruction or Condemnation. If the Building is destroyed by casualty or damaged to such an extent that it cannot be repaired or in the opinion of Lessor it cannot economically be repaired, this Lease shall terminate and rent shall be adjusted as of the date of such destruction or damage. If the Leased Premises are damaged from casualty and can be repaired except as provided in the preceding sentence, Lessor shall, with reasonable diligence, with allowance for repair the same. If during the period of repair or any part thereof the premises cannot be used, rent shall abate for such part of the period. If the Leased Premises can be partially used during said period, there shall be an equitable abatement of a portion of rent. Repairs may be made during business hours and there shall be no abatement of rent by reason of inconvenience. Lessor shall use its best efforts not to interfere with Lessee's use of the Premises. If the Leased Premises are condemned, the Lease at Lessor's option shall terminate and rent shall be adjusted as of the date Lessee surrenders the Leased Premises. All compensation in condemnation shall be the property of Lessor. Damage to the premises resulting from the

negligence of Lessee or its employees or invitees shall be repaired



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at the expense of Lessee. Lessor shall use its best efforts not to interfere with Lessee's use of the Premises.

16. Possession on Termination. At the expiration of this Lease, or sooner termination thereof, the Lessee shall give possession of the Leased Premises to the Lessor and in as good a condition as when Lessee commenced possession, usual wear and tear excepted.

17. Quiet and Peaceful Enjoyment. Lessee shall have quiet and peaceful possession of the Leased Premises during the term hereof as against all parties claiming adverse thereto by or under Lessor. See Rider #2, paragraph 3.

18. Breach, Default, and Remedies. The covenants and agreements herein shall be conditions as well as covenants and breach of any of the, or the failure to pay rent when due, or the abandonment of the Leased Premises, or the making of an assignment for the benefit of creditors by Lessee, or the appointment of a received for Lessee, or the filing of a petition by Lessee, or the filing of a petition by Lessee for reorganization, or relief of debtors, or a voluntary petition in bankruptcy, or adjudication of bankruptcy of Lessee, shall constitute a default on the part of Lessee. Upon default by Lessee, the Lessor shall, at its option, have the following remedies: (a) terminate the Lease and take posse of the Leased Premises; (b) terminate the Lease and recover damages in an amount equal to the unpaid future rent or in any greater amount permitted by law; (c) terminate Lessee's right to posse without terminating the Lease or obligation to pay rent, whereupon Lessee's right to possession without terminating the Lease or obligation to pay rent, whereupon Lessee shall pay Lessor all unpaid rent for the entire term of the Lease and Lessor shall endeavor to Lease the Leased Premises for the account of Lessee, and any reasonable expense of remodeling or repair shall be a charge against the rent received on reletting; (d) any remedy permitted by Federal or State Law and the remedies granted to Lessor shall be cumulative, and exhaustion of one shall not preclude Lessor resorting to others. Should Lessor elect to immediately terminate the Lease, written notice of that termination may be given by Lessor pursuant to Paragraph 21, infra. In each and every instance of default, and while the same continues, Lessor may re-enter said Leased Premises in accordance with appropriate law using all necessary force, and Lessee's right to enter said Leased Premises shall be suspended, and in order to effectuate such re-entry and suspension, Lessor may change locks on the doors of said Leased Premises and exclude Lessee from said Building until any and all defaults are cured by Lessee. Such re-entry and suspension, and the changing of locks, shall not operate as an eviction or cancellation of this Lease. The waiver by Lessor of any default shall not be a waiver or consent to the

continuation of such default or to a subsequent default in accordance with appropriate law.



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19. Attorney's Fees. If either party brings any action or proceeding to enforce, protect, or establish any right or remedy, the prevailing party shall be entitled to recover reasonable attorney's fees. Arbitration is an action or proceeding for the purpose of this provision. For the purposes hereof, Lessor shall be deemed to have prevailed in any unlawful detainer if the action is dismissed by reason of Lessee's curing of the default upon which such action was based. Lessee shall reimburse Lessor any and all costs incurred by Lessor in collecting any delinquent payments due from Lessee hereunder whether action is instituted therefore or not.

20. Delivery of Possession. If Lessee shall be unable to enter into and occupy the Leased Premises hereby Leased at the time above provided by reason of said premises not being ready for occupancy, or by reason of a holding over of any previous occupants of said premises, or as a result of any cause or reason beyond the direct control of Lessor, Lessor shall not be liable in damages to Lessee therefore; but during the period Lessee shall be unable to occupy said premises as hereinbefore provided the rental therefore shall be abated and Lessor is to be a sole judge as to when the premises are ready for occupancy. If permission be given by Lessor to Lessee to enter into possession of the Leased Premises or to occupy comparable premises in the Building other than the Leased Premises prior to the date herein fixed for the commencement of the term, and such permission be accepted by Lessee, such occupancy by Lessee shall be deemed to be that of a tenant under all of the terms, covenants and conditions of this Lease, except that Lessee shall pay a pro rata rent on a daily basis for each day of occupancy at a rate equal to the rent specified in Paragraph 4 unless otherwise agreed in writing.

21. Notice. The legal relationship between Lessor and Lessee shall be that of Landlord and Tenant. Any notice authorized or required may be given Lessor by delivery of same to Lessor at such place as shall be designated for the payment of rent hereunder, and any notice to Lessee, including the termination delivery of the same to Lessee, one of its officers, or employees found at the Leased Premises, or, if the Lessee, its officers or employees are not located at the Premises, by posting of the notice in a conspicuous place on the Leased Premises.

22. Ground Leases and Mortgages. This Lease is subject and subordinate to all ground Leases and to all present mortgages affecting the real estate on which the Building is located and the Building of which the Leased Premises are a part, and to any ground Leases, mortgage, or mortgages which may hereafter be executed affecting the same.

23. Inspection. Lessor, or its officers, agents and representatives, shall have the right upon reasonable prior notice to Lessee to enter into and upon any and all parts of the Leased



Premises, (a) at all reasonable hours to inspect same or clean or make repairs or alterations or additions as Lessor may deem necessary, or (b) during business hours to show the Leased Premises to prospective tenants, (during the last six (6) months of the Lease Term) purchasers or lenders; and Lessee shall not be entitled to any abatement or reduction of rent by reason thereof.

24. Estoppel Certificate. Lessee agrees throughout the term of this Lease or any extension thereof that upon request by the Lessor or a mortgagee of Lessor or a prospective purchase of the Building to sign and deliver a certificate stating in substance (if such be the case); (a) There is no modification of the terms of this Lease (unless there is such a modification, in which event a copy thereof shall be furnished by Tenant or stated in certificate), and that said Lease is in full force and effect; (b) Lessee has asserted no defenses or offsets as of the date of the certificate; and (c) Lessee has no knowledge of any default by the Lessor which has not been cured.

After such certificate has been given by Lessee, Lessee will be estopped from asserting any claim or defense known by its prior to the date of the certificate contrary to said certificate as against the person, firm, or corporation to whom such certificate is addressed. Lessor shall have the right to transfer and assign in whole or in part, any of its rights under this Lease, and in the building and property referred to herein; and to the extent that such assignee assumes Lessor's obligations hereunder, Lessor shall by virtue of such assignments be reLeased from such obligations.

25. Representation and Warranties. Lessee acknowledges and agrees that it has not relied upon any statement, representations, agreement or warranties except such as are expressed herein, and that no amendment or modification of this Lease shall be valid or binding unless expressed in writing and executed by the parties hereto in the same manner as the execution of this Lease.

26. Joint and Several Obligations. If Lessee consists of more than one person, the obligations of all such persons are joint and several.

27. Captions. The captions appearing in this Lease are for convenience and reference and shall in no way define, limit or describe the scope or intent of this Lease nor in any way affect this Lease.

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28. Binding Effect. The covenants and agreements of this Lease shall extend to and be binding upon the heirs, executors, administrators, successors, and assigns of the parties hereto where the context hereof requires or admits.

29. Governing Law. This Lease shall be subject to and governed by the laws of the State of Oklahoma.

30. Riders. Riders 1 and 2 hereto attached are a part of this Lease.

31. Additional Comments.

32. Door Signage and Roster. Lessee's door signage and directory strip shall read as follows:

Multimedia Games, Inc., Suite #210

33. Insurance. Lessor will carry no insurance on the property of Lessee and Lessor shall incur no liability to Lessee, its employees or invitees for damages caused by or resulting from fire, explosion, windstorm, tornado, earthquake, leakage of water, gases, steam, rain, snow, falling plaster, glass breakage, theft, burglary, robbery, vandalism, riot or any other casualty or other risks incident to the extended coverage applicable under standard fire insurance contracts, and from the acts or omission of other tenants, their employees or invitees, or trespassers.

At all times during the term of this Lease, Lessee shall, at its sole expense, maintain comprehensive public liability insurance against claims for personal injury, wrongful death and property damages occurring upon, in or about the Leased Premises, affording insurance protection to limits of not less than the following: $100,000.00 for personal injury, bodily injury and wrongful death to each person; $500,000.00 for personal injury, bodily injury and wrongful death for each occurrence; and $100,000.00 for property damage for each occurrence. Lessor shall be named as an additional insured on each such policy with the same limits of coverage and shall be furnished with a certificate of each thereof, any additional premium therefor to be paid by Lessee. Each such policy of insurance shall, to the extent obtainable at no extra premium, provide that any claim shall be payable notwithstanding any act, whether of commission or omission, negligent or otherwise, of Lessor, of Lessee, of any other tenant in the building or of any agent, employee, representative, visitor or guest of any of them, which

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act might otherwise result in the forfeiture of the insurance afforded by such policy. In addition, each such policy shall provide an agreement by the insurer that the policy will not be canceled or modified to reduce coverage as to risk, amount or named insured without at least fifteen (15) days' prior written notice to both Lessor and Lessee.

34. Options to Renew. If Tenant has complied with the terms and conditions of this Lease then Tenant shall have the option to renew this Lease at a Base Rate determined to be the market rate at the termination of this Lease. Tenant shall notify Landlord, in writing, ninety (90) days prior to the termination of this Lease of it's intentions to renew or surrender the demised premises. Should Tenant desire to surrender the demised premises at the termination of this Lease, then Lessor shall have the right to show and place on the market the demised premises, but shall in no way interface with Tenant's business or rights of Quiet Enjoyment.

IN WITNESS WHEREOF, the parties hereto have set their hands and delivered this Lease on the day and year above written.



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LESSOR:
INTERVEST-SOUTHERN OAKS, LTD. PTSHP.

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Dale Williams, President

Tulsa Capital Corporation
As General Partner

LESSEE:
MULTIMEDIA GAMES, INC.

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BUILDING RULES AND REGULATIONS

1. Lessee shall not alter any lock or install a new or additional lock or bolt on any door of the Leased Premises without the prior written consent of Lessor, which consent shall not be unreasonably withheld.

2. Lessee will refer all contractors, contractor's representatives and installation technicians, rendering any service to Lessee to Lessor for Lessor's supervision, approval, and control before performance of any contractual service. This provision shall apply to all work performed in the Building including installation of telephones, telegraph equipment, electrical devises and attachments, and installments of any nature affecting floors, walls, woodwork, trim, windows, ceilings, equipment or any other physical portion of the Building. Lessor hereby approved Crestline Construction and Carpet Supply to construct improvements as needed by Lessee.

3. Movement in or out of the Building of furniture, office equipment or dispatch or receipt of Lessee of any merchandise or materials which requires use of elevators or stairways, or movement through Building entrances or lobby movement shall be under supervision of Lessee and in the manner agreed between Lessee and Lessor by prearrangement before arrangement. Such prearrangement initiated by Lessee will include determination by Lessor and subject to his decision and control, of the time, method, and routing of movement, and limitations imposed by safety or other concerns which may prohibit any article, equipment, or any other firm from being brought into the Building. Lessee is to assume all risk as to damage to articles moved and injury to persons or public engaged or not engaged in such movement, including equipment, property, and personnel of Lessor if damaged or injured as a result of acts in connection with carrying out this service for Lessee from time of entering the tract of which the Building stands to completion of work; and Lessor shall not be liable for acts of any person engaged in, or any damage or loss to any of said property or persons resulting from any act in connection with such service performed for Lessee.

4. No signs will be allowed in any form on exterior of Building or windows inside or out, and no signs except in uniform location and uniform styles fixed by Lessor will be permitted in the public corridors or on corridor doors of entrance to Lessee's space. All signs will be contracted for by Lessor for Lessee at the rate fixed by Lessor from time to time, and Lessee will be billed and pay for such service accordingly.

5. Lessee shall not use the common areas of the building for any solicitation, advertising, demonstration, or political activity.

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6. Lessee shall not place, install, or operate on the Leased Premises or in any part of the Building, any engine, stove, or machinery, or conduct mechanical operations, or cook thereon or there or place or use in or about premises any explosives, gasoline, kerosene, oil, acids, caustics, or any other flammable, explosive, or hazardous materials without written consent of Lessor. Microwaves are allowed.

7. Lessor will not be responsible for lost or stolen personal property, equipment, money, or jewelry from the Leased Premises or public rooms regardless of whether such loss occurs when area is locked against entry or not.

8. None of the entries, passages, doors, elevators, elevator doors, hallways or stairways shall be blocked or obstructed, or any rubbish, litter, trash or material of any nature placed, emptied or thrown into these areas, or such areas be used at any time except for ingress by Lessee, Lessee's agents, employees, or invitees.

9. Lessor shall have the right to prescribe the weight and position of safes, computers, and other heavy equipment which shall, in all cases, in order to distribute their weight, stand on supporting devises approved by Lessor. All damage done to the Building by placing in or taking out any property of Lessee while in the Building shall be repaired promptly at the expense of Lessee.

10. Should Lessee require telegraphic, telephonic, annunciator, or other communication services, Lessor shall direct where and how wires are to be introduced and placed and none shall be introduced or placed except as Lessor shall direct.

11. Without Lessor's prior written approval, Lessee shall not install any radio or television antenna, loudspeaker, music system, or other device on the roof or exterior walls of the Building, or on common walls with adjacent tenants.

12. Use of chair mats is required under all chairs with wheels or castors.

13. These Rules and Regulations are in addition to, and shall not be construed to in any way modify, alter or amend, in whole or in part, the terms, covenants, agreements, and conditions of any Lease covering premises in the Building.

14. Lessor reserves the right to make such other reasonable rules and regulations as in its judgment may from time to time be needed for the safety, care, and cleanliness of the Building, and for the preservation of good order

therein.



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15. Lessee shall acquire and maintain an A.B.C. Dry Chemical Fire Extinguisher for its Leased premises.



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RIDER #1

This supplements and amends that certain Office Lease Agreement between INTERVEST-SOUTHER OAKS LIMITED PARTNERSHIP, as Lessor, and MULTIMEDIA GAMES, INC., as Lessee, dated _____, 199___, to which reference is herewith made as if here set forth in full as follows:

Rental Escalation: In the event operating expenses (as defined below) of Lessor upon the land and building, including parking area, of which the Leased Premises are part, shall in any calendar year, exceed the sum of $4.16 per square foot (based on net rentable square feet comprising the Building), the upon written notice to the Lessor, the Lessee agrees to pay as additional rental, Lessee's probata share of such operating expenses in excess of $4.16.

Lessor shall, within ninety (90) days following the close of any calendar year for which additional rental is due under this section, give written notice there to Lessee, provided, however, Lessor may within thirty (30) days prior to the termination of this Lease estimate Lessee's probata share of the excess operating expenses for that calendar year and reasonable detail. Lessee agrees to pay Lessor additional rental within fifteen (15) days after such written notice. The monthly rental rate for the following year will be increased by the increased amount of expenses during the current calendar year. The term "operating expenses" as used herein includes Lessor's cost of providing heating, air conditioning, utilities, janitorial services and supplies, snow removal, security services, reasonable management costs, landscape, and general maintenance and repairs. The term "operating expenses" also includes all real property taxes which accrue against the building and land during the term of the Lease as well as all insurance premiums Lessor is required to pay or deems necessary to pay, including public liability insurance, with respect to the building and land. If an increase in the fire and extended coverage insurance premiums paid by Lessor for the building is caused by Lessee's use and occupancy of the Leased Premises, or if Lessee

vacates the Leased Premises and causes an increase in such premiums, then Lessee shall pay as additional rental the amount of such increase to Lessor.

In no event shall a single rental escalation cause Lessee's total monthly rental to increase more than five percent (5%) per year.



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RIDER #2

1. Mechanical. Lessor agrees to use its best efforts to provide Lessee adequate mechanical in order to meet Lessee's electrical and telephone requirements for ordinary office usage.

2. Lessor's Insurance Requirements. Lessor, at its sole option, may procure and maintain at times during the term of this Lease a policy or policies of insurance covering loss or damages to the Property (exclusive of Lessee's trade fixtures, equipment, and personal property), providing protection against those perils as Lessor deems appropriate.

3. Quiet Enjoyment. Lessor warrants that it has full right to execute and to perform this Lease and to grant the estate Leases, and, that Lessee, upon payment of the required Rent and performing the terms, conditions, covenants, and agreements contained in this Lease, shall peaceable and quietly have, hold, and enjoy the Leased Premises during the full term of this Lease as well as any extension or renewal thereof. However, Lessee accepts this Lease subject and subordinate to any underlying Lease, mortgage, deed of trust, or other lien presently existing upon the Property. Lessor hereby is irrevocably vested with full power and authority to subordinate Lessee's interest under this agreement to any underlying Lease, mortgage, deed of trust, or other lien hereafter placed on the Property, and Lessee agrees upon demand to execute additional instruments subordinating this Lease as Lessor may require. If the Lessor's interest under this Lease shall be transferred by reason of foreclosure of other proceedings for enforcement of any lien, deed of trust, or mortgage on the Property, Lessee shall be bound to the transferee (sometimes called "Purchaser") under the terms, covenants, and conditions of this Lease for the balance of the term remaining, and any extensions or renewals thereof, with the same force and effect as if the Purchaser were the Lessor under this Lease. Lessee agrees to attorn to the Purchasee, as its Lessor, the attornment to be effective and self-operative without the execution of any further instruments upon the Purchase succeeding to the interest of the Lessor under this Lease. The respective rights and obligations of Lessee and the Purchaser upon the attornment, to the extent of the then remaining balance of the term of this Lease, and any extensions and renewals thereof, shall be the same as those herein contained.

4. Force Majeure. In the event Lessor or Lessee shall be delayed, hindered, or prevented from the performance of any act required herein by reason of strikes, lockouts, labor troubles, inability to procure materials, failure of power, restrictive governmental laws or regulations, riots, insurrection, war, or any other reason of a like nature ("Event") that is not the





fault of the Party delayed in performing the work or doing the acts required under the terms of this Lease, then said performance of any such act shall be excused for the period of time the Event takes place. The period for the performance of any such act shall be extended for a period of time equivalent to the time period of the Event. The provisions of this section shall not operate to excuse Lessee from prompt payment of the Base Rent and any other Rent required by the terms of this Lease.

5. Waiver of Subrogation: Anything in this Lease to the contrary notwithstanding, the parties hereto hereby waive to the extent permitted by their respective insurance carriers any and all rights of recovery, claim, action or cause of action, against each other, their agents, officers, and employees for any loss or damage that may occur to the premises hereby demised, or any improvements thereto, or said building of which the premises are a part, or any improvements thereto, by reason of fire, the elements or origin, including negligence of the parties hereto, their agents, officers and employees.

EXHIBIT 10.6

THE WARRANTS EVIDENCED HEREBY AND THE SHARES OF COMMON STOCK ISSUABLE UPON THE EXERCISE OF SUCH WARRANTS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") AND MAY NOT BE OFFERED OR SOLD EXCEPT (1) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR (2) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO COUNSEL FOR THE COMPANY, STATING THAT AN EXEMPTION FROM REGISTRATION UNDER THE ACT IS AVAILABLE

EXERCISABLE ON OR BEFORE
5:00 P.M., NEW YORK TIME, , 2001

NO. W- _____ Warrants

MULTIMEDIA GAMES, INC.

THIS CERTIFIES that, for value received, _____ or registered assigns, is the registered holder of the number of warrants (hereinafter referred to as the "Warrants") set forth above, each of which entitles such holder to purchase from Multimedia Games, Inc., a Texas Corporation (hereinafter referred to as the "Company") at any time commencing with [INSERT NINE MONTHS FROM CLOSING DATE] (hereinafter referred to as the "Exercise Date") through 5:00 P.M. New York time, on the date which is the fifth anniversary of the Exercise Date, one fully paid and nonassessable share of Common Stock, $.01 par value, of the Company (hereinafter referred to as the "Common Stock"), as such Common Stock is constituted on the date hereof, subject to adjustment from time to time pursuant to the provisions hereinafter set forth, at the initial price of $8.00 per share of Common Stock (hereinafter referred to as the "Exercise Price"), subject to the conditions hereinafter set forth. The Warrants are redeemable at the option of the Company as hereinafter provided.

This Warrant is one of a series of Warrants being issued as part of a private offering (the "Bridge Offering") by the Company pursuant to Subscription Agreements, dated July __, 1996, between the Company and the purchasers named therein.

This Warrant Certificate is subject to the following provisions, terms and conditions:

1. Exercise of Warrant. Each Warrant is initially exercisable to purchase one (1) share of Common Stock (each a "Warrant Share" and collectively the "Warrant Shares") at an initial exercise price of $8.00 per Warrant Share, subject to adjustment as set forth in Section 3 hereof (as so adjusted, the "Exercise Price"). The Warrant may be exercised by the registered holder hereof, in whole or in part, by the surrender of this Warrant Certificate with the annexed Form of Exercise duly executed, at the principal executive office of the Company, 7335 S. Lewis, Suite 302, Tulsa, OK 74136, and upon payment to the Company by check (subject to collection) of the Exercise Price of the Warrant Shares. In the case of a purchase of less than all of the Warrant Shares purchasable under this Warrant Certificate, the Company shall cancel this Warrant Certificate upon the surrender thereof and shall execute and deliver a new Warrant Certificate of like tenor for the balance of the Warrant Shares.

2. Transfer of Warrant and Warrant Shares. Neither this Warrant nor the Warrant Shares have been registered under the Act or any state securities law and may not be sold, transferred, assigned, hypothecated or otherwise disposed of until a registration statement with respect thereto is declared effective under the Act or the Company receives an opinion of counsel reasonably satisfactory to counsel to the Company that an exemption from the registration requirements of the Act is available. If permitted by the foregoing, any such sale, transfer, assignment, hypothecation or other disposition shall be effected by the holder hereof surrendering this Warrant for cancellation at the office or agency of the Company referred to in Section 1 hereof, accompanied by an opinion of counsel satisfactory to the Company and its counsel, stating that an exemption from the registration requirements is available with the annexed Form of Transfer duly executed. In the case of a transfer of less than all of the Warrants evidenced by this Warrant Certificate, the Company shall cancel this Warrant Certificate upon the surrender thereof and shall execute and deliver (i) to the transferee thereof a new Warrant Certificates of like tenor for the number of Warrants so transferred and (ii) to the holder hereof a new Warrant Certificates of like tenor for the balance of the Warrants theretofore evidenced by this Warrant Certificate.

Each holder of this Warrant Certificate, by taking and holding the same, consents and agrees to the terms hereof. The holder shall be entitled to the benefits of, and shall be subject to the obligations under, the Registration Rights Agreement between such holder and the Company dated the date hereof.

Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Warrant Certificate, and (in case of loss, theft or destruction) of indemnity

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reasonably satisfactory to it, and upon surrender and cancellation of this Warrant Certificate, if mutilated, the Company, upon reimbursement to it if all reasonable expenses incidental thereto, will make and deliver a new Warrant Certificate, of like tenor, in lieu of this Warrant Certificate.

Each Warrant Certificate and each certificate for Warrant Shares shall bear a legend substantially similar to the following:

> THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") AND MAY NOT BE OFFERED OR SOLD EXCEPT (1) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR (2) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO COUNSEL FOR THE COMPANY, STATING THAT AN EXEMPTION FROM REGISTRATION UNDER THE ACT IS AVAILABLE

3. Issuance of Certificates Upon Exercise of Warrants. Upon the exercise of the Warrants, certificates for the Warrant Shares purchased shall be issued and delivered to the registered holder hereof forthwith (and in any event within three business days thereafter). Such issuance and delivery of certificates shall be made without charge to the holder for any issuance tax in respect thereto; provided, however, that in the event such issuance and delivery is to a person other than the holder the Company shall not be required to (i) pay any tax which may be payable in respect of any such transfer, and (ii) issue or deliver such certificates unless and until the person requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid. No fractional shares of Common Stock or scrip or cash in respect of a fractional share shall be issued upon exercise of the Warrants evidenced hereby. Instead of a fractional share, all fractional interests shall be eliminated by rounding any fraction up or down to the nearest whole number of shares of Common Stock.

4. Redemption of Warrants. The Warrants are redeemable by the Company, in whole or in part, on not less than thirty (30) days' prior written notice at a redemption price of $.10 per Warrant (the "redemption price") at any time after the Exercise Date; provided that, (i) the closing bid quotation price of the Common Stock for the twenty (20) consecutive trading days ending not later than the seventh day prior to the day on which the Company gives notice of redemption has been at least 150% of the then effective Exercise Price per share, and (ii)

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the Warrants and the Warrant Shares are subject to an effective registration statement under the Act at the time a notice of redemption is given and at all times thereafter through the date fixed for redemption; provided further that, the condition referred to in clause (ii) shall be deemed satisfied if the holder was afforded the right and opportunity to include the Warrants and the Warrant Shares in any such registration statement and declined to do so. In case of the redemption of a part only of the outstanding Warrants, the Company shall effect such redemption pro rata among all holders of Warrants determined by multiplying the number of Warrants represented by each Warrant Certificate by a fraction, the numerator of which shall be the total number of Warrants to be redeemed by the Company and the denominator of which shall be the total number of Warrants held by all holders of Warrants. The redemption notice shall be given by mail, postage prepaid, to the holders of record of the Warrants to be redeemed, addressed to each such holder at its post office address as shown by the records of the Company. On and after the date fixed for redemption and stated in such notice, each holder of the Warrants called for redemption shall surrender the Warrant Certificate evidencing such Warrants to the Company at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. In case less than all the Warrants represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed Warrants. If such notice of redemption shall have been duly given, and if on or before the date fixed for redemption, funds necessary for the redemption shall be available therefor, then, notwithstanding that the Warrant Certificates evidencing any Warrants so called for redemption shall not have been surrendered, all rights with respect to the Warrants so called for redemption shall forthwith after such date cease and determine, except only the right of the holders to receive the redemption price without interest upon surrender of the Warrant certificates therefor. Holders of Warrants shall have the right to exercise the Warrants for the purchase of Warrant Shares until the close of business on the date fixed for redemption.

5. Change in Terms of Warrants Without the Consent of the Holders.

(a) (i) If the Company consummates the Private Placement (as defined below), or (ii) if the Private Placement is not consummated and (A) within 12 months after the Exercise Date, the Company files a registration statement under the Act covering the sale to the public of warrants (other than the Private Placement Warrants)(herein called the "other warrants"), and (B) the Company offers to include this Warrant and the Warrant Shares in such registration statement, then anything to the contrary contained herein notwithstanding,:

(1) the Company and the holder agree that the terms and conditions of this Warrant shall be automatically amended, without the consent of the holder, to the extent

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necessary so that the terms and conditions of this Warrant are identical to the terms and conditions of the Private Placement Warrants or the other warrants (as the case may be); provided that, no such amendment shall have the effect of reducing the number of Warrant Shares purchasable upon the exercise hereof or of increasing the exercise price therefor or of shortening the exercise period hereof without the written consent of the holder hereof; and

(2) the holder will surrender this Warrant for a warrant in the form of the Private Placement Warrants or other warrants (as the case may be) and the holder shall have no further rights hereunder.

(b) If the Company at any time files a registration statement under the Act covering the sale to the public of the Warrants and the Warrant Shares then anything to the contrary contained herein notwithstanding, the Company and the holder agree that the terms and conditions of this Warrant shall be automatically amended, without the consent of the holder, to the extent necessary to provide for a Warrant Agent and a certificated form of Warrant suitable for trading in the public market. The Company agrees to take such actions as are reasonably necessary to enable such Warrants and Warrants shares to be traded such as appointing a Warrant Agent and applying for a CUSIP number.

As used herein, the term "Private Placement" shall mean the proposed private offering by the Company of a minimum of 50 and a maximum of 70 units, each unit consisting of 16,667 shares of Common Stock and warrants to purchase and additional 16,667 shares of Common Stock, at a purchase price of $50,000 per unit.

6. Adjustments to Exercise Price and Number of Warrant Shares. The number and kind of shares of Common Stock of the Company that are subject to each Warrant evidenced hereby, and the Exercise Price, shall be subject to adjustment as hereinafter set forth. Upon each adjustment of the Exercise Price as provided herein, the holder of the Warrant evidenced hereby shall thereafter be entitled to purchase, at the Exercise Price resulting from such adjustment, the number of shares of Common Stock (calculated to the nearest tenth of a share) obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of Warrant Shares purchasable pursuant hereto immediately prior to such adjustment and dividing the product thereof by the Exercise Price resulting from such adjustment.

(a) Dividend and Distributions. In case the Company shall at any time after the date hereof declare a dividend payable in shares of Common Stock or make a distribution to its shareholders generally in shares of Common Stock

then, upon such dividend or distribution,





the Exercise Price in effect immediately prior to the declaration of such dividend or distribution shall be reduced to a price determined by dividing an amount equal to the total number of shares of Common Stock outstanding immediately prior to such dividend or distribution multiplied by the Exercise Price in effect immediately prior to such dividend of distribution, by the total number of shares of Common Stock outstanding immediately after such dividend or distribution.

(b) Subdivision and Combination. In case the Company shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of shares of Common Stock, the Exercise Price in effect immediately prior to such combination shall be proportionately increased.

(c) Reclassification, Consolidation, Merger, Etc.. In case of any consolidation or merger of the Company with another corporation after the Exercise Date, or the sale of all or substantially all of its assets to another corporation shall be effected after the Exercise Date or in case of any capital reorganization or reclassification of the capital stock of the Company, then, as a condition of such consolidation, merger or sale, reorganization or reclassification, lawful and adequate provision shall be made whereby the holder of this Warrant Certificate shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore purchasable and receivable upon the exercise of each Warrant evidenced hereby, such shares of stock, securities or assets as may be issuable or payable with respect to or in exchange for a number of outstanding shares of Common Stock of the Company equal to the number of shares of Common Stock immediately theretofore purchasable and receivable upon the exercise of one Warrant evidenced hereby had such consolidation, merger, sale, reorganization, or reclassification not taken place, and in any such case appropriate provision shall be made with respect to the rights and interest of the registered holder of this Warrant Certificate to the end that the provisions hereof (including without limitation provisions for adjustment of the Exercise Price) shall thereafter be applicable, as nearly as may be, in relation of any shares of stock, securities or assets thereafter deliverable upon the exercise of the Warrants evidenced hereby.

For purposes of this Warrant Certificate, the term "Common Stock" shall mean shares of the Common Stock, $.01 par value, of the Company, and shall also

include any shares of capital stock into which the Common Stock may be changed, reclassified or converted.



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7. Notices to Warrant Holders. If any of the following events shall occur:

(a) There shall be any adjustment of the Exercise Price or the number of shares of Common Stock subject to the Warrants evidenced hereby;

(b) The Company shall declare to the holders of its shares of Common Stock any dividend or distribution payable otherwise than in cash or if in cash payable otherwise than out of current or retained earnings;

(c) The Company shall declare any dividend upon its shares of Common Stock payable in Common Stock or in securities convertible into or exchangeable for Common Stock, or any right or option to subscribe therefore;

(d) there shall be any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of The Company with, or sale of all or substantially all its assets to, another corporation; or

(e) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of The Company;

then, in any one or more of said cases, the Company shall give written notice, by first class mail, postage prepaid, to the holder hereof, of the date on which (A) the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights, or (B) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of shares of Common Stock of record shall participate in such dividend, distribution or subscription rights or shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such written notice shall be given at least 30 days prior to the action in question and not less than 30 days prior to the record date or the date on which The Company's transfer books are closed in respect thereto.

8. Reservation of Shares. The Company shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of its issue upon the exercise of the Warrants evidenced hereby as herein provided, such number of shares of Common Stock as shall then be

issuable upon the exercise of the Warrants evidenced hereby. The Company shall not take any action which results in any adjustment of the Exercise Price





if the total number of shares of Common Stock issued and issuable after such action upon exercise of the Warrants evidenced hereby would exceed the total number of shares of Common Stock then authorized by the Certificate of Incorporation of The Company.

9. Registered Holder; No Rights as Stockholder. The person in whose name this Warrant Certificate is registered shall be deemed the owner hereof and of the Warrant evidenced hereby for all purposes. The registered holder of this Warrant Certificate shall not be entitled to any rights whatsoever as a stockholder of The Company except as herein provided.

10. Notices. All notices, requests or instructions hereunder shall be in writing and delivered personally or sent by registered or certified mail, postage prepaid as follows: (1) if to the Company: 7335 S. Lewis, Suite 302, Tulsa, OK 74136; (2) if to the holder of the Warrants evidenced hereby, at its address last recorded in the books of the Company. Any of the above addresses may be changed at any time by notice given as provided above; provided, however, that any such notice of change of address shall be effective only upon receipt.

11. Amendments. Except as other wise provided in Section 5 hereof, this Warrant Certificate may not be amended or modified without the written consent of the holder and the Company.

12. Governing Law. This Agreement shall be deemed to have been made and delivered in the State of New York and shall be governed as to validity, interpretation, construction, effect and in all other respects by the internal laws of the State of New York.

IN WITNESS WHEREOF, Multimedia Games, Inc. has caused this Warrant Certificate to be signed by its duly authorized officers and this Warrant Certificate to be dated as of the date first written above.

ATTEST: MULTIMEDIA GAMES, INC.

By:

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FORM OF EXERCISE

The undersigned hereby irrevocably exercises _____ Warrants to subscribe for and purchase shares of Common Stock, $.01 par value("Common Stock"), of Multimedia Games, Inc., evidenced by the within Warrant Certificate and herewith makes payment of the purchase price in full. Kindly issue certificates for shares of Common Stock in accordance with the instructions given below. The certificate for the unexercised balance of the Warrants evidenced by the within Warrants Certificate, if any, will be registered in the name of the undersigned.

DATED:
---

Instructions for Registration of stock

---
Name (please print)

---
Social Security or Other identifying Number;

ADDRESS:

---
Street

---
City, State and Zip Code

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FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Warrant Certificate)

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto

(Please print name and address of transferee)

this Warrant certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____, Attorney, to transfer the within Warrant certificate on the books of the within named Company, with full power of substitution.

Dated:

Signature:

(Signature must conform in all respects to name of the holder as specified in the face of the Warrant certificate)

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Social Security or Tax I.D. No.

EXHIBIT 10.7

THE WARRANTS EVIDENCED HEREBY AND THE SHARES OF COMMON STOCK ISSUABLE UPON THE EXERCISE OF SUCH WARRANTS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") AND MAY NOT BE OFFERED OR SOLD EXCEPT (1) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR (2) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO COUNSEL FOR THE COMPANY, STATING THAT AN EXEMPTION FROM REGISTRATION UNDER THE ACT IS AVAILABLE

MULTIMEDIA GAMES, INC.

WARRANT CERTIFICATE TO ACQUIRE COMMON STOCK,
$.01 PAR VALUE, OF MULTIMEDIA GAMES, INC.

VOID AFTER [INSERT DATE]

CERTIFICATE FOR [INSERT NUMBER OF ] WARRANT(S)

THIS WARRANT IS REDEEMABLE AS PROVIDED HEREIN

THIS CERTIFIES THAT

or registered assigns, has the right to purchase at any time after [INSERT NINE MONTH DATE AFTER THE INITIAL CLOSING DATE] (the "Exercise Date") and on or before the close of business on [INSERT FIFTH ANNIVERSARY OF THE INITIAL CLOSING DATE], (the "Expiration Date"), one fully paid and non-assessable share of Common Stock, $.01 par value (the "Common Stock"), of MULTIMEDIA GAMES, INC., a Texas corporation (hereinafter called the "Company"), for each Warrant represented hereby, upon payment therefor in cash at the rate initially of $8.00 per share of such Common Stock (the "Exercise Price") between the Company and Corporate Stock Transfer, Inc., as Warrant Agent (as the same may from time to time be





amended, the "Warrant Agreement"), subject to the adjustments, terms and conditions herein and in the Warrant Agreement. If at any time no other Warrant Agent is acting for the Company, the Company shall be deemed the Warrant Agent.

This Warrant Certificate is issued pursuant to the terms and provisions of the Warrant Agreement and each holder of a Warrant is entitled to the benefits thereof. The Warrant Agreement provides, among other things, for adjustment of the Exercise Price and the number of shares of Common Stock issuable upon exercise of this Warrant Certificate in certain events, including the issuance of Common Stock as a stock dividend; sub-divisions, combinations and reclassifications of the Common Stock; the distribution to all holders of Common Stock of evidences of indebtedness, assets (excluding cash dividends or other distributions) or rights to subscribe other than those mentioned above; and certain mergers, consolidations and sales of substantially all the assets of the Company. Upon each such adjustment, notice thereof will be given by filing a statement thereof with the Warrant Agent and by mailing a copy of such notice to all registered holders of Warrant Certificates.

No fractional shares of Common Stock will be issued upon the exercise of a Warrant; instead, the Warrant holder will be entitled to receive cash for such fractional interest at current market value.

The Warrants are redeemable by the Company, in whole or in part, on not less than 30 days' prior written notice at a redemption price of $.10 per Warrant (the "redemption price") at any time after the Exercise Date; provided that, (i) the closing bid quotation price of the Common Stock for the 20 consecutive trading days ending not later than the seventh day prior to the day on which the Company gives notice of redemption has been at least 150% of the then effective Exercise Price per share, and (ii) the Warrants and the Warrant Shares are



subject to an effective registration statement under the Securities Act of 1933, as amended, (the "Act") at the time a notice of redemption is given and at all times thereafter through the date fixed for redemption; provided further that, the condition referred to in clause (ii) shall be deemed satisfied if the holder was afforded the right and opportunity to include the Warrants and the Warrant Shares in any such registration statement and declined to do so. On and after the date fixed for redemption and stated in such notice, each holder of the Warrants called for redemption shall surrender the Warrant Certificate evidencing such Warrants to the Company at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. If such notice of redemption shall have been duly given, and if on or before the date fixed for redemption, funds necessary for the redemption shall be available therefor, then, notwithstanding that the Warrant Certificates evidencing any Warrants so called for redemption shall not have been surrendered, all rights with respect to the Warrants so called for redemption shall forthwith after such date cease and determine, except only the right of the holders to receive the redemption price without interest upon surrender of

the Warrant Certificates therefor. Holders of the Warrant shall have the right to exercise the Warrants for the purchase of Warrant Shares until the close of business on the date fixed for redemption.

Each Warrant represented hereby may be exercised by presentation and surrender of this Certificate at the office of the Warrant Agent, with the Form of Exercise on the reverse hereof duly executed, accompanied by payment for the shares of Common Stock purchased and, if required, with the Form of Assignment on the reverse hereof or a separate instrument of transfer duly executed with signature guaranteed. In the event that the number of Warrants so exercised is less than the total number of Warrants represented hereby, there will be issued to the person so exercising the Warrants, or his registered assigns, a new





Warrant Certificate representing the number of Warrants not exercised.

In the event of the liquidation, dissolution or winding-up of the Company, in cases where the property to be distributed to the holders of Common Stock of the Company consists principally of other than securities of another entity which shall have purchased all or substantially all of the Company's assets, the right to exercise Warrants shall terminate at the close of business on the fourth full business day before the earliest date fixed for the payment of any amount distributable on the Common Stock of the Company; provided that, at least 45 days prior thereto, notice of such payment date shall have been given by the Warrant Agent in writing to all registered holders of Warrant Certificates. Warrants shall terminate and shall be of no further force and effect at such close of business on such date.

Holders of Warrant Certificates, as such holders, shall have no voting or any other rights of a stockholder of the Company, shall have no right, other than the right evidenced thereby, to purchase or receive Common Stock of the Company, shall not be entitled to subscribe to or purchase any additional or increased stock of the Company of any class, whether now or hereafter authorized, or obligations convertible into any class or classes of stock, or stock of any class convertible into stock of any other class or classes, or obligations, stock or other securities carrying warrants or rights to subscribe to stock of the Company of any class or classes, whether now or hereafter authorized.

This Warrant Certificate is transferable by the registered holder in person or by his duly authorized attorney on the books of the Company at the office of the Warrant Agent upon surrender of this Certificate with the Form of Assignment on the reverse hereof duly endorsed or with other appropriate instruments of transfer duly endorsed with signature

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guaranteed and payment of any transfer taxes or other governmental charges in connection with such transfer.

This Warrant Certificate is exchangeable for Warrant Certificates of different denominations at the office of the Warrant Agent upon surrender of this Certificate, duly endorsed or with appropriate instruments of transfer. Warrant Certificates issued upon transfers and exchanges shall be issued only for full Warrants or an integral multiple thereof. Warrant Certificates which are transferred shall be canceled.

This Warrant is not valid unless countersigned by the Warrant Agent.

Unless sooner terminated as provided herein upon exercise or upon liquidation, dissolution or winding-up of the Company, the purchase rights under the Warrants shall terminate on the Expiration Date and thereafter the Warrants represented by this Certificate shall be of no further force and effect.

WITNESS the facsimile signature of the proper officer of the Company and its facsimile seal.

Dated:
---

COUNTERSIGNED:

[INSERT NAME]
Warrant Agent,

By:
---
Authorized Officer

MULTIMEDIA GAMES, INC.

By:
---
Authorized Officer

ATTEST:

---
Secretary





[FORM OF REVERSE SIDE OF CERTIFICATE]

FORM OF EXERCISE

The undersigned hereby irrevocably exercises _____ Warrants to subscribe for and purchase shares of Common Stock of the within named Company evidenced by this Warrant Certificate and herewith makes payment of the purchase price in full. Kindly issue certificates for shares of Common Stock in accordance with the instructions given below. The certificate for the unexercised balance of the Warrants evidenced by the within Warrants Certificate, if any, will be registered in the name of the undersigned.

DATED:
---

Instructions for Registration of stock

---
Name (please print)

---
Social Security or Other identifying Number;

ADDRESS:

---
Street

---
City, State and Zip Code

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FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Warrant Certificate)

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto

(Please print name and address of transferee)

this Warrant Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____, Attorney, to transfer the within Warrant Certificate on the books of the within named Company, with full power of substitution.

Dated:

Signature:

(Signature must conform in all respects to name of the holder as specified in the face of the Warrant certificate)

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Social Security or Tax I.D. No.

EXHIBIT 10.8

THIS NOTE AND THE SECURITIES ISSUABLE UPON THE CONVERSION OF THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") AND MAY NOT BE OFFERED OR SOLD EXCEPT (1) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR (2) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO COUNSEL FOR THE COMPANY, STATING THAT AN EXEMPTION FROM REGISTRATION UNDER THE ACT IS AVAILABLE

# CONVERTIBLE PROMISSORY NOTE

$[Insert Purchase Price] Dated: [Insert Closing Date]

FOR VALUE RECEIVED, the undersigned MULTIMEDIA GAMES, INC., a Texas corporation ("Payor" or the "Company") HEREBY PROMISES TO PAY to the order of [Insert name of Purchaser] (the "Payee"), the principal sum of [Insert Purchase Price] ($_____). The principal amount of, and any accrued and unpaid interest on, this Note shall be due and payable by Payor on the earlier of [Insert first anniversary of Closing Date], or upon the occurrence of an Event of Default (defined below)(such earlier date being hereinafter called the "Maturity Date").

This Note shall bear interest at a rate of ten and one-half percent (10.5%) per annum payable on the Maturity Date.

This Note is issued pursuant to a Subscription Agreement, dated July ___, 1996 (the "Subscription Agreement"), by and between Payor and Payee; and Payee or any successor holder hereof is entitled to the benefits thereof, may enforce the agreements of the





Payor contained therein and may exercise the remedies provided for thereby.

1. Prepayment. This Note may not be prepaid by Payor prior to its maturity except as provided in this Section 1. Payor shall be required to prepay this Note, without premium or penalty, out of the net proceeds of the Private Placement (defined below) or an underwritten public offering by the Company of its securities for cash. Any such payment shall be applied, first,

to any interest accrued but unpaid to the date of such payment and, second, to the unpaid principal amount of this Note. Payee agrees to make a notation on this Note of any such payment, as of the prepayment date, of the prepaid portion of the principal amount hereof. All payments of principal and interest shall be in lawful money of the United States and made to Payee at his address heretofore provided to Payor. Any such prepayment shall be subject to the right of the holder to convert this Note as provided in Section 2 hereof.

2. Conversion.

(a) Upon Private Placement. (i) If prior to the Maturity Date the Company consummates the Private Placement, the holder of this Note may, at the time of Closing of the Private Placement:

(A) convert all or any part of the principal amount of this Note (in integral multiples of not less than such fraction of a unit of the Private Placement Securities (defined below) as may be demanded by the holder) by surrendering this Note to the Company together with a duly executed Notice of Conversion in the form annexed hereto not later than five (5) business days prior to the date of closing of the Private Placement, and

(B) apply such principal amount so converted to the purchase price of the Private Placement Securities; provided that, such holder shall have satisfied all other terms and





conditions applicable to a purchaser of Private Placement Securities.

The Company shall provide the holder with at least 10 business days prior written notice of the date of closing of the Private Placement.

(ii) At the time of closing of the Private Placement, the Company shall deliver to the holder:

(A) to the extent the holder has duly exercised its right of conversion as provided in Section 2(a), certificates evidencing the Private Placement Securities so purchased, plus interest to the date of such conversion on the principal amount so converted at the rate of interest provided in this Note; and

(B) to the extent the holder has not exercised for conversion the entire principal amount of this Note, a certified or bank cashiers' check in an amount equal to the principal amount of this Note that was not so converted, plus interest thereon to the date of such payment at

the rate of interest provided in this Note.

(b) Conversion Into Conversion Units. (i) Prior to the closing of the Private Placement and at any time after the earlier of:

(A) the date of any prepayment required under Section 1 hereof by reason of the Company having consummated an underwritten public offering of its securities for cash, or

(B) the Maturity Date (whether at the scheduled maturity or earlier by reason of an Event of Default) unless the Company defaults in the payment of principal and interest on





the Maturity Date then until such later date on which payment of the principal and interest is made, or

(C) commencing on and at any time after the 270th day after the date of this Note,

the principal amount of this Note may, at the option of the holder, be converted into units (each a "Conversion Unit" and collectively the "Conversion Units") at a conversion price (the "Conversion Price") of $3.00 per Conversion Unit. Each Conversion Unit shall consist of (x) one (1) share of Common Stock and (y) one (1) Redeemable Stock Purchase Warrant representing the right to purchase for a period of five years from the date of issuance thereof one share of Common Stock at $8.00 per share and otherwise in substantially the same form as a Warrant (defined below). The Company shall provide the holder with at least 10 business days prior written notice of an event described in Section 2(b)(i)(A) and (B) other than the maturity of this Note upon its scheduled Maturity Date.

(ii) In order to exercise such conversion privilege, the holder of this Note shall surrender this Note to the Company together with a duly executed Notice of Conversion in the form annexed hereto at least two (2) business days prior to the date of such conversion. Upon such conversion, certificates for the Conversion Units shall be issued and delivered to the registered holder hereof forthwith (and in any event within five business days thereafter). Such issuance and delivery of certificates shall be made without charge to the holder for any issuance tax in respect thereto; provided, however, that in the event such issuance and delivery is to a person other than the holder the Company shall not be required to (i) pay any tax which may be payable in respect of any such transfer, and (ii) issue or deliver such certificates unless and until the person requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to

the satisfaction of the Company that such tax has





been paid. No fractional shares of Common Stock or warrants or scrip or cash in respect of a fraction shall be issued upon conversion of the Notes. Instead, all fractional interests shall be eliminated by rounding any fraction up or down to the nearest whole number of shares of Common Stock or of warrants.

(iii) In the case of a conversion of less than all of this Note, the Company shall cancel this Note upon the surrender thereof and shall execute and deliver a new Note of like tenor for the balance of the principal amount thereof; provided that, if such conversion is in connection with an event described in Section 2(b)(i)(A) and (B), to the extent the holder has not exercised for conversion the entire principal amount of this Note, the Company shall deliver a certified or bank cashiers' check in an amount equal to the principal amount of this Note that was not so converted, plus interest thereon to the date of such payment at the rate of interest provided in this Note.

3. Transfer of Note. This Note and the Conversion Units issuable upon the conversion hereof may not be sold, transferred, assigned, hypothecated or otherwise disposed of unless such transfer would not result in a violation of the provisions of the Act and the rules and regulations promulgated under the Act. No such sale or transfer shall be permitted unless a registration statement with respect thereto is declared effective under the Act or the Company receives an opinion of counsel satisfactory to the Company that an exemption from the registration requirements of the Act is available. If permitted by the foregoing, any such sale, transfer, assignment, hypothecation or other disposition shall be effected by the holder surrendering this Note for cancellation at the office or agency of the Company maintained for such purpose, accompanied by an opinion of counsel satisfactory to the Company and its counsel, stating that an exemption from the registration requirements is available and by an annexed Form of Assignment duly executed.





Each Note and each certificate for Conversion Units shall bear a legend substantially similar to the following:

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE

"ACT") AND MAY NOT BE OFFERED OR SOLD EXCEPT (1) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR (2) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO COUNSEL FOR THE COMPANY, STATING THAT AN EXEMPTION FROM REGISTRATION UNDER THE ACT IS AVAILABLE

4. Adjustments. (a) The number and kind of Conversion Units that are subject to the conversion of this Note, and the Conversion Price, shall be subject to adjustment as hereinafter set forth. Upon each adjustment of the Conversion Price as hereinafter provided herein, the holder of the Note shall thereafter be entitled to purchase, at the new Conversion Price resulting from such adjustment, the number of Conversion Units (calculated to the nearest tenth of a Unit) obtained by multiplying the Conversion Price in effect immediately prior to such adjustment by the number of Conversion Units purchasable pursuant hereto immediately prior to such adjustment and dividing the product thereof by the Conversion Price resulting from such adjustment. In addition to any such adjustment in the Conversion Units, appropriate adjustment shall also be made to the exercise price of warrants comprising a part of the Conversion Units.

(b) In case the Company shall at any time after the date hereof declare a dividend payable in shares of Common Stock or make a distribution to its shareholders generally in shares of Common Stock then, upon such dividend or distribution, the Conversion Price in effect immediately prior to the declaration of such dividend or distribution shall be reduced to a price determined by dividing an amount equal to the total number of shares of Common



Stock outstanding immediately prior to such dividend or distribution multiplied by the Conversion Price in effect immediately prior to such dividend of distribution, by the total number of shares of Common Stock outstanding immediately after such dividend or distribution.

(c) In case the Company shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock, the Conversion Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of shares of Common Stock, the Conversion Price in effect immediately prior to such combination shall be proportionately increased.

(d) In case of any consolidation or merger of the Company with another corporation after the date hereof, or the sale of all or substantially all of its assets to another corporation shall be effected after the date hereof or in case of any capital reorganization or reclassification of the

capital stock of the Company, then, as a condition of such consolidation, merger or sale, reorganization or reclassification, lawful and adequate provision shall be made whereby the holder of this Note shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified herein and in lieu of the Conversion Units immediately theretofore purchasable and receivable upon the conversion of this Note, such shares of stock, securities or assets as may be issuable or payable with respect to or in exchange for a number of outstanding shares of Common Stock of the Company equal to the number of shares of Common Stock immediately theretofore receivable upon the conversion of this Note had such consolidation, merger, sale, reorganization, or reclassification not taken place, and in any such case appropriate provision shall be made with respect to the rights and interest of the registered holder of this Note to the end that the provisions hereof (including without limitation provisions for adjustment of



the Conversion Price) shall thereafter be applicable, as nearly as may be, in relation of any shares of stock, securities or assets thereafter deliverable upon the conversion of this Note.

5. Notices to Holders. If any of the following events shall occur:

(a) there shall be any adjustment of the Conversion Price or the number of Conversion Units issuable upon the conversion of this Note;

(b) the Company shall declare to the holders of its shares of Common Stock any dividend or distribution payable otherwise than in cash or if in cash payable otherwise than out of current or retained earnings;

(c) the Company shall declare any dividend upon its shares of Common Stock payable in Common Stock or in securities convertible into or exchangeable for Common Stock, or any right or option to subscribe therefore;

(d) there shall be any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all its assets to, another corporation; or

(e) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, in any one or more of said cases, the Company shall give written notice, by first class mail, postage prepaid, to the holder hereof, of the date on which (a) the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights, or (b) such reorganization,

reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also





specify the date as of which the holders of shares of Common Stock of record shall participate in such dividend, distribution or subscription rights or shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such written notice shall be given at least 10 days prior to the action in question and not less than 10 days prior to the record date or the date on which the Company's transfer books are closed in respect thereto.

6. Reservation of Common Stock. The Company shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of its issue upon the conversion of this Note, such number of shares of Common Stock as shall then be issuable upon such conversion. The Company shall not take any action which results in any adjustment of the Conversion Price if the total number of shares of Common Stock issued and issuable after such action upon the conversion of this Note would exceed the total number of shares of Common Stock then authorized by the Certificate of Incorporation of the Company.

7. Events of Default. If any of the following events shall occur and be continuing (herein called "Events of Default"):

(a) if the Company defaults in the payment of the principal of, and interest on, the Note when the same shall become due, either by the terms thereof or otherwise as herein provided;

(b) if for more than 30 days the Company or any majority owned subsidiary defaults in any other obligation for borrowed money beyond any period of grace provided with respect thereto or in the performance of any other agreement, term or condition contained in any agreement under which any such obligation is created if the effect of such default is to cause, or permit the holder or holders of such obligation (or a trustee on behalf of





such holder or holders) to cause such obligation to become due prior to its stated maturity;

(c) if any material representation or warranty made by the Company herein or in any writing furnished by the Company to the Purchaser in connection with this Note and the Subscription Agreement shall he false in any material respect;

(d) if the Company defaults in the performance or observance of any other agreement, term or condition contained herein and such default shall not have been remedied within 30 days after written notice thereof shall have been received by the Company from the Purchaser;

(e) if the Company or any majority owned subsidiary makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts in the ordinary course of business or is adjudicated bankrupt or insolvent;

(f) if the Company or any majority owned subsidiary petitions or applies to any tribunal for the appointment of a trustee or receiver of the Company or any subsidiary, or of any substantial part of the assets of the Company or any subsidiary, or commences any proceedings relating to the Company or any subsidiary under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect; or if any such petition or application is filed, or any such proceedings are commenced, against the Company or any subsidiary, and the Company or such subsidiary by any act indicates its approval thereof, consent thereto, or acquiescence therein, or an order is entered appointing any such trustee or receiver, or approving the petition in any such proceedings, and such order remains in effect for more than 60 days; or





(g) if any order is entered in any proceedings against the Company decreeing the dissolution or liquidation of the Company, and such order remains in effect for more than 60 days;

then the holder may, at its option, by notice in writing to the Company declare the Note to be, and the Note shall (subject to the right of the holder to convert the Note as provided in Section 2(b)) thereupon be and become, forthwith due and payable together with all accrued but unpaid interest thereon.

8. Definitions. As used in this Note, the following terms have the meanings indicated:

"Placement Agent" shall mean as such term is defined in the Subscription

Agreement.

"Private Placement" shall mean the proposed private offering by the Company of a minimum of 50 and a maximum of 70 units, each unit consisting of 16,667 shares of Common Stock and warrants to purchase and additional 16,667 shares of Common Stock, at a purchase price of $50,000 per unit.

"Private Placement Securities" shall mean the securities of the Company issued pursuant to the Private Placement.

"Warrant" shall mean the warrant issued to the holder as part of a unit that includes this Note.

9. Miscellaneous. (a) The rights and obligations of Payor may not be assigned to any other person without the express written consent of Payee.

(b) Upon receipt of evidence satisfactory to Payor of the loss, theft, destruction or mutilation of the Note and, in the case of any such loss, theft, or destruction, upon delivery of a bond of indemnity satisfactory to Payor, or in the case of any such



mutilation, upon surrender and cancellation of the Note, Payor will issue a new Note in lieu of such lost, stolen, destroyed or mutilated Note.

(c) The person in whose name this Note is registered shall be deemed the owner hereof for all purposes. The registered holder of this Note shall not be entitled to any rights whatsoever as a stockholder of the Company except as herein provided.

(d) No course of dealing between Payor and the holder hereof or any delay or failure on the part of the holder of this Note in exercising any rights hereunder shall operate as a waiver of any rights hereunder, except to the extent expressly waived in writing by the holder hereof.

(e) Should any dispute arise between Payor and Payee with respect to this Note, the party prevailing in such dispute as determined by a court of competent jurisdiction shall be entitled to recover the reasonable fees and expenses of his legal counsel.

(f) All the covenants, stipulations, promises and agreements in this Note contained by or on behalf of Payor shall bind his successors and assigns, whether so expressed or not.

(g) This Note shall be governed by the laws of the State of New York.

MULTIMEDIA GAMES, INC.

By: _____



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NOTICE OF CONVERSION

TO MULTIMEDIA GAMES, INC.

The undersigned owner of this Note hereby irrevocably exercises the option to convert this Note, or portion hereof as designated below, into:

CHECK ONE

[ ] If the Private Placement has been consummated, Units consisting of shares of Common Stock and Redeemable Stock Purchase Warrants issued pursuant to the Private Placement

[ ] Conversion Units

in each case in accordance with the terms of this Note, and directs that the securities issuable and deliverable upon the conversion and any Notes representing any unconverted principal amount hereof, be issued and delivered to the undersigned unless a different name has been indicated below. If securities or Notes are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto.

Dated _____, 19___

_____

Signature

Fill in for registration of securities or Notes if different from registered owner.

---------- ----------

(Name) SS or Tax ID No.

----------

(Address)

---------- ----------

Please Print Name and Address Principal Amount Converted

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FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Note)

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto

(Please print name and address of transferee)

this Note, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____, Attorney, to transfer this Note on the books of the within named Company, with full power of substitution.

Dated: Signature:

(Signature must conform in all respects to name of the holder as specified in the face of the Note)

---

Social Security or Tax I.D. No.

EXHIBIT 10.11

# MULTIMEDIA GAMES, INC.

## REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated to be effective as of the final closing under the Offering (as defined below), by and among MULTIMEDIA GAMES, INC., a Texas corporation (the "Company"), each Holder (as defined below) and WALSH, MANNING SECURITIES, INC., as a Holder and as Agent for the Holders,

W I T N E S S E T H:

WHEREAS, simultaneously with the execution and delivery of this Agreement, the Holders are purchasing from the Company (the "Offering") not less than 50 Units, nor more than 70 Units, each Unit consisting of (i) 16,667 shares of the Company's Common Stock, $.10 par value (the "Offering Stock"), and (ii) 16,667 Redeemable Common Stock Purchase Warrants (collectively the "Offering Warrants"), each entitling the holder thereof to purchase one share of Common Stock (collectively the "Offering Warrant Shares")

WHEREAS, prior to the effective date of this Agreement, the Company offered and sold (the "Bridge Offering") 16 Units, each Unit consisting of (i) a promissory note of the Company in the principal amount of $50,000, and (ii) 22,500 Redeemable Common Stock Purchase Warrants (collectively the "Bridge Warrants"), each entitling the holder thereof to purchase one share of Common Stock (collectively the "Bridge Warrant Shares");

WHEREAS, in connection with the Bridge Offering, the Company issued to designees of the Agent 173,310 Redeemable Common Stock Purchase Warrants (collectively the "Bridge Placement Warrants") each entitling the holder thereof to purchase one share of Common Stock (collectively the "Bridge Placement Warrant Shares");





WHEREAS, in connection with the Offering, the Company contemplates issuing to the Agent or its designees 350,000 Redeemable Common Stock Purchase Warrants (collectively the "Offering Placement Warrants") each entitling the holder thereof to purchase one share of Common Stock (collectively the

"Offering Placement Warrant Shares");

WHEREAS, the Company is willing to register the Registerable Securities (as defined below) under the 1933 Act upon the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements herein contained, the parties hereto agree as follows:

ARTICLE I

Certain Definitions

For the purposes of this Agreement, the following terms have the following meanings:

"Affiliate", with respect to any Person, means any other Person directly or indirectly controlling, controlled by or under common control with, such Person. For purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" or "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Beneficial owner" or "beneficially own" has the meaning given such term in Rule 13d-3 under the 1934 Act.



"Business Day" means any day, excluding Saturday, Sunday and any other day on which commercial banks in Boston, Massachusetts or New York, New York are authorized or required by law to close.

"Commission" means the Securities and Exchange Commission, and any successor commission or agency having similar powers.

"Common Stock" means the shares of Common Stock, $.01 par value, of the Company.

"Holder" means the Holder, any Permitted Transferee of a Holder (and any subsequent Permitted Transferee) that, in each case, holds Registrable Securities.

"1933 Act" means the Securities Act of 1933, as amended, and the

rules and regulations thereunder.

"1934 Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Permitted Transferee" means any Person that (i) shall be the registered owner of Registerable Securities in accordance with the terms thereof, and (ii) shall have executed and delivered to the Company an executed counterpart of this Agreement and shall have agreed to be bound hereunder in the same manner and to the same extent as the Holder is bound hereunder.

"Person" means an individual, a partnership, a joint venture, a corporation, an association, a trust, an individual retirement account or any other entity or organization, including a government or any department or agency thereof.





"Registrable Securities" means the Bridge Warrants, the Bridge Warrant Shares, the Bridge Placement Warrants, the Bridge Placement Warrant Shares, the Offering Stock, the Offering Warrants, the Offering Warrant Shares, the Offering Placement Warrants and the Offering Placement Warrant Shares, in each case as adjusted pursuant to the provisions of the applicable instrument evidencing such securities. Registrable Securities shall cease to be Registrable Securities when (i) a registration statement (other than a registration statement on Form S-8) with respect to the sale of such securities shall have become effective under the 1933 Act and such securities shall have been disposed of under such registration statement, (ii) they shall have been distributed to the public pursuant to Rule 144, (iii) they shall have been otherwise transferred or disposed of other than to a Permitted Transferee, or (iv) any transfer or disposition of them to the public shall not require their registration or qualification under the 1933 Act or any similar state law then in force, or (v) they shall have ceased to be outstanding.

"Registration Expenses" means all expenses incident to the Company's performance of or compliance with Article II of this Agreement, including, without limitation, all registration and filing fees (including filing fees with respect to the National Association of Securities Dealers, Inc.), all fees and expenses of complying with state securities or "blue sky" laws (including reasonable fees and disbursements of underwriters' counsel in connection with any "blue sky" memorandum or survey), all printing expenses, all listing fees, all registrars' and transfer agents' fees, the fees and disbursements of

counsel for the Company and of its independent public accountants, including the expenses of any special audits and/or "cold comfort" letters required by or incident to such performance and compliance; provided that, "Registration Expenses" shall not include underwriting discounts and commissions and applicable transfer taxes, if





any, and any fees and disbursements of counsel retained by the Holders of Registrable Securities being registered, which shall be borne by the sellers of the Registrable Securities being registered in all cases.

"Rule 144" means Rule 144 (or any successor provision) under the 1933 Act.

"Rule 144 Transaction" means any Sale of Shares made in reliance upon Rule 144 (as in effect on the date hereof) that complies with paragraphs (e), (f) and (g) thereof (as in effect on the date hereof), regardless of whether at the time of such Sale the seller is entitled to rely upon paragraph (k) of Rule 144 in connection with the Sale of such Shares.

"Share" means any share of Common Stock and, unless the context otherwise requires, any Bridge Warrant Shares and Warrant Shares. Share shall also mean any equity securities received in exchange for or with respect to the Common Stock by way of merger, consolidation, exchange, stock dividend or reorganization or recapitalization involving the Company in which the Company is the surviving or resulting entity.

"Warrants" means, collectively, the Bridge Warrants, the Bridge Placement Warrants, the Offering Warrants and the Offering Placement Warrants.

## ARTICLE II

## Registration Rights

SECTION 2.1 Registration Upon Demand.

(a) At any time after the earlier of (i) six months from the date of this Agreement, or (ii) nine months from the date of closing of the Bridge Offering, the Agent on behalf of the Holders

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or the Holders of a majority in interest of the Registerable Securities, may make a written demand of the Company for registration with the Commission under and in accordance with the provisions of the 1933 Act of all or part of their Registrable Securities (a "Demand Registration"); provided, however, that the Company need only effect one Demand Registration. Such request shall specify the aggregate number of the Registrable Securities proposed to be sold and shall also specify the intended method of disposition thereof. Within ten (10) days after receipt of such request, the Company shall give written notice (the "Notice") of such registration request to all other Holders stating that the Company will include in such registration all Registrable Securities as to which the Company has received written requests for inclusion therein within twenty (20) Business Days after the giving of the Notice. Each Notice shall also specify the number of Registrable Securities requested to be registered and the intended method of disposition thereof. Within five (5) Business Days after the expiration of such twenty (20) Business Days, the Company will notify all the Holders to be included in such registration of the other Holders and the number of Registrable Securities requested to be included therein.

(b) Participation by Other Parties. No Person other than a Holder shall be permitted to offer any securities under any Demand Registration unless (x) such Person is entitled to exercise "piggyback" or incidental registration rights pursuant to an existing contractual commitments with the Company and (y) if such contractual commitments permit, the Holders participating in such Demand Registration and their underwriters, if any, in their sole discretion, determine that such Demand Registration can accommodate such additional participation.

(c) Effective Registration and Expenses. The Company shall use its best efforts to cause any registration made pursuant to this Section 2.1 to be declared effective as soon as possible; provided that, the Agent or the Holders of a majority in interest



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of the Registerable Securities to be included in such registration may, by written notice to the Company prior to such registration being declared effective, withdraw such demand without prejudice to any future demand made by the Agent or such Holders pursuant to this Section 2.1. A registration will not count as a Demand Registration until it has become effective and has remained effective for the longer of (i) such time as the Warrants are no longer outstanding, or (ii) a Holder has disposed of its Registerable Securities pursuant to such registration, or (iii) nine (9) months from the effective date of such registration. The Company shall pay all Registration Expenses in

connection with a registration made pursuant to this Section 2.1, whether or not such registration becomes effective or Registrable Securities are sold thereunder.

(d) Selection of Underwriters. If any Demand Registration is an underwritten offering, the Agent or the Holders holding a majority of the Registrable Securities to be registered by the Holders may, at their option, select and obtain the investment banker or bankers and managing underwriter or underwriters that will administer the offering, such investment banker or bankers and managing underwriter or underwriters to be reasonably satisfactory to the Company.

SECTION 2.2. Incidental Registration.

(a) If the Company at any time proposes to register for its own account or for the account of a selling shareholder, securities under the 1933 Act on a form and in a manner that would permit registration of Registrable Securities for sale to the public under the 1933 Act, it will each such time give prompt written notice to all Holders of Registrable Securities of its intention to do so, describing such securities and specifying the form and manner and the other relevant facts involved in such proposed registration (including, without limitation, whether or not such registration will be in connection with an underwritten offering of its Common



Stock and, if so, the identity of the managing underwriter and whether such offering will be pursuant to a "best efforts" or "firm commitment" underwriting). Upon the written request of any such Holder of Registrable Securities delivered to the Company within 20 days after such notice shall have been given to such Holder (which request shall specify the Registrable Securities intended to be disposed of by such Holder and the intended method of disposition thereof), the Company will use its best efforts to effect the registration under the 1933 Act, as expeditiously as is reasonable, of all Registrable Securities that the Company has been so requested to register by the Holders of Registrable Securities, to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities so to be registered; provided, however, that:

(i) if, at any time after giving such written notice of its intention to register any of such securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register such securities, the Company may, at its election, give written notice of such determination to each Holder of Registrable Securities that has requested to register Registrable Securities and thereupon the Company shall be relieved of its

obligation to register any Registrable Securities in connection with such registration (but not from its obligation to pay the Registration Expenses in connection therewith to the extent provided in Section 2.2(b));

(ii) if the registration so proposed by the Company involves an underwritten offering of the securities to be registered and the managing underwriter thereof advises the Company that, in its opinion, the number of securities proposed to be included in such offering by the Company and the number of shares of Registrable Securities proposed to be included in such offering by the Holder or Holders thereof should be limited due to market conditions, the Company may require, by written notice to each such





Holder that, to the extent necessary to meet such limitation on the number of shares of Registrable Securities that the Holders are permitted to sell, all Holders of Registrable Securities proposing to sell shares of Registrable Securities in such offering shall share pro rata in the number of shares of Registrable Securities to be excluded from such offering, such sharing to be based on the respective numbers of shares of Registrable Securities as to which registration has been requested by such Holders. To the extent any Registerable Securities are required to be excluded from such underwritten offering (the "Excluded Securities"), such Excluded Securities shall nevertheless be included in such registration for sale to the public (but shall not be a part of the securities sold to the underwriter of such offering) and the Holders shall agree not to offer or sell the Excluded Securities for a period of 90 days following the effective date of any such registration; provided further, that such 90 day period shall be reduced to such shorter period as shall be necessary to enable the Holder to exercise the Warrant and sell the underlying warrant shares prior to any redemption of the Warrant pursuant to the terms thereof.

(iii) the Company shall not be obligated to effect any registration of Registrable Securities under this Section 2.2 that is incidental to the registration of any of its securities in connection with any merger, acquisition, exchange offer, dividend reinvestment plan or stock option or other employee benefit plan.

(iv) the company shall maintain the effectiveness of any registration of Registerable Securities effected pursuant to this Section 2.2 until the later of (i) such time as the Warrants are no longer outstanding, or (ii) a Holder has disposed of its Registerable Securities pursuant to such registration, or (iii) nine (9) months from the effective date of such registration.

(b) The Company will pay all Registration Expenses in connection with

each registration of Registrable Securities effected by it pursuant to this Section 2.2.



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SECTION 2.3 Registration Procedures.

(a) If and whenever the Company is required to use its best efforts to effect the registration of any Registrable Securities under the 1933 Act as provided in Section 2.1 and 2.2, the Company will as expeditiously as is reasonable:

(i) subject to the terms and conditions of this Agreement, use its best efforts to cause such registration statement to become effective;

(ii) prepare and file with the Commission such amendments (including post-effective amendments) and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the 1933 Act with respect to the disposition of all Registrable Securities and other securities covered by such registration statement until the earlier of (A) such time as all such Registrable Securities and other securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof set forth in such registration statement and (B) the expiration of 270 days from the date such registration statement first becomes effective;

(iii) furnish to each seller of such Registrable Securities such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus and any summary prospectus), in conformity with the requirements of the 1933 Act, such documents incorporated by reference in such registration statement or prospectus, and such other documents, as such seller may reasonably request in order to facilitate the sale or disposition of such Registrable Securities;



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(iv) use its best efforts to register or qualify all Registrable Securities and other securities covered by such registration

statement under such other securities or "blue sky" laws of such jurisdictions as each seller shall reasonably request, and do any and all other acts and things that may be necessary to enable such seller to consummate the disposition in such jurisdictions of its Registrable Securities covered by such registration statement, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it is not so qualified, or to subject itself to taxation in respect of doing business in any such jurisdiction, or to consent to general service of process in any such jurisdiction;

(v) immediately notify each seller of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the 1933 Act, of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing or if it is necessary to amend or supplement such prospectus to comply with law, and at the request of any such seller prepare and furnish to such seller a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Securities or securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing and shall otherwise comply in all material respects with law and so that such prospectus, as amended or supplemented, will comply with law;





(vi) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security Holders, as soon as reasonably practicable, an earnings or financial statement which shall satisfy the provisions of Section 11(a) of the 1933 Act;

(vii) use its best efforts to list such securities (including the Warrants) on NASDAQ and each securities exchange on which shares of Common Stock are then listed, if such securities are not already so listed and if such listing is then permitted under the rules of such exchange, and provide a transfer agent and registrar for such Registrable Securities not later than the effective date of such registration statement; and

(viii) issue to any underwriter to which any Holder of Registrable Securities may sell such Registrable Securities in connection with any such registration (and to any direct or indirect transferee of any such underwriter) certificates evidencing shares of Common Stock or Warrants

without any restrictive legends. The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish the Company with such information regarding such seller and the distribution of such securities as the Company may from time to time reasonably request in writing and as shall be required by law or by the Commission in connection therewith.

(b) If requested by the underwriters for any underwritten offering of Registrable Securities on behalf of a Holder or Holders of Registrable Securities, the Company will enter into an underwriting agreement with such underwriters for such offering, such agreement to contain such representations and warranties by the Company and such other terms and conditions as are customarily contained in underwriting agreements with respect to secondary distributions, including, without limitation, indemnities to the effect and to the extent provided in Section 2.5.





(c) If any registration shall be in connection with an underwritten public offering, each Holder of Registrable Securities agrees (whether or not such Holder has registered Shares in such offering), if so required by the managing underwriters, not to effect any public sale or distribution (including any sale pursuant to Rule 144) of Registrable Securities (other than as part of such underwritten public offering) within 7 days prior to the effective date of the registration statement with respect to such underwritten public offering or 120 days after the effective date of such registration statement (which 120-day period shall be extended to 180 days at the request of the managing underwriter selected by the Company).

(d) The Company agrees, if so required by the managing underwriters in connection with an underwritten offering of Registrable Securities, not to effect any public sale or distribution of any of its equity securities or securities convertible into or exchangeable or exercisable for any of such equity securities during the 7 days prior to and the 120 days after the effective date of any registration statement with respect to such underwritten public offering, except as part of such underwritten offering or except in connection with a stock option plan, stock purchase plan, savings or similar plan, or an acquisition, merger or exchange offer.

(e) It is understood that in any underwritten offering of Registrable Securities in addition to the shares (the "initial shares") the underwriters have committed to purchase, the underwriting agreement may grant the underwriters an option to purchase a number of additional shares (the "option shares") equal to up to 15% of the initial shares (or such other maximum amount as the National Association of Securities Dealers, Inc. may then permit), solely to cover over-allotments. Shares proposed to be sold by the Company and

the Holders shall be allocated between initial shares and option shares as agreed or, in the absence of





agreement, pro rata in relation to the number of initial shares sold by each.

SECTION 2.4. Preparation; Reasonable Investigation.

In connection with the preparation and filing of each registration statement registering Registrable Securities under the 1933 Act, the Company will give the Holders of Registrable Securities on whose behalf such Registrable Securities are to be so registered and their underwriters, if any, and their respective counsel and accountants, the opportunity to participate in the preparation of such registration statement, each prospectus included therein or filed with the Commission, and each amendment thereof or supplement thereto, and will give each of them such access to its books and records and such opportunities to discuss the business of the Company with its officers and the independent public accountants who have issued a report on its financial statements as shall be necessary, in the opinion of such Holders and such underwriters or their respective counsel, to conduct a reasonable investigation within the meaning of the 1933 Act. Without limiting the foregoing, each registration statement, prospectus, amendment, supplement or any other document filed with respect to a registration under this Agreement shall be subject to review and reasonable approval by the holders registering Registrable Securities in such registration and by their counsel.

SECTION 2.5. Indemnification.

(a) In the event of any registration of any Registerable Securities under the 1933 Act, the Company will, and hereby does, indemnify and hold harmless, the seller of any Registrable Securities covered by such registration statement, its directors and officers, each other Person who participates as an underwriter in the offering or sale of such securities, each officer and director of each such underwriter, and each other Person, if any, who controls such seller or any such underwriter within the meaning





of Section 15 of the 1933 Act or Section 20 of the 1934 Act, against any losses, claims, damages, liabilities and expenses, including legal and other expenses incurred in investigating and defending any such claim, joint or

several, to which such seller or any such director or officer or participating or controlling Person may become subject under the 1933 Act or otherwise, insofar as such losses, claims, damages, liabilities or expenses (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such securities were registered under the 1933 Act, any preliminary prospectus, final prospectus or summary prospectus included therein, or any amendment or supplement thereto, or any document incorporated by reference therein, (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will reimburse such seller, and each such director, officer, underwriter and controlling Person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, liability, action or proceeding or (iii) any violation of any rule or regulation promulgated under the 1933 Act or any other applicable federal or state securities law and relating to any action or inaction of the Company in connection with such registration; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company for use in the preparation thereof by such seller or underwriter, as the case may be. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such seller



or any such director, officer, underwriter or controlling Person and shall survive the transfer of such securities by such seller.

(b) The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to this Agreement, that the Company shall have received an undertaking satisfactory to it from (i) the prospective seller of such securities, to indemnify and hold harmless the Company in the same manner and to the same extent as set forth in Section 2.5(a) to the extent that the Company incurs any loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arising out of or based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company for use in the preparation thereof by such prospective seller, except that any such prospective seller shall not in any event be liable to the

Company pursuant thereto for an amount in excess of the net proceeds of sale of such prospective seller's Registrable Securities so to be sold) the Company, each such underwriter of such securities, each officer and director of each such underwriter and each other Person, if any, who controls the Company or any such underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, and (ii) each such underwriter of such securities, to indemnify and hold harmless (in the same manner and to the same extent as set forth in Section 2.5(a)) the Company, each officer and director of the Company, each prospective seller, each officer and director of each prospective seller (and, if such prospective seller is a portfolio or investment fund, its investment advisors and the directors and officers thereof) and each other Person, if any, who controls the Company or any such prospective seller within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, with respect to any statement in or omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus included



therein, or any amendment or supplement thereto, if such statement or omission was made in reliance upon and in conformity with written information furnished by such prospective seller or such underwriter, as the case may be, to the Company for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling Person and shall survive the transfer of such securities by such seller.

(c) Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding (including any governmental investigation) involving a claim referred to in Section 2.5(a) or (b), such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action; provided, however, that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under the preceding provisions of this Section 2.5, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action is brought against an indemnified party, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim (in which case, the indemnifying party shall not be liable for the fees and expenses of more than one counsel for all sellers of Registrable Securities, or more than one counsel for the underwriters in connection with any one action or separate but similar or related actions), the indemnifying party will be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified, to the extent

that it may wish with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such





indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof. The indemnifying party shall not, without the consent of the indemnified party, settle or compromise any claim or consent to the entry of any judgment which settlement, compromise or judgment would materially and adversely affect the indemnified party other than as a result of money damages or other money payments; provided, that, if the indemnified party shall fail or refuse to consent to such settlement, compromise or judgment proposed by the indemnifying party and approved by the person asserting such claim, and a judgment thereafter shall be entered or a settlement or compromise thereafter shall be effected on terms less favorable in the aggregate to the indemnified party than the settlement, compromise or judgment so proposed, the indemnifying party shall have no liability with respect to money or other damages in excess of those provided for in the settlement, compromise or judgment so proposed or any costs or expenses related to such claim arising after the date such settlement, compromise or judgment was so proposed.

SECTION 2.6. Contribution.

If the indemnification provided for in Section 2.5 is unavailable to the indemnified party or parties in respect of any losses, claims, damages or liabilities referred to therein, then each such indemnified party and the Company shall contribute to the amount of such losses, claims, damages or liabilities (a) as between the Company and the Holders of Registrable Securities covered by a registration statement, on the one hand, and the underwriters, on the other, in such proportion as is appropriate to reflect the relative benefits received by the Company and such Holders, on the one hand, and the underwriters, on the other, from the offering of the Registrable Securities, or if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits but also the relative fault of the Company and such Holders, on the one hand,





and of the underwriters, on the other, in connection with the statements or

omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations, and (b) as between the Company, on the one hand, and each Holder of Registrable Securities covered by a registration statement, on the other, in such proportion as is appropriate to reflect the relative fault of the Company and of each such Holder in connection with such statements or omissions, as well as any other relevant equitable considerations. The relative benefits received by the Company and such Holders, on the one hand, and the underwriters, on the other, shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company and such Holders bear to the total underwriting discounts and commissions received by the underwriters. The relative fault of the Company and such Holders, on the one hand, and of the underwriters, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and such Holders or by the underwriters. The relative fault of the Company, on the one hand, and of each such Holder, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact relates to information supplied by such party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Holders of Registrable Securities agree that it would not be just and equitable if contribution pursuant to this Section 2.6 were determined by pro rata allocation (even if the underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in the next preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities referred to



in the next preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 2.6, no underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such underwriter has otherwise paid by reason of such untrue or alleged untrue statement or omission or alleged omission, and no Holder of Registrable Securities shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities of such Holder were offered to the public exceeds the amount of any damages that such Holder has otherwise paid by reason of such untrue or alleged untrue statement

or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. Each Holder's obligation to contribute pursuant to this Section 2.5 is several in the proportion that the proceeds of the offering received by such Holder bears to the total proceeds of the offering received by all Holders and not joint.

SECTION 2.7 Nominees of Beneficial Owners.

In the event that any Registrable Securities are held by a nominee for the beneficial owner thereof, the beneficial owner thereof may, at its election, be treated as the Holder of such Registrable Securities for purposes of any request or other action by any Holder or Holders of Registrable Securities pursuant to this Agreement or any determination of any number or percentage of shares of Registrable Securities held by any Holder or Holders of Registrable Securities contemplated by this Agreement. If the beneficial owner of any Registrable Securities so elects, the


Company may require assurances reasonably satisfactory to it of such owner's beneficial ownership of such Registrable Securities.

ARTICLE III

Miscellaneous

SECTION 3.1. Termination. This right of the Agent and the Holders to request a Demand Registration pursuant to Section 2.1 and the right of the Holders to request to be included in a registration pursuant to Section 2.2 shall terminate on the fifth anniversary of the effective date of this Agreement.

SECTION 3.2. Representations. Each of the parties hereto represents that this Agreement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3.3. Certain Remedies. Without intending to limit the remedies available to any of the parties hereto, each of the parties hereto agrees that damages at law will be an insufficient remedy in the event such party violates the terms hereof and each of the parties hereto further agrees that each of the other parties hereto may apply for and have injunctive or other equitable relief in any court of competent jurisdiction to restrain the breach or threatened breach of, or otherwise specifically to enforce, any of such party's

agreements set forth herein.

SECTION 3.4. Amendments and Waivers. Any term of this Agreement may be amended and the observance of any such term may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and a majority in interest of the holders of the Registrable Securities. Each Holder shall be bound by any amendment or waiver authorized by this Section 3.4, whether or not such Holder shall have consented thereto.





SECTION 3.5. Notices. All notices and other communications provided for herein shall be in writing and shall be delivered by telecopy, by hand or sent by certified or registered mail, return receipt requested, postage prepaid, addressed, if to any Holder, to such Holder at such address as such Holder shall have specified in writing to the party giving any such notice or sending any such communication), and, if to the Company, to Multimedia Games, Inc., 7335 South Lewis Avenue, Tulsa, Oklahoma 74136, Attention: Vice President-Finance, (or to such other address as the Company shall have specified in writing to the party giving any such notice or sending any such communication). All such notices shall be conclusively deemed to be received and shall be effective, (i) if sent by hand delivery, upon receipt, (ii) if sent by telecopy, upon dispatch thereof, or (iii) if sent by registered or certified mail, on the third day after the day on which such notice is mailed.

SECTION 3.6. Benefit; Successors and Assigns. Except as otherwise provided herein, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns; provided, however, that this Agreement shall not inure to the benefit of any Permitted Transferee unless such Permitted Transferee shall have executed and delivered to the Company an executed counterpart of this Agreement and shall have agreed to be bound hereunder in the same manner and to the same extent as Holder is bound hereunder. Holder may not assign any of its rights hereunder to any Person other than a Permitted Transferee that has complied with the requirements of the preceding sentence in all respects. Nothing in this Agreement either express or implied is intended to confer on any person other than the parties hereto and their respective successors and permitted assigns, any rights, remedies or obligations under or by reason of this Agreement.

SECTION 3.7 Attorneys' Fees. In any action or proceeding brought to enforce any provision of this Agreement or where any provision hereof is validly asserted as a defense, the successful

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party shall be entitled to recover reasonable attorneys' fees and expenses in addition to any other available remedy.

SECTION 3.8. Miscellaneous. This Agreement sets forth the entire agreement and understanding among the parties hereto, and supersedes all prior agreements and understandings, relating to the subject matter hereof. All representations and warranties contained herein shall survive the execution and delivery of this Agreement, regardless of any investigation made by any party hereto or on such party's behalf. This Agreement shall be construed and enforced in accordance with and governed by the law of the State of Oklahoma without regard to the conflict of laws provisions thereof. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized signatories thereunto duly authorized as of the day and year first above written.

MULTIMEDIA GAMES, INC.

By:
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HOLDER

By:
---

Address:

WALSH, MANNING SECURITIES, INC.

By:
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Address:

EXHIBIT 10.15

# MULTIMEDIA GAMES, INC.

## 1996 STOCK INCENTIVE PLAN

### SECTION 1. GENERAL PURPOSE OF PLAN; DEFINITIONS.

The name of this plan is the Multimedia Games, Inc. 1996 Stock Incentive Plan (the "Plan"). The Plan was adopted by the Board on August ___, 1996. The purpose of the Plan is to enable the Company to attract and retain highly qualified personnel who will contribute to the Company's success by their ability, ingenuity and industry and to provide incentives to the participating officers, employees, directors, consultants and advisors that are linked directly to increases in stockholder value and will therefore inure to the benefit of all stockholders of the Company.

For purposes of the Plan, the following terms shall be defined as set forth below:

(1) "Administrator" means the Board, or if the Board does not administer the Plan, the Committee in accordance with Section 2.

(2) "Board" means the Board of Directors of the Company.

(3) "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

(4) "Committee" means the Committee of the Board designated from time to time by the Board to be the Administrator and that is comprised entirely of persons qualifying as "nonemployee directors" in accordance with Rule 16b-3(b)(3) as promulgated by the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934 (the "Act") to be effective as of August 15, 1996, and as such Rule may be amended from time to time, or any successor definition adopted by the Commission. If at any time the





Board shall not administer the Plan, then the functions of the Board specified in the Plan shall be exercised by the Committee.

(5) "Company" means Multimedia Games, Inc., a Delaware corporation

(or any successor corporation).

(6) "Deferred Stock" means an award made pursuant to Section 7 below of the right to receive Stock at the end of a specified deferral period.

(7) "Disability" means the inability of a Participant to perform substantially his duties and responsibilities to the Company by reason of a physical or mental disability or infirmity (i) for a continuous period of six months, or (ii) at such earlier time as the Participant submits medical evidence satisfactory to the Company that he has a physical or mental disability or infirmity which will likely prevent him from returning to the performance of his work duties for six months or longer. The date of such Disability shall be on the last day of such six-month period or the day on which the Participant submits such satisfactory medical evidence, as the case may be.

(8) "Effective Date" shall mean the date provided pursuant to Section 11.

(9) "Eligible Employee" means an employee of the Company eligible to participate in the Plan pursuant to Section 4.

(10) "Fair Market Value" means, as of any given date, with respect to any awards granted hereunder, at the discretion of the Administrator and subject to such limitations as the Administrator may impose, (A) if the Stock is publicly traded, the closing sale price of the Stock on such date as reported in the Wall Street Journal, or the average of the closing price of the Stock on each day on which the Stock was traded over a period-of up to twenty trading days immediately prior to such date, (B) the fair market value of the Stock as determined in accordance with a method prescribed in the





agreement evidencing any award hereunder, or (C) the fair market value of the Stock as otherwise determined by the Administrator in the good faith exercise of its discretion.

(11) "Incentive Stock Option" means any Stock Option intended to be designated as an "incentive stock option" within the meaning of Section 422 of the Code.

(12) "Limited Stock Appreciation Right" means a Stock Appreciation Right that can be exercised only in the event of a "Change of Control" (as defined in the award evidencing such Limited Stock Appreciation Right).

(13) "Non-Qualified Stock Option" means any Stock Option that is not

an Incentive Stock Option, including any Stock Option that provides (as of the time such option is granted) that it will not be treated as an Incentive Stock Option.

(14) "Parent Corporation" means any corporation (other the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations in the chain (other than the Company) owns stock possessing 50% or more of the combined voting power of all classes of stock in one of the other corporations in the chain.

(15) "Participant" means any Eligible Employee, consultant or advisor to the Company selected by the Administrator, pursuant to the Administrator's authority in Section 2 below, to receive grants of Stock Options, Stock Appreciation Right, Limited Stock Appreciation Rights, Restricted Stock awards, Deferred Stock awards, Performance Shares or any combination of the foregoing.

(16) "Performance Share" means an award of shares of Stock pursuant to Section 7 that is subject to restrictions based upon the attainment of specified performance objectives.





(17) "Restricted Stock" means an award granted pursuant to Section 7 of shares of Stock subject to certain restrictions.

(18) "Stock" means the Common Stock, $0.01 par value, of the Company.

(19) "Stock Appreciation Right" means the right pursuant to an award granted under Section 6 to receive an amount equal to the difference between (A) the Fair Market Value, as of the date such Stock Appreciation Right or portion thereof is surrendered, of the shares of Stock covered by such right or such portion thereof, and (B) the aggregate exercise price of such right or such portion thereof.

(20) "Stock Option" means any option to purchase shares of Stock granted pursuant to Section 5.

(21) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations (other than the last corporation) in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

SECTION 2. ADMINISTRATION.

The Plan shall be administered in accordance with the requirements of

Rule 16b-3 of the Act (but only to the extent necessary to maintain qualification of the Plan under Rule 16b-3 of the Act) by the Board or by the Committee which shall be appointed by the Board and which shall serve at the pleasure of the Board.

The Administrator shall have the power and authority to grant to Eligible Employees, consultants and advisors to the Company, pursuant to the terms of the Plan: (a) Stock Options, (b) Stock-Appreciation Rights or Limited Stock Appreciation Rights, (c) Restricted Stock,





(d) Performance Shares, (e) Deferred Stock or (f) any combination of the foregoing.

In particular, the Administrator shall have the authority:

(a) to select those employees of the Company who shall be Eligible Employees;

(b) to determine whether and to what extent Stock Options, Stock Appreciation Rights, Limited Stock Appreciation Rights, Restricted Stock, Deferred Stock, Performance Shares or a combination of the foregoing, are to be granted hereunder to Eligible Employees, consultants and advisors to the Company;

(c) to determine the number of shares to be covered by each such award granted hereunder;

(d) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, (x) the restrictions applicable to Restricted or Deferred Stock awards and the conditions under which restrictions applicable to such Restricted or Deferred Stock shall lapse, and (y) the performance goals and periods applicable to the award of Performance Shares); and

(e) to determine the terms and conditions, not inconsistent with the terms of the Plan, which shall govern all written instruments evidencing the Stock Options, Stock Appreciation Rights, Limited Stock Appreciation Rights, Restricted Stock, Deferred Stock, Performance Shares or any combination of the foregoing.

The Administrator shall have the authority, in its discretion, to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable; to interpret the terms and provisions of the Plan and any

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award issued under the Plan (and any agreements relating thereto); and to otherwise supervise the administration of the Plan.

All decisions made by the Administrator pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company and the Participants.

SECTION 3. STOCK SUBJECT TO PLAN.

The total number of shares of Stock reserved and available for issuance under the Plan shall be the sum of (i) 275,000, plus (ii) ten percent (10%) of the number of shares of Stock issued after September 1, 1996, and on or prior to December 31, 2000. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares.

To the extent that (i) a Stock Option expires or is otherwise terminated without being exercised, or (ii) any shares of Stock subject to any Restricted Stock, Deferred Stock or Performance Share award granted hereunder are forfeited, such shares shall again be available for issuance in connection with future awards under the Plan. If any shares of Stock have been pledged as collateral for indebtedness incurred by a Participant in connection with the exercise of a Stock Option and such shares are returned to the Company in satisfaction of such indebtedness, such shares shall again be available for issuance in connection with future awards under the Plan.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend or other change in corporate structure affecting the Stock, a substitution or adjustment shall be made in (i) the aggregate number of shares reserved for issuance under the Plan, (ii) the kind, number and option price of shares subject to outstanding Stock Options granted under the Plan, and (iii) the kind, number and purchase price of shares issuable pursuant to awards of Restricted Stock, Deferred Stock and Performance Shares,



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as may be determined by the Administrator, in its sole discretion. Such other substitutions or adjustments shall be made as may be determined by the Administrator, in its sole discretion. An adjusted option price shall also be

used to determine the amount payable by the Company upon the exercise of any Stock Appreciation Right or Limited Stock Appreciation Right associated with any Stock Option. In connection with any event described in this paragraph, the Administrator may provide, in its discretion, for the cancellation of any outstanding awards and payment in cash or other property therefor.

SECTION 4. ELIGIBILITY.

Officers (including officers who are directors of the Company), employees of the Company, and consultants and advisors to the Company who are responsible for or contribute to the management, growth and/or profitability of the business of the Company shall be eligible to be granted Stock Options, Stock Appreciation Rights, Limited Stock Appreciation Rights, Restricted Stock awards, Deferred Stock awards or Performance Shares hereunder. The Participants under the Plan shall be selected from time to time by the Administrator, in its sole discretion, from among the Eligible Employees, consultants and advisors to the Company recommended by the senior management of the Company, and the Administrator shall determine, in its sole discretion, the number of shares covered by each award.

SECTION 5. STOCK OPTIONS.

Stock Options may be granted alone or in addition to other awards granted under the Plan. Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve, and the provisions of Stock Option awards need not be the same with respect to each optionee. Recipients of Stock Options shall enter into a subscription and/or award agreement with the Company, in such form as the Administrator shall determine which agreement shall set forth, among other things, the exercise price of



the option, the term of the option and provisions regarding exercisability of the option granted thereunder.

The Stock Options granted under the Plan may be of two types: (i) Incentive Stock Options and (ii) Non-Qualified Stock Options.

The Administrator shall have the authority to grant any Eligible Employee Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options (in each case with or without Stock Appreciation Rights or Limited Stock Appreciation Rights). Consultants and advisors may only be granted Non-Qualified Stock Options (with or without Stock Appreciation Rights or Limited Stock Appreciation Rights). To the extent that any Stock Option does not qualify as an Incentive Stock Option, it shall constitute a separate

Non-Qualified Stock Option. More than one option may be granted to the same optionee and be outstanding concurrently hereunder.

Stock Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable:

(1) Option Price. The option price per share of Stock purchasable under a Stock Option shall be determined by the Administrator in its sole discretion at the time of grant but shall not, (i) in the case of Incentive Stock Options, be less than 100% of the Fair Market Value of the Stock on such date, (ii) in the case of Non-Qualified Stock Options, be less than 85% of the Fair Market Value of the Stock on such date, and (iii) in any event, be less than the par value of the Stock. If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 425(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Parent Corporation and an Incentive Stock Option is granted to such employee, the option price of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no less than 110% of the Fair Market



Value of the Stock on the date such Incentive Stock Option is granted.

(2) Option Term. The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than ten years after the date such Stock Option is granted; provided, however, that if an employee owns or is deemed to own (by reason of the attribution rules of Section 425(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Parent Corporation and an Incentive Stock Option is granted to such employee, the term of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no more than five years from the date of grant.

(3) Exercisability. Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator at or after grant. The Administrator may provide, in its discretion, that any Stock Option shall be exercisable only in installments, and the Administrator may waive such installment exercise provisions at any time in whole or in part based on such factors as the Administrator may determine, in its sole discretion.

(4) Method of Exercise. Subject to Section 5(3) above, Stock Options may be exercised in whole or in part at any time during the option period, by

giving written notice of exercise to the Company satisfying the number of shares to be purchased, accompanied by payment in full of the purchase price in cash or its equivalent as determined by the Administrator. As determined by the Administrator, in its sole discretion, payment in whole or in part may also be made in the form of unrestricted Stock already owned by the optionee, or, in the case of the exercise of a Non-Qualified Stock Option, in the form of Restricted Stock or Performance Shares subject to an award hereunder (based, in each case, on the Fair Market Value of the Stock on the date the option is exercised); provided, however, that in the case of an Incentive Stock Option, the right to make payment in the





form of already owned shares may be authorized only at the time of grant. If payment of the option exercise price of a Non-Qualified Stock Option is made in whole or in part in the form of Restricted Stock or Performance Shares, the shares received upon the exercise of such Stock Option (to the extent of the number of shares of Restricted Stock or Performance Shares surrendered upon exercise of such Stock Option) shall be restricted in accordance with the original terms of the Restricted Stock or Performance Share award in question, except that the Administrator may direct that such restrictions shall apply only to that number of shares equal to the number of shares surrendered upon the exercise of such option. An optionee shall generally have the rights to dividends and any other rights of a stockholder with respect to the Stock subject to the option only after the optionee has given written notice of exercise, has paid in full for such shares, and, if requested, has given the representation described in paragraph (1) of Section 10.

The Administrator may require the voluntary surrender of all or a portion of any Stock Option granted under the Plan as a condition precedent to the grant of a new Stock Option. Subject to the provisions of the Plan, such new Stock Option shall be exercisable at the price, during such period and on such other terms and conditions as are specified by the Administrator at the time the new Stock Option is granted. Upon their surrender, Stock Options shall be canceled and the shares previously subject to such canceled Stock Options shall again be available for grants of Stock Options and other awards hereunder.

(5) Loans. The Company may make loans available to Stock Option holders in connection with the exercise of outstanding options granted under the Plan, as the Administrator, in its discretion, may determine. Such loans shall (i) be evidenced by promissory notes entered into by the Stock Option holders in favor of the Company, (ii) be subject to the terms and conditions set forth in this Section 5(5) and such other terms and conditions, not inconsistent with the Plan, as the Administrator shall determine, (iii) bear interest, if

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any, at such rate as the Administrator shall determine, and (iv) be subject to Board approval (or to approval by the Administrator to the extent the Board may delegate such authority). In no event may the principal amount of any such loan exceed the sum of (x) the exercise price less the-par value of the shares of Stock covered by the option, or portion thereof, exercised by the holder, and (y) any federal, state, and local income tax attributable to such exercise. The initial term of the loan, the schedule of payments of principal and interest (if any) under the loan, the extent to which the loan is to be with or without recourse against the holder with respect to principal or interest and the conditions upon which the loan will become payable in the event of the holder's termination of employment shall be determined by the Administrator. Unless the Administrator determines otherwise, when a loan is made, shares of Stock having a Fair Market Value at least equal to the principal amount of the loan shall be pledged by the holder to the Company as security for payment of the unpaid balance of the loan, and such pledge shall be evidenced by a pledge agreement, the terms of which shall be determined by the Administrator, in its discretion; provided, however, that each loan shall comply with all applicable laws, regulations and rules of the Board of Governors of the Federal Reserve System and any other governmental agency having jurisdiction.

(6) Non-transferability of Options. Unless otherwise determined by the Administrator, and subject to such limitations on transferability as may be required in Rule 16b-3, no Stock Option shall be transferable by the optionee, and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee.

(7) Termination of Employment or Service. If an optionee's employment with or service as a director of or consultant or advisor to the Company terminates by reason of death, Disability or for any other reason, the Stock Option may thereafter be exercised to the extent provided in the applicable subscription or award agreement, or as otherwise determined by the Administrator.



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(8) Annual Limit on Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined as of the date the Incentive Stock Option is granted) of shares of Stock with respect to which Incentive Stock Options granted to an Optionee under this Plan and all other option plans of

the Company or its Parent Corporation become exercisable for the first time by the Optionee during any calendar year exceeds $100,000, such Stock Options shall be treated as Non-Qualified Stock Options.

SECTION 6. STOCK APPRECIATION RIGHTS AND LIMITED STOCK APPRECIATION RIGHTS.

(1) Grant and Exercise. Stock Appreciation Rights and Limited Stock Appreciation Rights may be granted either alone ("Free Standing Rights") or in conjunction with all or part of any Stock Option granted under the Plan ("Related Rights"). In the case of a Non-Qualified Stock Option, Related Rights may be granted either at or after the time of the grant of such Stock Option. In the case of an Incentive Stock Option, Related Rights may be granted only at the time of the grant of the Incentive Stock Option.

A Related Right or applicable portion thereof granted in conjunction with a given Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Option, except that, unless otherwise provided by the Administrator at the time of grant, a Related Right granted with respect to less than the full number of shares covered by a related Stock Option shall only be reduced if and to the extent that the number of shares covered by the exercise or termination of the related Stock Option exceeds the number of shares not covered by the Related Right.

A Related Right may be exercised by an optionee, in accordance with paragraph (2) of this Section 6, by surrendering the applicable portion of the related Stock Option. Upon such exercise and surrender, the optionee shall be entitled to receive an amount determined in the manner prescribed in paragraph (2) of this Section


6. Stock Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the Related Rights have been so exercised.

(2) Terms and Conditions. Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Administrator, including the following:

(a) Stock Appreciation Rights that are Related Rights ("Related Stock Appreciation Rights") shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 5 and this Section 6 of the Plan; provided, however, that no Related Stock Appreciation Right shall be exercisable during the first six months of its term, except that this additional limitation shall not apply in the event of death or Disability of

the optionee prior to the expiration of such six-month period.

(b) Upon the exercise of a Related Stock Appreciation Right, an optionee shall be entitled to receive up to, but not more than, an amount in cash or that number of shares of Stock (or in some combination of cash and shares of Stock) equal in value to the excess of the Fair Market Value of one share of Stock as of the date of exercise over the option price per share specified in the related Stock Option multiplied by the number of shares of Stock in respect of which the Related Stock Appreciation Right is being exercised, with the Administrator having the right to determine the form of payment.

(c) Related Stock Appreciation Rights shall be transferable or exercisable only when and to the extent that the underlying Stock Option would be transferable or exercisable under paragraph (6) of Section 5 of the Plan.





(d) Upon the exercise of a Related Stock Appreciation Right, the Stock Option or part thereof to which such Related Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Section 3 of the Plan on the number of shares of Stock to be issued under the Plan, but only to the extent of the number of shares issued under the Related Stock Appreciation Right.

(e) A Related Stock Appreciation Right granted in connection with an Incentive Stock Option may be exercised only if and when the Fair Market Value of the Stock subject to the Incentive Stock Option exceeds the exercise price of such Stock Option.

(f) Stock Appreciation Rights that are Free Standing Rights ("Free Standing Stock Appreciation Rights") shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator at or after grant; provided, however, that no Free Standing Stock Appreciation Right shall be exercisable during the first six months of its term, except that this limitation shall not apply in the event of death or disability of the recipient of the Free Standing Stock Appreciation Right prior to the expiration of such six-month period.

(g) The term of each Free Standing Stock Appreciation Right shall be fixed by the Administrator, but no Free Standing Stock Appreciation Right shall be exercisable more than ten years after the date such right is granted.

(h) Upon the exercise of a Free Standing Stock Appreciation Right, a recipient shall be entitled to receive up to, but not more than, an

amount in cash or that number of shares of Stock (or any combination of cash or shares of Stock) equal in value to the excess of the Fair Market Value of one share of Stock as of the date of exercise over the price per share specified in the Free Standing Stock Appreciation Right (which price shall be no less than 100% of the Fair Market Value of the Stock on the date of grant)





multiplied by the number of shares of Stock in respect to which the right is being exercised, with the Administrator having the right to determine the form of payment.

(i) Free Standing Stock Appreciation Rights shall be transferable or exercisable only when and to the extent that a Stock Option would be transferable or exercisable under paragraph (6) of Section 5 of the Plan.

(j) In the event of the termination of employment or service of a Participant who has been granted one or more Free Standing Stock Appreciation Rights, such rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator at or after grant.

(k) Limited Stock Appreciation Rights may only be exercised within the 30-day period following a "Change of Control" (as defined by the Administrator in the agreement evidencing such Limited Stock Appreciation Right) and, with respect to Limited Stock Appreciation Rights that are Related Rights ("Related Limited Stock Appreciation Rights"), only to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 5 and this Section 6 of the Plan; provided, however, that no Related Limited Stock Appreciation Right shall be exercisable during the first six months of its term, except that this additional limitation shall not apply in the event of death or Disability of the optionee prior to the expiration of such six-month period.

(l) Upon the exercise of a Limited Stock Appreciation Right, the recipient shall be entitled to receive an amount in cash equal in value to the excess of the "Change of Control Price" (as defined in the agreement evidencing such Limited Stock Appreciation Right) of one share of Stock as of the date of exercise over (A) the option price per share specified in the related Stock Option, or (B) in the case of a Limited Stock Appreciation Right which is a Free

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Standing Stock Appreciation Right, the price per share specified in the Free Standing Stock Appreciation Right, such excess to be multiplied by the number of shares in respect of which the Limited Stock Appreciation Right shall have been exercised.

SECTION 7. RESTRICTED STOCK, DEFERRED STOCK AND PERFORMANCE SHARES.

(1) General. Restricted Stock, Deferred Stock or Performance Share awards may be issued either alone or in addition to other awards granted under the Plan. The Administrator shall determine the Eligible Employees, consultants and advisors to whom, and the time or times at which, grants of Restricted Stock, Deferred Stock or Performance Share awards shall be made; the number of shares to be awarded; the price, if any, to be paid by the recipient of Restricted Stock, Deferred Stock or Performance Share awards; the Restricted Period (as defined in paragraph (3) hereof) applicable to Restricted Stock or Deferred Stock awards; the performance objectives applicable to Performance Share or Deferred Stock awards; the date or dates on which restrictions applicable to such Restricted Stock or Deferred Stock awards shall lapse during such Restricted Period, and all other conditions of the Restricted Stock, Deferred Stock and Performance Share awards. The Administrator may also condition the grant Restricted Stock, Deferred Stock awards or Performance Shares upon the exercise of Stock Options, or upon such other criteria as the Administrator may determine in its sole discretion. The provisions of Restricted Stock, Deferred Stock or Performance Share awards need not be the same with respect to each recipient. In the discretion of the Administrator, loans may be made to Participants in connection with the purchase of Restricted Stock under substantially the same terms and conditions as provided in Section 5(5) with respect to the exercise of stock options.

(2) Awards and Certificates. The prospective recipient of a Restricted Stock, Deferred Stock or Performance Share award shall not have any rights with respect to such award, unless and until such



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recipient has executed an agreement evidencing the award (a "Restricted Stock Award Agreement," "Deferred Stock Award Agreement" or "Performance Share Award Agreement," as appropriate) and delivered a fully executed copy thereof to the Company, within a period of sixty days (or such other period as the Administrator may specify) after the award date. Except as otherwise provided below in this Section 7(2), (i) each Participant who is awarded Restricted Stock or Performance Shares shall be issued a stock certificate in respect of such shares of Restricted Stock or Performance Shares; and (ii) such

certificate shall be registered in the name of the Participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such award.

The Company may require that the stock certificates evidencing Restricted Stock or Performance Share awards hereunder be held in the custody of the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Restricted Stock award or Performance Share award, the Participant shall have delivered a stock power, endorsed in blank, relating to the Stock covered by such award.

With respect to Deferred Stock awards, at the expiration of the Restricted Period, stock certificates in respect of such shares of Deferred Stock shall be delivered to the participant, or his legal representative, in a number equal to the number of shares of Stock covered by the Deferred Stock award.

(3) Restrictions and Conditions. The Restricted Stock, Deferred Stock and Performance Share awards granted pursuant to this Section 7 shall be subject to the following restrictions and conditions.

(a) Subject to the provisions of the Plan and the Restricted Stock Award Agreement, Deferred Stock Award Agreement or Performance Share Award Agreement, as appropriate, governing such award, during such period as may be set by the Administrator





commencing on the grant date (the "Restricted Period"), the Participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock, Performance Shares or Deferred Stock awarded under the Plan; provided, however, that the Administrator may, in its sole discretion, provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part based on such factors and such circumstances as the Administrator may determine, in its sole discretion, including, but not limited to, the attainment of certain performance related goals, the Participant's termination of employment or service, death or Disability or the occurrence of a "Change of Control" as defined in the agreement evidencing such award.

(b) Except as provided in paragraph (3)(a) of this Section 7, the Participant shall generally have, with respect to the shares of Restricted Stock or Performance Shares, all of the rights of a stockholder with respect to such stock during the Restricted Period. The Participant shall generally not have the rights of a stockholder with respect to stock subject to Deferred Stock awards during the Restricted Period; provided, however, that dividends

declared during the Restricted Period with respect to the number of shares covered by a Deferred Stock award shall be paid to the Participant. Certificates for shares of unrestricted Stock shall be delivered to the Participant promptly after, and only after, the Restricted Period shall expire without forfeiture in respect of such shares of Restricted Stock, Performance Shares or Deferred Stock, except as the Administrator, in its sole discretion, shall otherwise determine.

(c) The rights of holders of Restricted Stock, Deferred Stock and Performance Share awards upon termination of employment or service for any reason during the Restricted Period shall be set forth in the Restricted Stock Award Agreement, Deferred Stock Award Agreement or Performance Share Award Agreement, as appropriate, governing such awards.





SECTION 8. AMENDMENT AND TERMINATION.

The Board may amend, alter or discontinue the Plan, but no amendment, alteration, or discontinuation shall be made that would impair the rights of a Participant under any award theretofore granted without such Participant's consent.

The Administrator may amend the terms of any award theretofore granted, prospectively or retroactively, but, subject to Section 3 above, no such amendment shall impair the rights of any holder without his or her consent.

SECTION 9. UNFUNDED STATUS OF PLAN.

The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

SECTION 10. GENERAL PROVISIONS.

(1) The Administrator may require each person purchasing shares pursuant to a Stock Option to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof. The certificates for such shares may include any legend which the Administrator deems appropriate to reflect any restrictions on transfer.

All certificates for shares of Stock delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Administrator may deem advisable under the rules, regulations, and other requirements of the Commission, any stock exchange upon which the Stock is then

listed, and any applicable federal or state securities law, and the Administrator may cause a legend or legends





to be placed on any such certificates to make appropriate reference to such restrictions.

(2) Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan shall not confer upon any employee, director, consultant or advisor of the Company any right to continued employment or service with the Company, as the case may be, nor shall it interfere in any way with the right of the Company to terminate the employment or service of any of its employees, directors, consultants or advisors at any time.

(3) Each Participant shall, no later than the date as of which the value of an award first becomes includible in the gross income of the Participant for federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any federal, state, or local taxes of any kind required by law to be withheld with respect to the award. The obligations of the Company under the Plan shall be conditional on the making of such payments or arrangements, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant.

(4) No member of the Board or the Administrator, nor any officer or employee of the Company acting on behalf of the Board or the Administrator, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Administrator and each and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination or interpretation.





SECTION 11. EFFECTIVE DATE OF PLAN.

The Plan became effective (the "Effective Date") on August __, 1996;

provided that, the Plan shall become effective with respect to Incentive Stock Options on the date the Company's stockholders formally approve the Plan.

SECTION 12. TERM OF PLAN.

No Stock Option, Stock Appreciation Right, Limited Stock Appreciation Right, Restricted Stock, Deferred Stock or Performance Share award shall be granted pursuant to the Plan on or after the tenth anniversary of the Effective Date, but awards theretofore granted may extend beyond that date.

EXHIBIT 10.16

UNIT PURCHASE AGREEMENT

THIS UNIT PURCHASE AGREEMENT (this "Agreement"), entered into as of August 14, 1996, by and among TV Games, Inc. ("Seller"), a Delaware corporation wholly owned by Multimedia Games, Inc. ("MMG"), AGN Venturer L.L.C., a Delaware limited liability company (the "Company") and each other person signatory hereto (each a "Buyer" and collectively the "Buyers").

W I T N E S S E T H:

WHEREAS, Seller owns one hundred (100) membership units representing a one hundred percent ownership interest in the Company (the "Units");

WHEREAS, after the conversion of American Gaming Network, JV, a New York general partnership into American Gaming Network, L.P., a New York limited partnership, and the merger of American Gaming Network, L.P. into American Gaming Network, L.L.C., the Company owns fifty one percent (51%) of American Gaming Network, L.L.C. ("AGN");

WHEREAS, the Company is liable for a certain promissory note in the principal amount of four hundred thousand dollars ($400,000) payable to Graff Pay-Per-View, Inc., a Delaware corporation ("Graff")(the "$400,000 Graff Note");

WHEREAS, the Company was liable for a certain promissory note in the principal amount of one hundred thousand dollars ($100,000) payable to Graff (the "$100,000 Graff Note");

WHEREAS, MMG advanced $100,000 to the Company for the payment of the $100,000 Graff Note which was paid in full on July 25, 1996 (the "MMG Advance");



WHEREAS, the MMG Advance remains a continuing obligation of the Company to MMG;

WHEREAS, AGN is liable for a certain promissory note in the principal amount of three hundred thirty six thousand dollars ($336,000) payable to MMG (the "$336,000 MMG Note"); and

WHEREAS, Seller desires to sell and Buyers desire to purchase the Units, for the consideration and upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants contained herein, the parties hereto, intending to be legally bound, agree as follows:

ARTICLE I

DEFINITIONS

1.1 For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

"Affiliate" shall have the meaning prescribed by Rule 12b-2 of the regulations promulgated pursuant to the Securities Exchange Act of 1934, as amended.

"Business Day" shall mean any day other than a Saturday, Sunday, Federal holiday or a day on which the banks in New York are required or permitted by law to be closed.

"Capital Expenditures" shall mean, for any period, all expenditures during such period for equipment, fixed assets, real property or improvements, or for replacements or substitutions therefor or additions thereto, that have a useful life of more than one year (other than expenditures for replacements and substitutions



for such equipment, fixed assets, real property or improvements from the proceeds of insurance.)

"Claim" shall mean any demand, claim, action or cause of action based on any Loss.

"Closing" shall mean the closing referred to in Section 3.01 of this Agreement.

"Commercial Efforts" shall mean such efforts as shall not require the performing party (i) to do any act that is unreasonable under the circumstances, (ii) to make any capital contribution not expressly contemplated hereunder, (iii) to amend or waive any rights under this Agreement, or (iv) to incur or expend any funds other than reasonable out-of-pocket expenses incurred in satisfying its obligation hereunder, including the fees, expenses and disbursements of accountants, counsel and other professionals.

"Graff Purchase Agreement" shall mean the Purchase Agreement dated June 25, 1996, by and among MMG, Seller, the Company, Graff, American Gaming

Network, Inc., Cable Video Store, Inc. and American Gaming Network JV.

"Lien" shall mean any mortgage, pledge, security interest, lien, charge, encumbrance, equity, claim, option, tenancy, right or restriction on transfer of any nature whatsoever.

"Loss" shall mean any loss, damage, liability, cost, assessment or expense including, without limitation, any interest, fine, court cost and reasonable investigation cost, penalty and attorneys' and expert witnesses' fees, disbursements and expenses, after taking into account any insurance proceeds actually received by or paid on behalf of any party incurring a Loss which are not required to be remitted by such party to any other party pursuant to the terms hereof.





"Person" shall mean an individual, a partnership, a joint venture, a corporation, an association, a trust, an individual retirement account or any other entity or organization, including a government or any department or agency thereof.

## ARTICLE II

## PURCHASE AND SALE

2.1 Purchase and Sale. Upon the terms and subject to the conditions of this Agreement, at the Closing on the Closing Date Buyers will purchase the Units from Seller and Seller will sell all right, title and interest in the Units to Buyers.

2.2 Purchase Price. In consideration of the sale of the Units, at the Closing:

(a) Buyers will contribute (or agree to contribute) to the capital of the Company, five hundred thousand dollars ($500,000.00)(the "Cash Amount"). The portion of the Cash Amount each Buyer shall be responsible for is set forth on Exhibit A attached hereto; and

(b) Each Buyer will execute and deliver to Seller a personal guaranty, in substantially the form attached hereto as Exhibit B, agreeing to guaranty the principal portion of the $336,000 MMG Note and not interest; provided that the individual liability for each Buyer shall not exceed the product of (x), the number of Units purchased by such Buyer pursuant to this Agreement, multiplied by (y) three thousand three hundred sixty (3,360) (collectively, the

"Guaranties").

2.3 Application of Cash Amount. Buyers agree to cause the Company to apply the proceeds from the Cash Amount at Closing as follows:



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(a) Four hundred thousand dollars ($400,000.00) of the Cash Amount shall be contributed within thirty (30) days from the Closing Date to the capital of AGN, for the business purposes of AGN; and

(b) One hundred thousand dollars ($100,000) of the Cash Amount shall be used to pay at Closing the MMG Advance.

## ARTICLE III

## CLOSING

3.1 Closing. Subject to Section 8 hereof, the Closing of the sale and purchase of the Units shall take place at 10:00 A.M., local Oklahoma time on August 14, 1996 or at such other date and time as the parties hereto may mutually agree (the "Closing Date"). The Closing shall be by facsimile ( original execution copies to follow).

3.2 Deliveries at Closing.

(a) At Closing, Seller shall deliver or cause to be delivered the following:

(i) the Units, together with an assignment separate from certificate executed in blank in form and substance satisfactory to Buyers;

(ii) a put/call agreement pertaining to the Units in substantially the form attached hereto as Exhibit C (the "Put/Call Agreement");

(iii) a right of first refusal agreement pertaining to the Units in substantially the form attached hereto as Exhibit D (the "Right of First Refusal Agreement");

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(iv) a registration rights agreement pertaining to the MMG Shares (as defined in the Put/Call Agreement)in substantially the form attached hereto as Exhibit E (the "Registration Rights Agreement"); and

(v) such other documents and instruments as reasonably may be requested by Buyers not less than five business days prior to the Closing.

(b) At Closing, Buyers shall deliver or cause to be delivered the following:

(i) $100,000 of the Cash Amount, by wire transfer to an account designated by Seller;

(ii) the Guaranties;

(iii) the Put/Call Agreement;

(iv) the Right of First Refusal Agreement; and

(v) such other documents and instruments as reasonably may be requested by Seller not less than five business days prior to the Closing.

## ARTICLE IV

## REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Buyers as follows:

4.1 Organization; Qualification; Authority. Seller represents it is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the power and authority to make, execute, deliver and perform this Agreement



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and to incur and perform the obligations provided for herein, all of which have been duly authorized by all necessary and proper corporate action, including shareholder action. Neither the execution, delivery and performance of this Agreement by Seller nor the consummation by Seller of the transactions

contemplated hereby conflict with or will result in any breach or default of any provision of the Certificate of Incorporation or Bylaws of Seller. This Agreement has been duly and validly executed and delivered by the duly authorized officers of Seller and constitutes the valid, legally binding and enforceable obligations of Seller in accordance with the terms of this Agreement.

4.2 Title to Units. Seller has and will transfer to Buyers at the Closing (to each Buyer in such amounts as are specified in writing to Seller prior to the Closing), good and valid title to the Units, free and clear of all Liens. There are no outstanding options, warrants or other rights or agreements to purchase or sell the Units. The Units constitute, and upon completion of the transaction contemplated hereby the Buyers will acquire, the entirety of Seller's ownership interest in the Company. The Units constitute all outstanding interests in the income and losses of the Company. The Company has not entered into any agreements to issue any interest in the income and losses of the Company.

4.3 Conflicting Agreements; No Liens. Neither the execution or delivery of this Agreement nor the fulfillment of or compliance with the terms or provisions hereof will result in a breach of the terms, conditions or provisions of or constitute, whether or not with the giving of notice or lapse of time, or both, a default under, or result in a violation of, any agreement, contract, instrument, order, judgment or decree to which Seller is a party or by which the Seller or the Units are bound, or violate any provision of any applicable law, statute, rule or regulation or any order, decree, writ or injunction of any court or governmental body or result in creation or imposition of any Lien.



4.4 Status of the Company. The Company is duly organized, validly existing and in good standing as a limited liability company under the laws of the State of Delaware and has all powers and all governmental licenses, authorizations, consents and approvals required to own its own property and assets and carry on its business as now conducted and has been duly qualified and is in good standing in every jurisdiction in which the failure to be so qualified and/or in good standing is likely to have a material adverse effect on the business, operations, properties or assets of the Company (a "Material Adverse Effect"). Attached hereto as Exhibit F is a true, correct and complete copy of the limited liability operating agreement of the Company.

4.5 Status of AGN. AGN is duly organized, validly existing and in good standing as a limited liability company under the laws of the State of Delaware and has all powers and all governmental licenses, authorizations, consents and approvals required to own its property and assets and carry on its business as

now conducted and has been duly qualified and in good standing in every jurisdiction in which the failure to be so qualified and/or in good standing is likely to have a Material Adverse Effect. AGN owns all of the assets, rights and obligations of American Gaming Network, L.P., a New York limited partnership, and of American Gaming Network, JV, a New York general partnership, free and clear of all Liens. The Company currently owns 51% of the outstanding membership units in AGN and Seller owns 49% of the membership units in AGN. The membership units held by the Company and TVG in AGN constitute all outstanding interests in the income and losses of AGN and there are no outstanding options, warrants or other rights or agreements to purchase or sell such membership units, except as set forth in the limited liability company agreement for AGN, a true, correct and complete copy of which is attached hereto as Exhibit G and except as set forth in the Put/Call Agreement. AGN has not entered into any agreement to issue any interests in the income and losses of AGN except as provided in its limited liability company agreement. AGN has no outstanding indebtedness except (i) trade payables incurred in the ordinary





course of business which shall not exceed $50,000 as of the Closing Date, (ii) the $336 MMG Note, a true and complete copy of which is attached hereto as Exhibit H and (iii) a guaranty of the $400,000 Graff Note (the "Graff Guaranty").

4.6 Indebtedness of the Company and AGN. Upon the payment to MMG of the MMG Advance, the Company shall have no outstanding indebtedness except the $400,000 Graff Note, a true, complete and correct copy of which is attached hereto as Exhibit I. As of the Closing Date, Graff shall have no Claim or potential Claim against AGN or the Company with respect to the $100,000 Graff Note. Furthermore, as of the Closing Date, and after giving effect to the payment required in Section 2.3(b) herein, neither the Company nor AGN shall have any obligations to (i) Graff or its Affiliates except the $400,000 Graff Note and the MMG Retained Contract Rights as defined in the Graff Purchase Agreement or (ii) MMG or its Affiliates except as set forth in the $336,000 MMG Note, and the limited liability company agreement of AGN.

## ARTICLE V

## REPRESENTATIONS AND WARRANTIES OF BUYERS

Each Buyer hereby represents and warrants, severally and not jointly, as follows:

5.1 Authorization. Each Buyer has full power and authority to enter

into this Agreement and this Agreement constitutes a valid and legally binding obligation of each Buyer.

5.2 Purchase Entirely for Own Account. The Units to be purchased by each Buyer will be acquired for investment for the Buyer's own account, not as a nominee or agent, and not with a view





to Buyer's distribution of any part thereof; and each Buyer has no present intention of selling, granting any participation in, or otherwise distributing the same. Each Buyer does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person with respect to any of the Units.

5.3 Reliance Upon Investors' Representations. Each Buyer understands that the Units have not been registered under the Securities Act on the basis that the sale provided for in this Agreement is exempt from registration under the Securities Act pursuant to Section 4(2) thereof, and that the Seller's reliance on such exemption is predicated on Buyer's representations set forth herein.

5.4 Receipt of Information. Each Buyer believes he has received all the information which he considers necessary or appropriate for deciding whether to purchase the Units. Each Buyer further represents that he has had an opportunity to ask questions and receive answers from the Company and Seller and their respective officers regarding the terms and conditions of the offering of the Units and the business, properties, prospects, and financial condition of the Company and to obtain additional information necessary to verify the accuracy of any information furnished to or to which the Buyer otherwise had access.

5.5 Restricted Securities. Each Buyer understands that he must bear the economic risk of an investment in the Units for an indefinite period of time, that there is no established market for the Units and that it is not anticipated that any public market for the Units will develop in the future. Each Buyer understands that the Units may not be sold, transferred, or otherwise disposed of without registration under the Securities Act or an exemption therefrom, and that in the absence of an effective registration statement covering the Units or an available exemption from registration, the Units must be held indefinitely. In particular,

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each Buyer is aware that the Units may not be sold pursuant to Rule 144 promulgated under the Securities Act unless all of the conditions of that Rule are met. Among the conditions for use of Rule 144 is the availability of current information to the public about the Company. Such information is not now available and the Company has no present plans to make such information available.

5.6 Conflicting Agreement. Neither the execution or delivery of this Agreement nor the fulfillment of or compliance with the terms or provisions hereof will result in a breach of the terms, conditions or provisions of, or constitute, whether or not with the giving of notice or lapse of time, or both, a default under, or result in a violation of, any agreement, contract, instrument, order, judgment or decree to which the Buyer is a party or by which such Buyer is bound, or violate any provision of any applicable law, statute, rule or regulation or any order, decree, writ or injunction of any court or governmental body.

5.7 Accredited Investor. Each Buyer is an "accredited investor" as such term is defined in Rule 501 promulgated under the Securities Act of 1933, as amended.

## ARTICLE VI

## COVENANTS OF THE PARTIES

6.1 Expenses. All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby will be paid by the party incurring such costs and expenses, whether or not the transactions contemplated hereby are consummated; provided however, that Seller shall pay all reasonable legal fees and expenses incurred by Buyers in connection with this Agreement.

6.2 Further Assurances. Subject to the terms and conditions of this Agreement, each of the parties hereto will use its Commercial



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Efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary under applicable laws and regulations to consummate the transactions contemplated by this Agreement. On and from time to time after the Closing Date, without further consideration, Seller will, at its own expense, execute and deliver such documents to Buyers as Buyers may reasonably request in order to consummate the transactions contemplated by the Agreement.

On and from time to time after the Closing Date, without further consideration, Buyers will, at their own expense, execute and deliver such documents to Seller as Seller may reasonably request in order to consummate the transactions contemplated by this Agreement.

6.3 Filing. The parties shall promptly make, or cause to be made, all such filings and submissions under laws and regulations applicable to such party, if any, as may be required for the consummation of the transactions contemplated hereby. The parties hereto will coordinate and cooperate with one another in exchanging such information and reasonable assistance as may be requested in connection with all of the foregoing.

6.4 Transfer Taxes. Seller shall pay the cost of any conveyance, deed, transfer, excise, stamp, sales, use, recording or similar taxes or fees, arising out of the sale, transfer, conveyance or assignment of the Units as contemplated hereby. The covenants contained in this Section 6.4 shall survive the Closing Date until fully discharged.

6.5 Brokers Fee's. Seller and Buyers each hereby represent that neither party has paid or agreed to pay any brokerage commissions or finder's fees or employed any broker or finder in connection with any transaction contemplated by this Agreement.

6.6 Amendment of Limited Liability Company Agreement of AGN. Seller and Buyers agree that the limited liability company agreement of AGN shall be amended after the Closing Date and that each party shall negotiate the terms and conditions of such amendment in good



faith. The parties agree that the amendments will specifically include provisions providing for the following:

(i) a management committee comprised of six(6) members, three (3)of whom shall be chosen by Seller and three (3) of whom shall be chosen by the Company;

(ii) tag along rights of the Company (x) in the event of a sale by Seller of Seller's interest in AGN and (y) in the event of sale by MMG of MMG's interest in Seller; and

(ii) a majority vote of the management committee of AGN before the management committee of AGN may cause or authorize AGN to:

(a) create or incur any debt, or become liable as a surety, guarantor, accommodation endorser or otherwise for or upon the obligation of any other Person in excess of $50,000 during any

single fiscal year of AGN;

(b) create, assume or suffer to exist any Lien on any of the assets of AGN, or upon or with respect to any proceeds therefrom, or assign any accounts receivable or other right to receive income or proceeds;

(c) acquire a "business" (as described by the Securities and Exchange Commission in Regulation S-X, Rule 11-01(d)) of another Person whether by purchase of substantially all of the assets of a "business" or by purchasing securities of a "business";

(d) sell, or consolidate or merge, a "business" (as described by the Securities and Exchange Commission in Regulation S-X, Rule 11-01(d)) of AGN to or with another Person;



(e) enter into a transaction with an Affiliate;

(f) make Capital Expenditures in excess of $25,000 individually or $100,000 in the aggregate for any fiscal year of AGN;

(g) pay dividends or make any distributions to any holder of membership units in AGN except payments of indemnity under the limited liability company agreement of AGN;

(h) appoint or remove the chief executive officer, chief operating officer, chief financial officer and/or any other officers of AGN;

(i) invest resources of AGN in excess of $50,000 for any individual game project; and

(j) sell, transfer or issue any membership units of AGN except to an investor in the Company.

6.7 Interest on $400,000 Graff Note. Seller hereby agrees to pay any and all interest owing to Graff on the $400,000 Graff Note at the times and pursuant to the other terms of the Graff Note, provided that Seller shall in no other way be liable for the $400,000 Graff Note. Such payments shall be recorded as a liability of the Company to Seller payable solely out of cash distributions, if any, made by AGN in respect of the membership units of AGN owned by the Company.

6.8 K-1. Seller hereby agrees to timely prepare (or cause to be

prepared) the K-1 filing for members of the Company and to pay any reasonable expense associated with the preparation thereof.



ARTICLE VII

CLOSING CONDITIONS

7.1 Conditions to Each Party's Obligations. The respective obligations of the parties to consummate the transactions contemplated by this Agreement shall be subject to each of the following conditions.

(a) No party or the Units shall be subject to any order, judgment, decree or injunction of a court of competent jurisdiction or governmental body, agency or official nor any applicable law or regulation or executive order which prevents consummation of the transactions contemplated hereby on the terms described herein.

(b) All filings required by applicable law shall have been made and all consents thereunder with respect to the transactions contemplated by this Agreement shall have been obtained.

7.2 Conditions to the Obligations of Seller. The obligation of the Seller to consummate the transaction contemplated hereby shall be further subject to the fulfillment on or prior to the Closing Date of each of the following conditions:

(a) Buyers shall have performed and complied in all material respects with the agreements contained in this Agreement required to be performed and complied with by it at or prior to the Closing Date.

(b) The representations and warranties of the Buyers set forth in this Agreement shall be true and correct in all material respects as of the date made and as of the Closing Date as though made at and as of the Closing Date (except as otherwise contemplated by this Agreement).

7.3 Conditions to the Obligations of Buyers. The obligation of Buyers to consummate the transactions contemplated hereby shall be

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further subject to the fulfillment on or prior to the Closing of each of the following conditions:

(a) Seller shall have performed and complied in all material respects with the agreements contained in this Agreement required to be performed and complied with by it at or prior to the Closing Date.

(b) The representations and warranties of Seller set forth in this Agreement shall be true and correct in all material respects as of the date made and as of the Closing Date as though made at and as of the Closing Date (except as otherwise contemplated by this Agreement).

## ARTICLE VIII

## TERMINATION

8.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) By mutual written consent of all parties to this Agreement.

(b) By written notice by Seller or Buyers to the other party if the Closing shall not have occurred on or before 5:00 p.m., local time in Tulsa, Oklahoma, on August 14, 1996, unless such failure to occur is due to the failure of the party seeking to terminate this Agreement to perform in all material respects each of its obligations under this Agreement required to be performed by it or its affiliate at or before the Closing Date.

(c) By Buyers if there has been a material violation or breach by Seller of any agreement, representation or warranty contained in this Agreement which has rendered the satisfaction of



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any condition to the obligations of Buyers specified in Section 7.3 impossible and such violation or breach has not been waived by the Buyers or cured by Seller within 15 days after written notice to Seller of such violation or breach.

(d) By Seller if there has been a material violation or breach by any of Buyers of any agreement, representation or warranty contained in this Agreement which has rendered the satisfaction of any condition to the

obligations of the Seller specified in Section 7.2 impossible and such violation or breach has not been waived by Seller or cured by Buyers within 15 days after written notice to Buyers of such violation or breach.

8.2 Procedure and Effect of Termination.

(a) In the event of termination of this Agreement pursuant to Section 8.1, this Agreement shall terminate, and in each case the transactions contemplated hereby shall be abandoned, without further action by any of the parties hereto, and there shall be no liability on the part of the parties, except as set forth in Section 6.1, which Section shall survive the termination of this Agreement.

(b) If this Agreement is terminated as provided in Section 8.1, all filings, applications and other submissions made pursuant to this Agreement shall, to the extent practicable, be withdrawn from the agency or other person to which they were made.

## ARTICLE IX

## SURVIVAL AND INDEMNIFICATION

9.1 Survival. The representations, warranties, covenants and agreements of the parties hereto shall survive the execution and delivery hereof and the delivery of all of the documents executed in connection herewith and shall continue in full force and effect after



the date hereof and after the Closing Date for a period of one (1) year, except that (i) the representation and warranty of the parties contained in Section 4.1, Section 4.2 and Section 5.1, respectively, shall survive without limitation or until the expiration of any applicable statute of limitations, and (ii) any covenants or agreements contained herein or made pursuant hereto which by their terms are to be performed after Closing shall survive until fully discharged, including, without limitation, the covenants of Seller set forth in Sections 6.7 and 6.8. The date until which the representations, warranties, covenants and agreements of the parties hereto survive, as set forth herein, is known as the "Expiration Date". From and after the Expiration Date, no party shall be under any liability whatsoever with respect to any such representation or warranty or any obligation or liability based upon such representation or warranty, except for breaches as to which a party shall have given notice (specifying, with reasonable particularity, facts establishing such breach) to the other party or parties prior to the applicable Expiration Date and the representations, warranties and covenants specified in clauses (i)

and (ii) above. The respective representations and warranties contained herein or in any certificates delivered pursuant to this Agreement prior to or at the Closing shall not be deemed waived or otherwise affected by any investigation made by any party hereto.

9.2 Indemnification. Subject to the limitation set forth in Section 9.1:

(a) Seller hereby agrees to indemnify, defend and hold harmless each Buyer and any subsidiary or Affiliate of any Buyer, and any officer, director, stockholder, employee, representative or agent of any thereof and their respective successors and assigns from and against all Losses and Claims based upon, arising out of or resulting from, any breach of any representation or warranty of Seller that survives the Closing as provided in Section 9.1 and any covenant or agreement of Seller contained in this Agreement.





(b) Each Buyer, severally and not jointly, hereby agrees to indemnify, defend and hold harmless Seller and any subsidiary or Affiliate of Seller, and any officer, director, stockholder, employee, representative or agent of any thereof and their respective successors and assigns, from and against all Losses and Claims based upon, arising out of or resulting from, any breach of any representation or warranty of such Buyer that survives the Closing as provided in Section 9.1 and any covenant or agreement of such Buyer contained in this Agreement.

9.3 Notice of Claim. If any party hereto has suffered or incurred any Loss or Claim, whether pursuant to an administrative proceeding, action at law, suit in equity, or otherwise is instituted which, if decided adversely to a party, would result in such party suffering or incurring any Loss, such party shall give prompt written notice to the party against which a Claim for indemnification may be made pursuant to this Agreement ("indemnifying party"), setting forth: (a) the facts or events, in reasonable detail which indicate that such party has suffered or incurred such Loss, (b) the Section or Sections of this Agreement (in addition to this Article IX) under which such party has suffered or incurred such Loss, (c) the amount of such Loss(estimated, if necessary) or, in the case of a Claim, such party's then good faith estimate of the reasonably foreseeable estimated amount of its claim for indemnification for such Loss, and (d) the method of computation of the amount of such Loss, any of which information shall be promptly amended by such party when its knowledge of the facts or events and any resulting liability so warrant. No party shall be liable for indemnification pursuant to Section 9.2 unless notice of claim for such indemnification has been given in accordance with this Section 9.3 and on or prior to the Expiration Date, if applicable.

9.4 Defense of Claim. The indemnifying party shall have the right to conduct and control, at its expense and through counsel of its own choosing, the defense of any Claim, action or suit, but the indemnified party may, at its election, participate in the defense of





such Claim, action or suit at its sole cost and expense; provided that if (a) the indemnifying party shall fail to defend any such Claim, (b) the indemnifying party and indemnified party mutually agree or (c) the named parties to such Claim,(including any impeded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them, then the indemnified party may defend, through counsel of its own choosing, such Claim and settle such Claim, and recover from the indemnifying party the amount of any settlement to which the indemnifying party consents or of any resulting judgment and the costs and expenses of such defense, provided that the indemnified party shall not compromise or settle any Claim without the prior written consent of the indemnifying party, which consent will not be unreasonably withheld, continued or delayed.

## ARTICLE X

## MISCELLANEOUS PROVISIONS

10.1 Amendment and Modification. This Agreement may be amended, modified or supplemented only by a subsequent written agreement of the Seller and Buyers.

10.2 Waiver of Compliance. Except as otherwise provided in this Agreement, any failure of any of the parties to comply with any obligation, covenant, agreement or condition herein may be waived by the party entitled to the benefits thereof only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

10.3 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally

or by facsimile or three days after mailed by registered or certified mail (return receipt requested), postage prepaid or one Business Day after mailed by reputable overnight courier, to each Seller and the Company at the addresses set forth below their signature on the signature page to this Agreement and to the Buyers if sent to Lawrence Kaplan at GV Capital Corp., 150 Vanderbilt Motor Parkway, Suite 311, Hauppauge, New York 11788, who is hereby designated as agent of the Buyers upon whom notice and process against the Buyers may be served (or at such other address for a party as shall be specified by like notice; provided, however, that notices of a change of address shall be effective only upon receipt thereof).

10.4 Assignment. This Agreement may not be assigned, in whole or in part, by the parties hereto without the prior written consent of the parties, except as set forth on Exhibit A.

10.5 Governing Law. This Agreement shall be governed by the laws of the State of Delaware, without reference to principles of conflicts of law which require that the substantive laws of another jurisdiction apply.

10.6 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.7 Interpretation. The article and section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not in any way affect the meaning or interpretation of this Agreement.

10.8 Severability. The invalidity or unenforceability of any particular provision of this Agreement shall be construed in all respects as if such invalid or unenforceable provision were omitted. All provisions of this Agreement shall be enforced to the full extent permitted by law.




10.9 No Third-Party Beneficiaries. Nothing contained in this Agreement, expressed or implied, is intended or shall be construed to confer upon or give to any Person other than the parties hereto and their successors or permitted assigns, any rights or remedies under or by reason of this Agreement.

10.10 Entire Agreement. This Agreement, including the documents, schedules, certificates and instruments referred to herein, is the entire agreement and understanding of the parties hereto in respect of the transactions contemplated by this Agreement. There are no restrictions,

promises, representations, warranties, covenants or undertakings, other than those expressly set forth or referred to herein or therein. This Agreement supersedes all prior agreements and understandings between the parties with respect to the transactions contemplated hereby.

10.11 Parties in Interest. All the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto, whether so expressed or not.

10.12 Consent to Jurisdiction and Venue. The parties hereto agree that any legal or equitable action for claims arising out of, or to enforce the terms of, this Agreement may be brought in the State of New York and any court within such state shall have personam jurisdiction over the parties and venue of the action shall be appropriate in such court.

[THIS SPACE INTENTIONALLY LEFT BLANK]



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IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

TV Games, Inc.

By: ----------

Name: ----------

Title: ----------

7535 South Lewis, Suite 302
Tulsa, Oklahoma
Attn: Gordon Graves
Fax: (918) 494-0177
Phone: (800) 726-2464

AGN Venturer L.L.C.

By: _____

Name: _____

Title: _____

7535 South Lewis, Suite 302
Tulsa, Oklahoma
Attn: Gordon Graves
Fax: (918) 494-0177

"BUYERS"

OK Association Pension Plan

By: _____

Name: _____

Title: _____

Address:
G-V Capital Corp.
150 Vanderbilt Motor Parkway
Suite 311
Hauppague, New York 11788
Fax: (516) 273-0047
Phone: (516) 273-0058

_____

Name: Larry Kaplan

Address:
G-V Capital Corp.
150 Vanderbilt Motor Parkway
Suite 311
Hauppague, New York 11788
Fax: (516) 273-0047
Phone: (516) 273-0058

---

Name: Stanley Kaplan

Address:
Gro-Vest Management, Inc.
150 Vanderbilt Motor Parkway
Suite 311
Hauppauge, New York, 11788
Fax: (516) 273-0047
Phone: (516) 273-0058

---

Name: Michael Miller

Address:
485 Madison Avenue
Suite 1100
New York, New York 10022
Fax: (212) 207-4976
Phone: (212) 207-4400

---

Name: Gordon Graves

Address:
Multimedia Games, Inc.
7335 South Lewis
Suite 204
Tulsa, Oklhaoma 74136
Fax: (918) 494-0177
Phone: (800) 726-2464

Castletownbere Associates, L.L.C.

By:
---
Name:
---
Title:
---



25

Address:
Walsh Manning Securities, Inc.
90 Broad Street
New York, New York 10004
Fax: (212) 482-0809
Phone (800) 553-3290
Attention: Frank Skelly

---
Name: Kenneth Orr

Address:
First Cambridge
375 Park Avenue
New York, New York 10152
Fax: (212) 753-6450
Phone (212) 935-5000

Alliance Capital Corp.

By:
---
Name:
---
Title:
---

Address:
4 Fox Meadow
Lloyd Harbor, NY 11743

Fax: (516) 271-7721
Phone: (516) 271-1651
Attention: Ken Greene

The Holding Company

By:
---
Name:
---
Title:
---

Address:
2 North LaSalle
Suite 2200
Chicago, Illinois 60602
Fax: (312) 269-1747
Phone: (312) 269-1700
Attention: Burton W. Kanter

---
Name: Rich Pollack



26

Address:
Walsh Manning Securities, Inc.
90 Broad Street, Suite 16
New York, New York, 10004
Fax: (212) 482-0809
Phone: (800) 553-3290

Jericho Capital Corp.

By:
---
Name:

Name: _____

Title: _____

Baystate Development Trust

By: _____

Name: _____

Title: _____

EXHIBIT 10.17

RIGHT OF FIRST REFUSAL AGREEMENT

THIS RIGHT OF FIRST REFUSAL AGREEMENT (the "Agreement"), dated as of August 14, 1996, by and among AGN Venturer L.L.C., a Delaware limited liability company ("Venturer"), Multimedia Games, Inc., a Texas corporation ("MMG") and the membership unit holders of Venturer which are signatory hereto (each a "Member" and collectively, the "Members").

W I T N E S S E T H:

WHEREAS, pursuant to a certain Unit Purchase Agreement dated August 14, 1996, it is a condition precedent to the obligation of TV Games, Inc., a wholly owned Delaware subsidiary of MMG, to sell its membership units in Venturer (individually a "Unit" and collectively the "Units") that Venturer and MMG have entered into this Agreement; and

WHEREAS, the parties wish to provide for certain "right of first refusal" rights with respect to the Units of Venturer.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements herein contained, the parties hereto agree as follows:

ARTICLE I

Certain Definitions

1.1 Definitions. For the purposes of this Agreement the following terms have the following meanings:

"Affiliate", with respect to any Person, means any other Person directly or indirectly controlling, controlled by or under common control with, such Person. For purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" or "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Business Day" shall mean any day other than a Saturday, Sunday, Federal holiday or a day on which the banks in New York are required or permitted by law to be closed.

"Debt" shall mean evidence of an installment purchase obligation given or tendered by a Third Party (or by MMG) as consideration for all or a portion of the Offered Units.

"Effective Date" shall mean the day and year first above written.

"Lien" shall mean any mortgage, pledge, security interest, lien, charge, encumbrance, equity, claim, option, tenancy, right or restriction on transfer of any nature whatsoever.

"Person" means an individual, a partnership, a joint venture, a corporation, an association, a trust, an individual retirement account or any other entity or organization, including a government or any department or agency thereof.

"Permitted Encumbrance" means any lien, security interest, pledge or similar claim given or granted by a Member to a bank or recognized financial institution.

"Permitted Transfer" means (a) a Sale of Units between any Member who is a natural person and such Member's spouse or children, or a trust for the benefit of such Member, or such Member's spouse or children, provided that with respect to any Sale to such a trust, the Member retains, as trustee or by some other means, the sole authority to vote such Units; (b) a Sale of Units between any Member who is a natural person and such Member's guardian or conservator and, upon the death of such Member, such Member's executor, administrator and heirs; (c) a Sale of Units between any Member and an Affiliate of such Member; or (d) a Permitted Encumbrance. No Permitted Transfer





shall be effective unless and until the transferee of the Units so transferred executes and delivers to MMG an executed counterpart of this Agreement and agrees to be bound hereunder in the same manner and to the same extent as the Member from whom the Units were transferred. From and after the date on which a Permitted Transfer becomes effective, the Permitted Transferee of the Units so transferred shall have the same rights, and shall be bound by the same obligations, under this Agreement as the transferor of such Units.

"Permitted Transferee" means any person or entity who shall have acquired and who shall hold Units pursuant to a Permitted Transfer.

"Public Offering" means an underwritten public offering of equity securities of Venturer pursuant to an effective registration statement under the 1933 Act.

"Sale" means any sale, assignment, transfer, distribution (whether by a partnership to any of its partners or otherwise) or other disposition of Units or of a participation therein, whether or not for value.

"Third Party" means any Person other than the Prospective Seller (as defined herein) or MMG.

## ARTICLE II

## Restrictions on Transfer

2.1. Restrictions on Transfer. Each Member agrees that it will not, directly or indirect, make any Sale or create or incur or assume any Lien with respect to any Units held by such Member other than (a) any Sale to a Permitted Transferee or (b) any Sale solely for cash and/or Debt that is made in compliance with the procedures, and subject to the limitations set forth in Article III herein.



## ARTICLE III
## Right of First Refusal

3.1 Priority of Right of Refusal. The parties hereto agree that the right of first refusal granted pursuant to this Agreement is the first right of refusal for the sale of any Units and that this Agreement has priority over any right of refusal found in the limited liability company agreement of Venturer or in any other agreement to which Venturer or the Members are a party.

3.2 Right of First Refusal. (a) If any Member receives from or otherwise negotiates with a Third Party a bona fide offer to purchase for cash and/or Debt (an "Offer") any of the Units owned or held by such Member, and such Member intends to pursue a Sale of such Units to such Third Party, such Member (the "Prospective Seller") shall provide MMG written notice of such Offer (an "Offer Notice"). The Offer Notice shall identify the Third Party making the Offer, the number of Units with respect to which the Prospective

Seller has such an Offer (the "Offered Units"), the price per Unit, delineating the amount of cash and/or Debt, at which a sale is proposed to be made (the "Offer Price"), and all the other material terms and conditions of the Offer.

(b) The receipt of an Offer Notice by MMG from a Prospective Seller shall constitute an offer by such Prospective Seller to sell to MMG the Offered Units at the Offer Price for an equivalent amount in cash and/or Debt and otherwise on terms and conditions no less favorable to the Prospective Seller than as described in the Offer Notice. Such offer shall be irrevocable for 10 days after receipt of such Offer Notice by MMG (the "Acceptance Period"). During the Acceptance Period, MMG shall have the right to accept such offer as to all of the Offered Units by giving a written notice of acceptance (the "Notice of Acceptance") to the Prospective Seller prior to the expiration of the Acceptance Period.





(c) If MMG so accepts the Prospective Seller's offer, MMG will purchase for cash and/or Debt from the Prospective Seller, and the Prospective Seller will sell to MMG, the Offered Units. The price per Unit to be paid by MMG shall be the Offer Price specified in the Offer Notice.

(d) The consummation of any such purchase by and sale to MMG shall take place on such date, not later than 10 days after the Acceptance Period, as MMG and the Prospective Seller shall select. Upon the consummation of such purchase and sale, the Prospective Seller shall (i) deliver to MMG certificates, if any, evidencing the Offered Units purchased and sold duly endorsed in blank or accompanied by written instruments of transfer in form reasonably satisfactory to MMG duly executed by the Prospective Seller and (ii) assign all its rights under this Agreement with respect to the Offered Units purchased and sold pursuant to an instrument of assignment reasonably satisfactory to MMG.

(e) In the event that (i) the Prospective Seller shall not have received the Notice of Acceptance for the Offered Units upon the expiration of the Acceptance Period or (ii) MMG shall have given a Notice of Acceptance to the Prospective Seller but shall have failed to consummate, other than as a result solely of the fault of the Prospective Seller, a purchase of the Offered Units with respect to which such Notice of Acceptance was given within the Acceptance Period, such Prospective Seller shall have the right to reject any or all Notices of Acceptance theretofore received from MMG, and nothing in this Section 3.2 shall limit the right of the Prospective Seller to make a sale of the Offered Units so long as all the Offered Units that are sold or otherwise disposed of by the Prospective Seller (which number of Offered Units shall be not less than the number of Offered Units specified in such Offer Notice) are sold for cash and/or Debt (A) within 60 days after the date of receipt of such

Offer Notice by MMG, (B) at an amount not less than the Offer Price included in such Offer Notice and (C) to the Third Party making the Offer on the material economic terms set forth in the Offer.





(f) In the event that the Prospective Seller shall not have sold the Offered Units before the expiration of the 60-day period in accordance with paragraph (e) above, then the provisions of this Section 3.2 shall be reinstated as to the Offered Units as if an Offer Notice had not been delivered.

(g) Offered Units sold in accordance with all the terms and conditions of this Agreement shall continue to be subject to this Agreement and MMG's right of first refusal, and, upon MMG's request, the Third Party who purchases such Offered Units shall execute an acknowledgment to such effect.

(h) Anything in this Section 3.2 to the contrary notwithstanding, the provisions of this Section 3.2 will not be applicable to sales of Units pursuant to a Public Offering.

## ARTICLE IV

## Miscellaneous

4.1 Termination. This Agreement shall terminate on the earlier of (a) the tenth anniversary of the execution and delivery hereof or (b) by mutual written consent of all parties to the Agreement.

4.2 Representations. Each of the parties hereto represents that this Agreement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

4.3 Certain Remedies. Without intending to limit the remedies available to any of the parties hereto, each of the parties hereto agrees that damages at law will be an insufficient remedy in the event such party violates the terms hereof and each of the parties hereto further agrees that each of the other parties hereto may apply for and have injunctive or other equitable relief in any court of

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competent jurisdiction to restrain the breach or threatened breach of, or otherwise specifically to enforce, any of such party's agreements set forth herein.

4.4 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any such term may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of all parties to the Agreement.

4.5 Notices. All notices and other communications provided for herein shall be in writing and shall be delivered by telecopy, sent by reputable overnight courier, by hand or sent by certified or registered mail, return receipt requested, postage prepaid, addressed, if to any Member, to such Member at its address set forth below its signature to this Agreement (or to such other address as such Member shall have specified in writing to the party giving any such notice or sending any such communication). All such notices shall be conclusively deemed to be received and shall be effective, (i) if sent by hand delivery, upon receipt, (ii) if sent by telecopy ,upon dispatch thereof, answerback received or (iii) if sent by registered or certified mail, on the third day after the day on which such notice is mailed or(iv) if sent by overnight courier on the Next Business Day after the day on which such notice was sent.

4.6 Benefit; Successors and Assigns. Except as otherwise provided herein, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement may not be assigned without the prior written consent of the nonassigning parties. Nothing in this Agreement either express or implied is intended to confer on any person other than the parties hereto and their respective successors and permitted assigns, any rights, remedies or obligations under or by reason of this Agreement.

4.7 Miscellaneous. This Agreement sets forth the entire agreement and understanding among the parties hereto, and supersedes



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all prior agreements and understandings, relating to the subject matter hereof. All representations and warranties contained herein shall survive the execution and delivery of this Agreement, regardless of any investigation made by any party hereto or on such party's behalf. This Agreement shall be construed and enforced in accordance with and governed by the law of the State of Delaware without giving effect to principals of conflicts of laws. The headings in this

Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized signatories thereunto duly authorized as of the day and year first above written.

MULTIMEDIA GAMES, INC.

By: ----------

Name: ----------

Title: ----------

7535 South Lewis, Suite 302
Tulsa, Oklahoma
Attn: Gordon Graves
Fax: (918) 494-0177

AGN VENTURER L.L.C.

By: ----------

Name: ----------

Title: ----------

7535 South Lewis, Suite 302
Tulsa, Oklahoma
Attn: Gordon Graves
Fax: (918) 494-0177

OK Associates Pension Trust

By:
---

Name:
---

Title:
---

Address:
150 Vanderbilt Motor Parkway
Suite 311
Hauppague, New York 11788
Fax: (516) 273-0047
Phone: (516) 273-0058

---

Name: Larry Kaplan

Address:
G-V Capital Corp.
150 Vanderbilt Motor Parkway
Suite 311
Hauppague, New York 11788
Fax: (516) 273-0047
Phone: (516) 273-0058



10

---

Name: Stanley Kaplan

Address:
Gro-Vest Management, Inc.
150 Vanderbilt Motor Parkway
Suite 311
Hauppague, New York, 11788
Fax: (516) 273-0047
Phone: (516) 273-0058

---

Name: Michael Miller

Address:
485 Madison Avenue
Suite 1100
New York, New York 10022
Fax: (212) 207-4976
Phone: (212) 207-4400

---

Name: Gordon Graves

Address:
Multimedia Games, Inc.
7335 South Lewis
Suite 204
Tulsa, Oklhaoma 74136
Fax: (918) 494-0177
Phone: (800) 726-2464



11

Alliance Capital Investment Corp.

By: ---

Name: ---

Title: ---

Address:
4 Fox Meadow
Lloyd Harbor, NY 11743
Fax: (516) 271-7721
Phone: (516) 271-1651
Attention: Ken Greene

The Holding Company

By:
---

Name:
---

Title:
---

Address:
2 North LaSalle
Suite 2200
Chicago, Illinois 60602
Fax: (312) 269-1747
Phone: (312) 269-1700
Attention: Burton W. Kanter





Jericho Capital Corp.

By:
---

Name:
---

Title:
---

Address:
11 Stewart Avenue
Huntington, NY 11743
(516) 271-1643

Baystate Development Trust

By:
---

Name:
---

Title:
---

Address:
210 Dartmouth Street

Pawtucket, RI 02860
(401) 729-4576

EXHIBIT 10.18

PUT/CALL AGREEMENT

THIS PUT/CALL AGREEMENT (the "Agreement"), dated as of August 14, 1996, by and between AGN Venturer L.L.C., a Delaware limited liability company ("Venturer") and Multimedia Games, Inc., a Texas corporation ("MMG").

W I T N E S S E T H:

WHEREAS, Venturer and MMG, through its wholly owned subsidiary TV Games, Inc., a Delaware corporation ("TV Games"), each own membership units in American Gaming Network, L.L.C. (individually a "Unit" and collectively the "Units"), a Delaware limited liability company ("AGN"); and

WHEREAS, the parties wish to provide for certain "put" and "call" rights with respect to the Units.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements herein contained, the parties hereto agree as follows:

ARTICLE I

Certain Definitions

1.1 Definitions. For the purposes of this Agreement the following terms have the following meanings:

"Affiliate", with respect to any Person, means any other Person directly or indirectly controlling, controlled by or under common control with, such Person. For purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" or "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.





"Business Day" shall mean any day other than a Saturday, Sunday, Federal holiday or a day on which the banks in New York are required or permitted by law to be closed.

"Effective Date" shall mean August 14, 1996.

"Graff Note" shall mean that certain promissory note of Venturer in the principal amount of four hundred thousand dollars ($400,000) payable to Graff Pay-Per-View, Inc., a Delaware corporation.

"Lien" shall mean any mortgage, pledge, security interest, lien, charge, encumbrance, equity, claim, option, tenancy, right or restriction on transfer of any nature whatsoever.

"MMG Shares" shall mean a certain number of shares of Common Stock of MMG, $.01 par value, equal to the sum of (i) two hundred twenty eight thousand six hundred sixty seven (278,667) shares of Common Stock, plus (ii) that number of shares of Common Stock determined by dividing the Paid Principal by three (3).

"Paid Principal" shall mean the amount of principal, excluding interest, which Venturer has actually paid in cash to the holder of the Graff Note pursuant to the terms of the Graff Note. "Paid Principal" does not include any payment of principal on the Graff Note made by AGN or MMG or any of MMG's Affiliates, whether such payment is made pursuant to the Graff Note, a guaranty of the Graff Note or otherwise.

"Person" shall mean an individual, a partnership, a joint venture, a corporation, an association, a trust, an individual retirement account or any other entity or organization, including a government or any department or agency thereof.





ARTICLE II

Call Right

2.1 Call Option. During the one (1) year period following the first anniversary of the Effective Date (the "Call Option Period"), MMG shall have the right, but not the obligation, to purchase (the "Call Option"), and Venturer shall be required to sell, fifty percent (50%), no more and no less, of Venturer's right, title and interest in AGN (collectively, the "Call Units") upon delivery of written notice (the "Call Notice") to Venturer of MMG's intent to exercise its Call Option.

2.2 Purchase Price. In consideration of the sale of the Call Units, at the Closing MMG shall deliver the MMG Shares to Venturer or, at Venturer's election, to the members of Venturer in proportion to their respective

interests in Venturer.

2.3 Closing. The closing of any purchase of the Call Units by MMG shall take place at 10:00 A.M., local Oklahoma time, on the tenth (10th) Business Day after the date of the Call Notice (the "Call Closing"). At the Call Closing, Venturer shall deliver to MMG the Call Units, free and clear of all Liens, and MMG shall deliver to Venturer or Venturer's members, as the case may be, the MMG Shares, free and clear of all Liens. MMG represents and warrants to Venturer and its members that the MMG Shares shall be duly authorized, validly issued and non-assessable, when issued pursuant to this Agreement. All of the foregoing deliveries will be deemed to be made simultaneously and none shall be deemed completed until all have been completed.

2.4 Failure to Exercise Call Option. Failure of MMG to exercise its Call Option pursuant to this Article II within the Call Option Period shall in no way be deemed a waiver by TV Games of any of its rights with regard to the Call Units as provided for in the limited liability company agreement of AGN.

2.5 Rights Prior Transfer of Call Units. Notwithstanding anything set forth in this Article II to the contrary, Venturer shall retain all right, title and interest in the Call Units (including, without limitation, all rights to vote the Call Units and to receive



distributions thereon) until the consideration therefor has been delivered to Venturer in accordance with the terms of this Article II.

2.6 Effect of State and Federal Law. Notwithstanding any provisions set forth in this Article II to the contrary, Venturer shall not be obligated to sell the Call Units if upon MMG's exercise of the Call Option, the delivery of the MMG Shares would not be in compliance with all applicable Federal and state securities laws. In such event, the Call Option Period shall be extended for an additional six (6) months. MMG shall take all commercially reasonable actions to enable MMG to issue the MMG Shares in compliance with such Federal and state securities laws, whether pursuant to a registration statement covering the MMG shares or pursuant to an exemption from such registration requirements. MMG agrees to pay all costs and expenses associated with the registration of the MMG Shares, including reasonable attorney's fees; provided that if the delivery of the MMG Shares would not be deemed an exempt transaction under Federal and state securities laws solely by reason of Venturer or, if applicable, its members failing to be an "accredited investor" as defined in Rule 501 under the Securities Act of 1933, as amended (the "Act"), Venturer or, if applicable, its members agree to pay all such costs and expenses.

ARTICLE III

Put Right

3.1 Put Option. During the one (1) year period following the first anniversary of the Effective Date (the "Put Option Period"), Venturer shall have the right, but not the obligation, to cause MMG to purchase (the "Put Option"), and MMG shall purchase, all of Venturer's right, title and interest in AGN, no more and no less, (collectively, the "Put Units") upon delivery of written notice (the "Put Notice") to MMG of Venturer's intent to exercise its Put Option.

3.2 Purchase Price. In consideration of the sale of the Put Units, at the Closing MMG shall deliver the MMG Shares to Venturer



or, at Venturer's election, to the members of Venturer in proportion to their respective interests in Venturer.

3.3 Closing. The closing of any purchase of the Put Units by MMG shall take place at 10:00 A.M., local Oklahoma time, on the tenth (10th) Business Day after the date of the Put Notice (the "Put Closing"). At the Put Closing, Venturer shall deliver to MMG the Put Units, free and clear of all Liens, and MMG shall deliver to Venturer or Venturer's members, as the case may be, the MMG Shares, free and clear of all Liens. MMG represents and warrants to Venturer and its members that the MMG Shares shall be duly authorized, validly issued and non-assessable, when issued pursuant to this Agreement. All of the foregoing deliveries will be deemed to be made simultaneously and none shall be deemed completed until all have been completed.

3.4 Failure to Exercise Put Option. Failure of Venturer to exercise its Put Option pursuant to this Article III within the Put Option Period shall in no way be deemed a waiver of Venturer of any of its rights with regard to the Put Units as provided for in the limited liability company agreement of AGN.

3.5 Rights Prior Transfer of Put Units. Notwithstanding anything set forth in this Article III to the contrary, Venturer shall retain all right, title and interest in the Put Units (including, without limitation, all rights to vote the Put Units and to receive distributions thereon) until the consideration therefor has been delivered to the Venturer in accordance with the terms of this Article III.

3.6 Effect of State and Federal Law. Notwithstanding any provisions

set forth in this Article III to the contrary, MMG shall not be obligated to purchase the Put Units if the delivery of the MMG Shares would not be deemed an exempt transaction under Federal and state securities laws solely by reason of Venturer or, if applicable, its members failing to be an "accredited investor" as defined in Rule 501 of the Act.





ARTICLE IV

Miscellaneous

4.1 Termination. This Agreement shall terminate on the earlier of (a) the tenth anniversary of the execution and delivery hereof, (b) the consummation of a transaction pursuant to Article II hereof, (c) the consummation of a transaction pursuant to Article III hereof or (d) by mutual written consent of MMG and Venturer.

4.2 Representations. Each of the parties hereto represents that this Agreement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

4.3 Certain Remedies. Without intending to limit the remedies available to any of the parties hereto, each of the parties hereto agrees that damages at law will be an insufficient remedy in the event such party violates the terms hereof and each of the parties hereto further agrees that each of the other parties hereto may apply for and have injunctive or other equitable relief in any court of competent jurisdiction to restrain the breach or threatened breach of, or otherwise specifically to enforce, any of such party's agreements set forth herein.

4.4 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any such term may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of both MMG and Venturer.

4.5 Transfer of MMG Shares. If the MMG Shares are not registered under the Act, Venturer and, if applicable, Venturer's members agree that the MMG Shares may not be sold, transferred, assigned, hypothecated or otherwise disposed of until a registration statement with respect thereto is declared effective under the Act or MMG receives an opinion of counsel reasonably satisfactory to counsel

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to MMG that an exemption from the registration requirements of the Act is available. Unless such a registration statement is effective, the MMG Shares may be transferred only to a Person, who at the time of transfer, is reasonably believed to be an "accredited investor" as defined in Rule 501 of the Act (a "Permitted Transferee").

Each certificate for the MMG Shares shall bear a legend substantially similar to the following:

> THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") AND MAY NOT BE OFFERED OR SOLD EXCEPT (1) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR (2) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO COUNSEL FOR THE COMPANY, STATING THAT AN EXEMPTION FROM REGISTRATION UNDER THE ACT IS AVAILABLE.

4.6 Notices. All notices and other communications provided for herein shall be in writing and shall be delivered by telecopy, by hand, by reputable overnight courier or sent by certified or registered mail, return receipt requested, postage prepaid, addressed, if to any Stockholder, to such Stockholder at its address set forth below its signature to this Agreement (or to such other address as such Stockholder shall have specified in writing to the party giving any such notice or sending any such communication). All such notices shall be conclusively deemed to be received and shall be effective, (i) if sent by hand delivery, upon receipt, (ii) if sent by telecopy ,upon dispatch thereof, answerback received or (iii) if sent by registered or certified mail, on the third day after the day on which such notice is mailed or (iv) if sent by overnight courier, on the next Business Day after the day on which such notice was sent.

4.7 Benefit; Successors and Assigns. Except as otherwise provided herein, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors



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and permitted assigns. This Agreement may not be assigned without the prior written consent of the nonassigning party. Nothing in this Agreement either express or implied is intended to confer on any person other than the parties hereto, Venturer's members and their respective successors and permitted assigns, any rights, remedies or obligations under or by reason of this

Agreement.

4.8 Miscellaneous. This Agreement sets forth the entire agreement and understanding among the parties hereto, and supersedes all prior agreements and understandings, relating to the subject matter hereof. All representations and warranties contained herein shall survive the execution and delivery of this Agreement, regardless of any investigation made by any party hereto or on such party's behalf. This Agreement shall be construed and enforced in accordance with and governed by the law of the State of Delaware without giving effect to principals of conflicts of laws. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized signatories thereunto duly authorized as of the day and year first above written.

Multimedia Games, Inc.

By: ----------

Name: ----------

Title: ----------

7535 South Lewis, Suite 302
Tulsa, Oklahoma
Attn: Gordon Graves
Fax: (918) 494-0177

AGN Venturer L.L.C.

By: ----------

Name: ----------

Title: ----------

Address:
c/o G-V Capital Corp.
150 Vanderbilt Motor Parkway

Suite 311
Hauppague, New York 11788
Fax: (516) 273-0047

EXHIBIT 10.19

MULTIMEDIA GAMES, INC.

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of August 14, 1996, by and between MULTIMEDIA GAMES, INC., a Texas corporation (the "Company"), and each Holder (as such term is defined below),

W I T N E S S E T H:

WHEREAS, AGN Venturer L.L.C., a Delaware limited liability company ("AGN"), has entered into a Put/Call Agreement of even date herewith (the "Put/Call Agreement") with the Company pursuant to which AGN may acquire from the Company shares of the Company's Common Stock (each a "Share" and collectively the "Shares") pursuant to the exercise of the "Call Option" or the "Put Option" as defined therein; and

WHEREAS, the Company is willing to register the Registerable Securities (as hereinafter defined) under the 1933 Act upon the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements herein contained, the parties hereto agree as follows:

ARTICLE I

Certain Definitions

For the purposes of this Agreement, the following terms have the following meanings:

"Affiliate", with respect to any Person, means any other Person directly or indirectly controlling, controlled by or under common control with, such Person. For purposes of this





definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" or "under common control with"), as used with respect to any Person, shall mean the possession, directly or

indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Beneficial owner" or "beneficially own" has the meaning given such term in Rule 13d-3 under the 1934 Act.

"Business Day" means any day, excluding Saturday, Sunday and any other day on which commercial banks in New York, New York are authorized or required by law to close.

"Commission" means the Securities and Exchange Commission, and any successor commission or agency having similar powers.

"Common Stock" means the shares of Common Stock, $.01 par value, of the Company.

"Holder" means AGN, any Permitted Transferee of AGN (and any subsequent Permitted Transferee) that, in each case, holds Registrable Securities.

"1933 Act" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"1934 Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Permitted Transferee" means any Member of AGN and any other Person that shall be the "Permitted Transferee" of Registerable Securities in accordance with the terms of the Put/Call Agreement; provided that, in each case such Person shall have executed and delivered to the Company an executed counterpart of this Agreement and shall have agreed to be bound





hereunder in the same manner and to the same extent as the Holder is bound hereunder.

"Person" means an individual, a partnership, a joint venture, a corporation, an association, a trust, an individual retirement account or any other entity or organization, including a government or any department or agency thereof.

"Registrable Securities" means the Shares. Registrable Securities shall cease to be Registrable Securities when (i) a registration

statement (other than a registration statement on Form S-8) with respect to the sale of the Shares shall have become effective under the 1933 Act and the Shares shall have been disposed of under such registration statement, (ii) they shall have been distributed to the public pursuant to Rule 144, (iii) they shall have been otherwise transferred or disposed of other than to a Permitted Transferee, (iv) any transfer or disposition of them to the public shall not require their registration or qualification under the 1933 Act or any similar state law then in force, or (v) they shall have ceased to be outstanding.

"Registration Expenses" means all out-of-pocket expenses incident to the Company's performance of or compliance with Article II of this Agreement, including, without limitation, all registration and filing fees (including filing fees with respect to the National Association of Securities Dealers, Inc.), all fees and expenses of complying with state securities or "blue sky" laws (including reasonable fees and disbursements of underwriters' counsel in connection with any "blue sky" memorandum or survey), all printing expenses, all listing fees, all registrars' and transfer agents' fees, the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits and/or "cold comfort" letters required by or incident to such performance and compliance; provided that, "Registration Expenses" shall not include underwriting discounts and



commissions and applicable transfer taxes, if any, with respect to the Shares and any fees and disbursements of counsel retained by the Holders of Registrable Securities being registered, which shall be borne by the sellers of the Registrable Securities being registered in all cases.

"Rule 144" means Rule 144 (or any successor provision) under the 1933 Act.

"Rule 144 Transaction" means any sale of Shares made in reliance upon Rule 144 (as in effect on the date hereof) that complies with paragraphs (e), (f) and (g) thereof (as in effect on the date hereof), regardless of whether at the time of such Sale the seller is entitled to rely upon paragraph (k) of Rule 144 in connection with the Sale of such Shares.

"Shares" means the shares of Common Stock acquired or that may acquired pursuant to the Put/Call Agreement. Shares shall also mean any equity securities received in exchange for or with respect to such Common Stock by way of merger, consolidation, exchange, stock dividend

or reorganization or recapitalization involving the Company in which the Company is the surviving or resulting entity.

ARTICLE II

Registration Rights

SECTION 2.1 Registration Upon Demand.

(a) At any time after the date of acquisition of the Shares pursuant to the Put/Call Agreement, the Holders of a majority in interest of the Registrable Securities held by all Holders then outstanding may at any time make a written demand of the Company for registration with the Commission under and in accordance with the provisions of the 1933 Act of all or part of their Registrable Securities (a "Demand Registration"); provided, however, that,



subject to Section 2.1(c) below, the Company need only effect one Demand Registration. Such request shall specify the aggregate number of the Registrable Securities proposed to be sold and shall also specify the intended method of disposition thereof. Within ten (10) days after receipt of such request, the Company shall give written notice (the "Notice") of such registration request to all other Holders stating that the Company will include in such registration all Registrable Securities as to which the Company has received written requests for inclusion therein within twenty (20) Business Days after the giving of the Notice. Each Notice shall also specify the number of Registrable Securities requested to be registered and the intended method of disposition thereof. Within five (5) Business Days after the expiration of such twenty (20) Business Days, the Company will notify all the Holders to be included in such registration of the other Holders and the number of Registrable Securities requested to be included therein.

(b) Participation by Other Parties. No Person other than a Holder shall be permitted to offer any securities under any Demand Registration unless (x) such Person is entitled to exercise "piggyback" or incidental registration rights pursuant to an existing contractual commitment with the Company and (y) if such contractual commitments permit, the Holders participating in such Demand Registration and their underwriters, if any, in their sole discretion, determine that such Demand Registration can accommodate such additional participation.

(c) Effective Registration and Expenses. (i) The Company shall file a registration statement within 120 days of expiration of the 20 Business Days referenced in Section 2.1(a) and shall use its best efforts to cause any registration made pursuant to this Section 2.1 to be declared effective as soon

as possible; provided that, the Holders of a majority in interest of the Registrable Securities may, by written notice to the Company prior to such registration being declared effective, withdraw such demand and shall continue to have the right to make one future demand pursuant to this Section 2.1. A registration will not count as a Demand Registration until it has



become effective and until the earlier of (i) one (1) year from the effective date of such registration, or (i) such time as all of the Registrable Securities requested to be included by the Holders in such registration have actually been sold thereunder. The Company shall pay all Registration Expenses in connection with a registration made pursuant to this Section 2.1, whether or not such registration becomes effective or Registrable Securities are sold thereunder.

(ii) Subject to Section 2.1(c)(iii) below, in the event the Company fails to file a registration statement within the 120 day period referred to in Section 2.1(c)(i) above (the "Filing Deadline"), the Company shall issue to each holder of Registerable Securities one-tenth (1/10th) of a share of Common Stock for each Share held by such holder for no additional consideration. In the event the Company fails to file a registration statement after the Filing Deadline, the Company shall issue to each holder of Registerable Securities for no additional consideration, one-tenth (1/10th) of a share of Common Stock for each Share held by such holder for each additional 120 day period (without proration) that the Company fails to file a registration statement. In the event of the delay of the filing of a registration statement due to a Disadvantageous Condition (as defined below), the Filing Deadline and the subsequent 120 day periods referred to in this Section 2.1(c)(ii) shall be automatically extended and reimposed until such Disadvantageous Condition no longer exists.

(iii) Anything to the contrary in this Section 2.1(c) notwithstanding, if the Board of Directors of the Company determines that, in its judgment, it would (because of the existence of, or in anticipation of, any acquisition involving the Company or any financing activity, or the unavailability for reasons substantially beyond the Company's control of any required financial statements, or any other event or condition of similar significance to the Company) be significantly disadvantageous (a "Disadvantageous Condition") to the Company for such a registration statement to be filed or to become effective, the Company shall, notwithstanding any other provision of this Section 2.1, be entitled, upon the giving of a

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written notice (a "Delay Notice") to such effect to each holder of Registrable Securities included or to be included in such registration statement, to cause such registration statement to be withdrawn or, in the event no registration statement has yet been filed, to delay the filing of any such registration statement, until, in the judgment of the Board of Directors, such Disadvantageous Condition no longer exists (notice of which the Company shall promptly deliver to the holders of Registrable Securities with respect to which any such registration statement has been filed, or was to have been filed). No registration statement filed and subsequently withdrawn by reason of any existing or anticipated Disadvantageous Condition as hereinabove provided shall count as a Demand Registration.

(d) Selection of Underwriters. If any Demand Registration is an underwritten offering, the Holders holding a majority of the Registrable Securities to be registered by the Holders may, at their option, select and obtain the investment banker or bankers and managing underwriter or underwriters that will administer the offering, such investment banker or bankers and managing underwriter or underwriters to be reasonably satisfactory to the Company.

SECTION 2.2. Incidental Registration.

(a) If the Company at any time proposes to register for its own account or for the account of a selling shareholder, securities under the 1933 Act on a form and in a manner that would permit registration of Registrable Securities for sale to the public under the 1933 Act, it will, at each such time, give prompt written notice to all Holders of Registrable Securities of its intention to do so, describing such securities and specifying the form and manner and the other relevant facts involved in such proposed registration (including, without limitation, whether or not such registration will be in connection with an underwritten offering of its Common Stock and, if so, the identity of the managing underwriter and whether such offering will be pursuant to a "best efforts" or "firm commitment" underwriting). Each Holder of Registerable Securities hereby agrees to include all



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the Registerable Securities held by such Holder in such registration statement and the Company will use its best efforts to effect the registration under the 1933 Act, as expeditiously as is reasonable, of all such Registrable Securities to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities so to be registered; provided, however, that:

(i) if, at any time after giving such written notice of its intention to register any of such securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register such securities, the Company may, at its election, give written notice of such determination to each Holder of Registrable Securities and thereupon the Company shall be relieved of its obligation to register any Registrable Securities in connection with such registration (but not from its obligation to pay the Registration Expenses in connection therewith to the extent provided in Section 2.1(c));

(ii) if the registration so proposed by the Company involves an underwritten offering of the securities to be registered and the managing underwriter thereof advises the Company that, in its opinion, the number of securities proposed to be included in such offering by the Company and the number of shares of Registrable Securities proposed to be included in such offering by the Holder or Holders thereof should be limited due to market conditions, the Company may require, by written notice to each such Holder, that, to the extent necessary to meet such limitation on the number of shares of Registrable Securities that the Holders are permitted to sell, all Holders of Registrable Securities proposing to sell shares of Registrable Securities in such offering shall share pro rata in the number of shares of Registrable Securities to be excluded from such offering, such sharing to be based on the respective numbers of shares of Registrable Securities held by such Holders. To the extent any Registerable Securities are required to be excluded from such underwritten offering (the "Excluded Securities"), such Excluded





Securities shall nevertheless be included in such registration for sale to the public (but shall not be a part of the securities sold to the underwriter of such offering) and the Holders shall agree not to offer or sell the Excluded Securities for a period of 90 days following the effective date of any such registration;

(iii) the Company shall not be obligated to effect any registration of Registrable Securities under this Section 2.2 that is incidental to the registration of any of its securities in connection with any merger, acquisition, exchange offer, dividend reinvestment plan or stock option or other employee benefit plan.

(b) The Company will pay all Registration Expenses in connection with each registration of Registrable Securities effected by it pursuant to this Section 2.2, whether or not such registration becomes effective or Registerable Securities are sold thereunder.

SECTION 2.3 Registration Procedures.

(a) If and whenever the Company is required to use its best efforts to effect the registration of any Registrable Securities under the 1933 Act as provided in Section 2.1 and 2.2, the Company will as expeditiously as is reasonable:

(i) subject to the terms and conditions of this Agreement, use its best efforts to cause such registration statement to become effective;

(ii) prepare and file with the Commission such amendments (including post-effective amendments) and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the 1933 Act with respect to the disposition of all Registrable Securities and other securities covered by such registration statement until the earlier of (A) such time as all such Registrable Securities and other securities have been disposed of in accordance with the intended



methods of disposition by the seller or sellers thereof set forth in such registration statement and (B) the expiration of one year from the date such registration statement first becomes effective;

(iii) furnish to each seller of such Registrable Securities such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus and any summary prospectus), in conformity with the requirements of the 1933 Act, such documents incorporated by reference in such registration statement or prospectus, and such other documents, as such seller may reasonably request in order to facilitate the sale or disposition of such Registrable Securities;

(iv) use its best efforts to register or qualify all Registrable Securities and other securities covered by such registration statement under such other securities or "blue sky" laws of such jurisdictions as each seller shall reasonably request, and do any and all other acts and things that may be necessary to enable such seller to consummate the disposition in such jurisdictions of its Registrable Securities covered by such registration statement, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it is not so qualified, or to subject itself to taxation in respect of doing business in any such jurisdiction, or to consent to general service of process in any such jurisdiction;

(v) immediately notify each seller of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the 1933 Act, of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing or if it is necessary to amend or





supplement such prospectus to comply with law, and at the request of any such seller prepare and furnish to such seller a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Securities or securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing and shall otherwise comply in all material respects with law and so that such prospectus, as amended or supplemented, will comply with law;

(vi) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earnings or financial statement which shall satisfy the provisions of Section 11(a) of the 1933 Act;

(vii) use its best efforts to list such securities on NASDAQ and each securities exchange on which shares of Common Stock are then listed, if such securities are not already so listed and if such listing is then permitted under the rules of such exchange, and provide a transfer agent and registrar for such Registrable Securities not later than the effective date of such registration statement; and

(viii) issue to any underwriter to which any Holder of Registrable Securities may sell such Registrable Securities in connection with any such registration (and to any direct or indirect transferee of any such underwriter) certificates evidencing shares of Common Stock without any restrictive legends. The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish the Company with such information regarding such seller and the distribution of such securities as the Company may from time to time reasonably request in writing and as shall be required by law or by the Commission in connection therewith.

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(b) If requested by the underwriters for any underwritten offering of Registrable Securities on behalf of a Holder or Holders of Registrable Securities, the Company will enter into an underwriting agreement with such underwriters for such offering, such agreement to contain such representations and warranties by the Company and such other terms and conditions as are customarily contained in underwriting agreements with respect to secondary distributions, including, without limitation, indemnities to the effect and to the extent provided in Section 2.5.

(c) If any registration shall be in connection with an underwritten public offering, each Holder of Registrable Securities agrees (whether or not such Holder has registered Shares in such offering), if so required by the managing underwriters, not to effect any public sale or distribution (including any sale pursuant to Rule 144) of Registrable Securities (other than as part of such underwritten public offering) within 7 days prior to the effective date of the registration statement with respect to such underwritten public offering or 90 days after the effective date of such registration statement.

(d) The Company agrees, if so required by the managing underwriters in connection with an underwritten offering of Registrable Securities, not to effect any public sale or distribution of any of its equity securities or securities convertible into or exchangeable or exercisable for any of such equity securities during the 7 days prior to and the 120 days after the effective date of any registration statement with respect to such underwritten public offering, except as part of such underwritten offering or except in connection with a stock option plan, stock purchase plan, savings or similar plan, or an acquisition, merger or exchange offer.

(e) It is understood that in any underwritten offering of Registrable Securities in addition to the shares (the "initial shares") the underwriters have committed to purchase, the underwriting agreement may grant the underwriters an option to purchase a number of additional shares (the "option shares") equal to



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up to 15% of the initial shares (or such other maximum amount as the National Association of Securities Dealers, Inc. may then permit), solely to cover over-allotments. Shares proposed to be sold by the Company and the Holders shall be allocated between initial shares and option shares as agreed or, in

the absence of agreement, pro rata in relation to the number of initial shares sold by each.

SECTION 2.4. Preparation; Reasonable Investigation.

In connection with the preparation and filing of each registration statement registering Registrable Securities under the 1933 Act, the Company will give the Holders of Registrable Securities on whose behalf such Registrable Securities are to be so registered and their underwriters, if any, and their respective counsel and accountants, the opportunity to participate in the preparation of such registration statement, each prospectus included therein or filed with the Commission, and each amendment thereof or supplement thereto, and will give each of them such access to its books and records and such opportunities to discuss the business of the Company with its officers and the independent public accountants who have issued a report on its financial statements as shall be necessary, in the opinion of such Holders and such underwriters or their respective counsel, to conduct a reasonable investigation within the meaning of the 1933 Act. Without limiting the foregoing, each registration statement, prospectus, amendment, supplement or any other document filed with respect to a registration under this Agreement shall be subject to review and reasonable approval by the holders registering Registrable Securities in such registration and by their counsel.

SECTION 2.5. Indemnification.

(a) In the event of any registration of any Registerable Securities under the 1933 Act, the Company will, and hereby does, indemnify and hold harmless, the seller of any Registrable Securities covered by such registration statement, its directors and officers, each other Person who participates as an underwriter in the offering or sale of such securities, each officer and director of each such



underwriter, and each other Person, if any, who controls such seller or any such underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, against any losses, claims, damages, liabilities and expenses, including legal and other expenses incurred in investigating and defending any such claim, joint or several, to which such seller or any such director or officer or participating or controlling Person may become subject under the 1933 Act or otherwise, insofar as such losses, claims, damages, liabilities or expenses (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such securities were registered under the 1933 Act, any preliminary prospectus, final prospectus or summary prospectus included therein, or any amendment or supplement thereto, or

any document incorporated by reference therein, (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will reimburse such seller, and each such director, officer, underwriter and controlling Person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, liability, action or proceeding or (iii) any violation of any rule or regulation promulgated under the 1933 Act or any other applicable federal or state securities law and relating to any action or inaction of the Company in connection with such registration; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company expressly for use in the preparation thereof by such seller or underwriter, as the case may be. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such seller or any such




director, officer, underwriter or controlling Person and shall survive the transfer of such securities by such seller.

(b) The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to this Agreement, that the Company shall have received an undertaking satisfactory to it from (i) the prospective seller of such securities, to indemnify and hold harmless the Company in the same manner and to the same extent as set forth in Section 2.5(a) to the extent that the Company incurs any loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arising out of or based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company expressly for use in the preparation thereof by such prospective seller, except that any such prospective seller shall not in any event be liable to the Company pursuant thereto for an amount in excess of the net proceeds of sale of such prospective seller's Registrable Securities so to be sold) the Company, each such underwriter of such securities, each officer and director of each such underwriter and each other Person, if any, who controls the Company or any such underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, and (ii) each such underwriter of such securities, to indemnify and hold harmless (in the same manner and to the same

extent as set forth in Section 2.5(a)) the Company, each officer and director of the Company, each prospective seller, each officer and director of each prospective seller (and, if such prospective seller is a portfolio or investment fund, its investment advisors and the directors and officers thereof) and each other Person, if any, who controls the Company or any such prospective seller within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, with respect to any statement in or omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus included therein, or any amendment or supplement thereto, if such statement or omission was made in reliance upon and in conformity



with written information furnished by such prospective seller or such underwriter, as the case may be, to the Company for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling Person and shall survive the transfer of such securities by such seller.

(c) Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding (including any governmental investigation) involving a claim referred to in Section 2.5(a) or (b), such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action; provided, however, that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under the preceding provisions of this Section 2.5, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action is brought against an indemnified party, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim (in which case, the indemnifying party shall not be liable for the fees and expenses of more than one counsel for all sellers of Registrable Securities, or more than one counsel for the underwriters in connection with any one action or separate but similar or related actions), the indemnifying party will be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified, to the extent that it may wish with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof. The indemnifying party shall not, without the consent of the indemnified party, settle or compromise any claim or

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consent to the entry of any judgment which settlement, compromise or judgment would materially and adversely affect the indemnified party other than as a result of money damages or other money payments; provided, that, if the indemnified party shall fail or refuse to consent to such settlement, compromise or judgment proposed by the indemnifying party and approved by the person asserting such claim, and a judgment thereafter shall be entered or a settlement or compromise thereafter shall be effected on terms less favorable in the aggregate to the indemnified party than the settlement, compromise or judgment so proposed, the indemnifying party shall have no liability with respect to money or other damages in excess of those provided for in the settlement, compromise or judgment so proposed or any costs or expenses related to such claim arising after the date such settlement, compromise or judgment was so proposed.

SECTION 2.6. Contribution.

If the indemnification provided for in Section 2.5 is unavailable to the indemnified party or parties in respect of any losses, claims, damages or liabilities referred to therein, then each such indemnified party and the Company shall contribute to the amount of such losses, claims, damages or liabilities (a) as between the Company and the Holders of Registrable Securities covered by a registration statement, on the one hand, and the underwriters, on the other, in such proportion as is appropriate to reflect the relative benefits received by the Company and such Holders, on the one hand, and the underwriters, on the other, from the offering of the Registrable Securities, or if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits but also the relative fault of the Company and such Holders, on the one hand, and of the underwriters, on the other, in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations, and (b) as between the Company, on the one hand, and each Holder of Registrable Securities covered by a registration statement, on the other, in such proportion as is appropriate to reflect the relative fault of the Company and of each



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such Holder in connection with such statements or omissions, as well as any other relevant equitable considerations. The relative benefits received by the

Company and such Holders, on the one hand, and the underwriters, on the other, shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company and such Holders bear to the total underwriting discounts and commissions received by the underwriters. The relative fault of the Company and such Holders, on the one hand, and of the underwriters, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and such Holders or by the underwriters. The relative fault of the Company, on the one hand, and of each such Holder, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact relates to information supplied by such party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Holders of Registrable Securities agree that it would not be just and equitable if contribution pursuant to this Section 2.5 were determined by pro rata allocation (even if the underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in the next preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the next preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 2.5, no underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities underwritten by it and distributed to the public were offered to the public exceeds the





amount of any damages that such underwriter has otherwise paid by reason of such untrue or alleged untrue statement or omission or alleged omission, and no Holder of Registrable Securities shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities of such Holder were offered to the public exceeds the amount of any damages that such Holder has otherwise paid by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. Each Holder's obligation to contribute pursuant to this Section 2.5 is several in the proportion that the proceeds of the offering received by such Holder bears to the total proceeds of the offering received by all sellers (including the Company) of securities in such

offering, and not joint.

SECTION 2.7 Nominees of Beneficial Owners.

In the event that any Registrable Securities are held by a nominee for the beneficial owner thereof, the beneficial owner thereof may, at its election, be treated as the Holder of such Registrable Securities for purposes of any request or other action by any Holder or Holders of Registrable Securities pursuant to this Agreement or any determination of any number or percentage of shares of Registrable Securities held by any Holder or Holders of Registrable Securities contemplated by this Agreement. If the beneficial owner of any Registrable Securities so elects, the Company may require assurances reasonably satisfactory to it of such owner's beneficial ownership of such Registrable Securities.





## ARTICLE III

## Miscellaneous

SECTION 3.1. Termination. This Agreement shall terminate on the tenth anniversary of the execution and delivery hereof.

SECTION 3.2. Representations. Each of the parties hereto represents that this Agreement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3.3. Certain Remedies. Without intending to limit the remedies available to any of the parties hereto, each of the parties hereto agrees that damages at law will be an insufficient remedy in the event such party violates the terms hereof and each of the parties hereto further agrees that each of the other parties hereto may apply for and have injunctive or other equitable relief in any court of competent jurisdiction to restrain the breach or threatened breach of, or otherwise specifically to enforce, any of such party's agreements set forth herein.

SECTION 3.4. Amendments and Waivers. Any term of this Agreement may be amended and the observance of any such term may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and a majority in interest of the holders of the Registrable Securities. Each Holder shall be bound by any amendment or waiver authorized by this Section 3.4, whether or not such Holder shall have consented thereto.

SECTION 3.5. Notices. All notices and other communications provided for herein shall be in writing and shall be delivered by telecopy, by hand or sent by certified or registered mail, return receipt requested, postage prepaid, addressed, if to any Holder, to such Holder at such address as such Holder shall have specified in writing to the party giving any such notice or sending any such





communication), and, if to the Company, to Multimedia Games, Inc., 7335 South Lewis Avenue, Tulsa, Oklahoma 74136, Attention: Vice President-Finance, (or to such other address as the Company shall have specified in writing to the party giving any such notice or sending any such communication). All such notices shall be conclusively deemed to be received and shall be effective, (i) if sent by hand delivery, upon receipt, (ii) if sent by telecopy, upon dispatch thereof, or (iii) if sent by registered or certified mail, on the third day after the day on which such notice is mailed.

SECTION 3.6. Benefit; Successors and Assigns. Except as otherwise provided herein, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns; provided, however, that this Agreement shall not inure to the benefit of any Permitted Transferee unless such Permitted Transferee shall have executed and delivered to the Company an executed counterpart of this Agreement and shall have agreed to be bound hereunder in the same manner and to the same extent as Holder is bound hereunder. Holder may not assign any of its rights hereunder to any Person other than a Permitted Transferee that has complied with the requirements of the preceding sentence in all respects. Nothing in this Agreement either express or implied is intended to confer on any person other than the parties hereto and their respective successors and permitted assigns, any rights, remedies or obligations under or by reason of this Agreement.

SECTION 3.7 Attorneys' Fees. In any action or proceeding brought to enforce any provision of this Agreement or where any provision hereof is validly asserted as a defense, the successful party shall be entitled to recover reasonable attorneys' fees and expenses in addition to any other available remedy.

SECTION 3.8. Miscellaneous. This Agreement sets forth the entire agreement and understanding among the parties hereto, and supersedes all prior agreements and understandings, relating to the subject matter hereof. All representations and warranties contained herein shall survive the execution and delivery of this Agreement,

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regardless of any investigation made by any party hereto or on such party's behalf. This Agreement shall be construed and enforced in accordance with and governed by the law of the State of Oklahoma without regard to the conflict of laws provisions thereof. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized signatories thereunto duly authorized as of the day and year first above written.

MULTIMEDIA GAMES, INC.

By: ----------

AGN VENTURER L.L.C.

By: ----------

Address:

EXHIBIT 10.20

# LIMITED LIABILITY COMPANY AGREEMENT
# OF
# AGN VENTURERS L.L.C.

THIS LIMITED LIABILITY COMPANY AGREEMENT (the "Agreement"), dated as of July 15, 1996, by and among AGN Venturers L.L.C., a limited liability company formed pursuant to the laws of the State of Delaware (the "Company"), TV Games Inc., a Delaware corporation and any parties who become bound hereby pursuant to the terms of this Agreement.

In consideration of the covenants, conditions and agreements contained herein, the parties hereto hereby agree as follows:

## ARTICLE I

## DEFINITIONS

As used in this Agreement, the following terms shall have the meanings set forth below:

"Additional Member" shall mean a Person admitted as a Member pursuant to Article IX of this Agreement.

"Affiliate" shall mean, with respect to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with, the Person in question.

"Assets" shall mean all rights and ownership interests of the Company.

"Assumed Tax Rate" shall mean forty three percent (43%) for combined Federal, State and local taxes, as





the same shall be adjusted from time to time as necessary to reflect changes in (i) the maximum Federal income tax rate for individuals and (ii) the maximum State and local income tax rate for individuals residing in Tulsa, Oklahoma.

"Capital Account" shall mean the capital account maintained for each

Member pursuant to Article VII hereof.

"Capital Expenditures" shall mean, for any period, all expenditures during such period for equipment, fixed assets, real property or improvements, or for replacements or substitutions therefor or additions thereto, that have a useful life of more than one year (other than expenditures for replacements and substitutions for such equipment, fixed assets, real property or improvements from the proceeds of insurance).

"Claim" shall mean any demand, claim, action or cause of action based on any Loss.

"Closing Date" shall mean June ___, 1996.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Company Expenses" shall mean all amounts of expense, loss, amortization or depreciation which are deductible from the Company's gross income for federal income tax purposes and all amounts of expense described in Section 705(a)(2)(B) of the Code.

"Company Minimum Gain" shall have the meaning as set forth in Section 1.704-2(d) of the Treasury Regulations.





"Company Nonrecourse Liabilities" shall mean nonrecourse liabilities (or portions thereof) of the Company for which no Member bears the economic risk of loss.

"Contributed Capital" shall mean, with respect to each Member, any cash, cash equivalents or the value of other property that a Member contributes to the Company pursuant to Section 6.1 of this Agreement, in each case as the same may from time to time be adjusted as provided in this Agreement.

"Debt" shall mean, without duplication, (a) all unpaid obligations (including principal, interest, fees and charges) for borrowed money, (b) all unpaid obligations evidenced by bonds, debentures, notes or other similar instruments, (c) all unpaid obligations to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (d) all obligations as lessee under capital leases, and (e) all Debt of others secured by a Lien on any asset of the Company, whether or not such Debt is assumed by the Company.

"Delaware Law" shall mean the Delaware Limited Liability Company Act, as amended from time to time, or any successor statute or statutes.

"Fair Market Value" shall mean (i) such value as is determined in good faith by the Management Committee and delivered in writing to each Member, or (ii) if such valuation by the Management Committee is objected to by a majority of the Members and written notice of such (the "Objection Notice") is given within twenty (20) business days after the receipt by such holders of the Management Committee's valuation, which Objection Notice to be valid shall state the valuation proposed by the objecting party, such value as is determined by mutual agreement among the Management Committee and the majority of the Members, or (iii) if no such mutual agreement is reached in a twenty (20) business day period following the receipt of the Objection Notice, such value as is determined in good faith in a written report to the Company by an appraisal or investment banking





firm of recognized national standing selected by the Management Committee from a list of three such firms submitted by a majority of the Members that, in each case, are independent of the Company, any Member and any of their respective Affiliates. The cost and expense of such independent appraisal or investment banking firm shall be paid or shared by the Company and/or the objecting party in an amount determined by the extent to which the valuation of the Management Committee and the objecting party is sustained (e.g., if the Management Committee proposes a valuation of $5 per Membership Unit, the objecting party proposes $10 per Membership Unit and the independent firm determines $6 to be the Fair Market Value, then the Company shall pay 20% and the objecting party 80% of such cost and expense. The "Fair Market Value," to be determined shall be the price at which a willing seller under no compulsion to sell would sell in a private transaction to an unaffiliated third party under no compulsion to buy.

"Fiscal Year" shall mean the fiscal year of the Company, which shall end on each December 31.

"GAAP" shall mean the generally accepted accounting principles used in the preparation of the financial records with respect to all periods presented thereby, applied on a consistent basis for all such periods and in accordance with past practice.

"Lien" shall mean any mortgage, pledge, security interest, lien, charge, encumbrance, equity, claim, option, tenancy, right or restriction on transfer of any nature whatsoever.

"Loss" shall mean any loss, damage, liability, cost, assessment and expense including, without limitation, any interest, fine, court cost and reasonable investigation cost, penalty and attorneys' and expert witnesses'

fees, disbursements and expenses, after taking into account any insurance proceeds actually received by or paid on behalf of any party incurring a Loss.





"Majority Vote of the Members" shall mean the affirmative vote of the holders of a majority of the Outstanding Membership Units held by the Members.

"Management Committee" shall mean the Management Committee established pursuant to this Agreement and having the rights and powers set forth herein.

"Member" shall mean those Persons executing this Agreement as Members of the Company on the signature pages hereto.

"Member Nonrecourse Debt" shall have the meaning as set forth in Section 1.752-1(a)(2) of the Treasury Regulations.

"Member Nonrecourse Debt Minimum Gain" shall mean an amount, with respect to each Member Nonrecourse Debt, equal to the Company Minimum Gain that would result if such Member Nonrecourse Debt were treated as a nonrecourse liability, determined in accordance with Section 1.704-2(i)(3) of the Treasury Regulations.

"Member Nonrecourse Deductions" shall have the meaning set forth in Section 1.752-3(a) of the Treasury Regulations.

"Membership Unit" shall mean units which reflect ownership rights in the Company.

"Minimum Distribution" shall mean a distribution made to a Member pursuant to Section 8.1 of this Agreement in an amount equal to the product obtained by multiplying the Taxable Income allocated to such Member for the applicable Fiscal Year for which a Minimum Distribution is being made by the Assumed Tax Rate.





"Net Income" shall mean the excess of (i) the Company's gross income (determined for federal income tax purposes but including income which is exempt from federal income tax) over (ii) the sum of the Company's Expenses.

"Net Loss" shall mean the excess of the amount above described in clause

(ii) of Net Income over the amount above described in clause (i) of Net Income.

"Outstanding" shall mean the number of Membership Units issued by the Company as shown on the Company's books and records, less any Membership Units held by the Company.

"Permitted Encumbrances" shall mean (i) Liens for taxes or assessments not yet due or not yet delinquent or, if delinquent, that are being and will be contested in good faith in the normal course of business for which adequate cash reserves have been set aside by the Company; (ii) easements, rights-of-way, servitudes, permits, surface leases and other rights in respect to surface operations, conditions, covenants or other restrictions and easements for streets, alleys, highways, pipelines, telephone lines, power lines, railways and other easements and rights-of-way, on, over or in respect to any properties, provided that such easements, etc., shall not have a materially adverse effect on the ownership, use, operation or value of such properties; (iii) Liens, contracts, agreements, instruments and obligations pertaining to any properties which do not and will not interfere materially with the ownership, use, operation or value of such properties; (iv) title defects and other minor irregularities in title with respect to any properties, to the extent such matters do not and will not interfere materially with the ownership, use, operation or value of such properties; (v) the terms and conditions of all leases, agreements, orders, instruments and other matters included in the Purchase Agreement; and (vi) rights reserved to or vested in any municipality, governmental, statutory or public authority to control or regulate any properties in any manner.





"Permitted Investments" shall mean (a) the maintenance of funds from time to time on deposit in an account or accounts with banking institutions subject to supervision under the laws of the United States or any State thereof and having a combined capital and surplus of at least $500,000,000, in each case regardless of whether such funds on deposit are in excess of federal deposit insured limits, (b) the maintenance of funds from time to time on deposit in an account or accounts with a banking institution not meeting the capital and surplus requirements of clause (a) above, provided that the amount on deposit with such institution is not in excess of federal deposit insurance limits, and (c) investments in (i) obligations issued or unconditionally guaranteed by the United States or any agency thereof, which are readily marketable (ii) commercial paper with a rating of at least "Prime-1" by Moody's Investors Services, Inc., "A-1" by Standard & Poor's Corporation or "D-1" by Duff & Phelps Inc., which commercial paper has a maturity at the time of issuance thereof of not greater than one year, or (iii) certificates of deposit of any commercial bank, but only if the aggregate amount of certificates of deposit in any one bank (other than the Bank or a banking institution meeting

all of the requirements of clause (a)(iii) above as to which the following limitation shall not apply) does not exceed the then applicable maximum amount of federal deposit insurance.

"Person" shall mean an individual, a partnership, a joint venture, a corporation, an association, a trust, an individual retirement account or any other entity or organization, including a government or any department or agency thereof.

"Purchase Agreement" shall mean that agreement so captioned, by and among the Company, TV Games, Inc., a Texas corporation and wholly owned subsidiary of Multimedia Games, Inc. ("MMG"), NEWCO, a Delaware limited liability company and wholly owned subsidiary of MMG, American Gaming Network, Inc. ("AGNI"), a Delaware corporation and wholly owned subsidiary of Cable Video Store, Inc., a [Delaware] corporation and wholly owned subsidiary of Graff Pay-Per-View, Inc., a Delaware corporation and American Gaming



Network, JV, a joint venture formed pursuant to the general partnership laws of the State of New York comprised of the Company and AGNI, as ventures dated June ___, 1996, as the same may from time to time be amended.

"Senior Debt" shall mean any Debt which by its terms requires that a Note be subordinated thereto.

"Subsidiary" shall mean any corporation or similar business entity of which more that fifty percent (50%) of the issued and outstanding securities having ordinary voting power for the election of directors is owned or controlled, directly or indirectly, by the Company.

"Taxable Income" shall mean the excess of (i) the Company's gross income determined for federal income tax purposes over (ii) the sum of all amounts of expense, loss, amortization or depreciation which are deductible from the Company's gross income for federal income tax purposes.

"Taxes" shall mean all taxes, levies or other like assessments, charges or fees, including, without limitation, income, gross receipts, real or personal property, withholding, asset, sales, use, license, payroll, transaction, capital, business, corporation, employment, net worth and franchise taxes, or other governmental taxes imposed by or payable to the United States of America or any State, local or foreign governmental entity, whether computed on a separate, consolidated, unitary, combined or any other basis; and in each instance such term shall include any interest, penalties or additions to tax attributable to any such Tax.

"Third Party" shall mean, with respect to any Member, any other Person, other than the Company or any Affiliate of such Member.



"Treasury Regulation" shall mean the Income Tax Regulations, including Temporary Regulations, promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

## ARTICLE II

## THE COMPANY AND ITS BUSINESS

2.1 Formation. The Members do hereby associate themselves for the purpose of organizing and conducting a limited liability company pursuant to the provisions of Delaware Law and this Agreement.

2.2 Firm Name. The name of the Company shall be AGN Venturers L.L.C. All properties of the Company shall be held, all contracts shall be made, all instruments and documents shall be executed and all acts of the Company shall be done, in the name of AGN Venturers L.L.C. The Management Committee shall cause to be filed on behalf of the Company such limited liability company certificate or assumed or fictitious name certificate or similar instruments as may from time to time be required by applicable law.

2.3 Filings. Upon the request of the Management Committee, each Member shall at the expense of the Company promptly execute and deliver all such certificates and other instruments conforming hereto as shall be necessary for the Company to accomplish all filing, recording, publishing and other acts appropriate to comply with all requirements for the formation and operation of a limited liability company under the laws of all jurisdictions where the Company shall propose to conduct business. Prior to conducting business in a jurisdiction where the Company proposes to conduct business the Company shall, to the fullest extent possible to establish limited liability for each Member under the laws of such jurisdiction and otherwise to comply with the laws of such jurisdiction, cause the



Company to comply with all requirements for the registration, qualification or

reformation of the Company to conduct business as a limited liability company in such jurisdiction. Thereafter, the Company shall continue to comply with all requirements necessary to maintain the limited liability of each Member in each jurisdiction where the Company does business.

2.4 Term. The Company shall be formed and commence upon the later of (i) the filing for record of an initial certificate of formation with the Secretary of State of the State of Delaware in accordance with Delaware Law and (ii) the execution of this Agreement by the Members, and shall continue for a period of forty (40) years or until sooner terminated as hereinafter provided in this Agreement.

2.5 Purposes of the Company. Subject to the terms hereof, the purposes of the Company shall be to (i) consummate the transactions contemplated by the Purchase Agreement, (ii) own and operate the Assets to the fullest extent permitted under applicable law, (iii) conduct any lawful business permitted by Delaware Law and the laws of any jurisdiction in which the Company may do business, and (iv) take all such other actions and to engage in such other businesses as may be incidental to or in furtherance of any of the foregoing as the Management Committee may determine to be necessary or desirable or to be in the best interests of the Company.

2.6 Powers of the Company. The Company shall be empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business of the Company described in Section 2.5 and for the protection and benefit of the Company.

2.7 Compliance with Applicable Laws and Rules. No business or activities shall be conducted by the Company that are or would be forbidden by, or contrary to, any applicable law or to the rules or regulations lawfully promulgated thereunder.



2.8 Principal Office, Registered Office and Registered Agent. The principal office of the Company shall be at AGN Venturers L.L.C.,7335 South Lewis, Suite 204, Tulsa, Oklahoma, but other or additional places of business within and without the State of Oklahoma may be selected from time to time by the Management Committee upon notice to each Member. The registered office of the Company in the State of Delaware shall be located at The Corporation Trust Center, 1209 Orange Street, New Castle County, Wilmington, Delaware 19801 and the registered agent for service of process on the Company in the State of Delaware at such registered office shall be The Corporation Trust Company.

ARTICLE III

MANAGEMENT OF COMPANY BUSINESS;
MANAGEMENT COMMITTEE; MEETINGS; OFFICERS

3.1 Management and Control; Management Committee. Except as otherwise specifically set forth in this Agreement, including without limitation Section 3.2 hereof, management, operation and policy decisions of the Company shall be vested exclusively in the Management Committee, which shall have the power, on behalf and in the name of the Company, to cause the Company to carry out any and all of the business and purposes of the Company and to perform or cause to be performed all acts and enter into and perform or cause to be performed all contracts and other undertakings which the Management Committee may deem necessary or advisable or incidental thereto.

3.2 Certain Required Consents. Notwithstanding any other provision of this Agreement, the Management Committee may not, without a Majority Vote of the Members, cause or authorize the Company to:

(a) Purchase all or substantially all of the assets or business of any other Person.



(b) Sell all or substantially all of its assets to, or consolidate or merge with, any other Person.

(c) Engage in any business activities or operations other than as set forth in Section 2.5 hereof.

(d) Amend, modify or terminate this Agreement or any of the terms and provisions hereof, waive compliance with or enforcement of any of such terms and provisions, agree to or permit any such amendment, modification, termination or waiver, or breach, violate or be in default under any of the foregoing agreements.

(e) Authorize or issue (whether by split-up, recombination, reclassification or otherwise) any interest in the Net Income or Net Loss of the Company, or any security convertible into or representing the right to purchase or acquire any such interest, other than the issuance of Membership Units as provided in Section 4.1 hereof.

3.3 Number and Term of Office. (a) The authorized number of members of the Management Committee shall be one (1) which shall be elected by a Majority Vote of the Members. The initial member of the Management Committee shall be _____.

(b) Members of the Management Committee, including the initial member, shall hold office until the member's successor shall have been duly elected and shall qualify or until the member shall die or resign or shall have been removed in the manner hereinafter provided in Section 3.4(b). Nominations of persons to serve as members of the Management Committee must be submitted to the Secretary of the Company in a writing signed by a Member not less than ten (10) days prior to the meeting of Members at which the member of the Management Committee shall be elected.

3.4 Resignations and Removals. (a) Members of the Management Committee may resign at any time by giving written notice to the Management Committee or to the Secretary of the Company. Any such resignation shall take effect at the time specified therein, or, if





the time be not specified, it shall take effect immediately upon its receipt; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

(b) Members of the Management Committee may be removed for any reason by a Majority Vote of the Members.

3.5 Vacancies. Any vacancy in the Management Committee, whether because of death, resignation, removal or any other cause, shall be filled by a Majority Vote of the Members at a special meeting of the Members called for such purpose. The member of the Management Committee so chosen to fill a vacancy shall hold office until his successor shall have been elected and shall qualify or until he shall resign or shall have been removed.

3.6 Place of Meeting, Etc. The Management Committee may hold any of its meetings at such place or places within or without the State of Delaware as the Management Committee may from time to time by resolution designate or as shall be designated by the person or persons calling the meeting or in the notice or a waiver of notice of any such meeting.

3.7 Annual Organizational Meeting. The Management Committee shall meet as soon as practicable after each annual election of members of the Management Committee and notice of such meeting shall not be required.

3.8 Regular Meetings. Regular meetings of the Management Committee may be held at such times as the Management Committee shall from time to time by resolution determine. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting shall be held at the same hour and place on the next succeeding business day not a legal

holiday. Except as provided by law, notice of regular meetings need not be given.



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3.9 Special Meetings. Special meetings of the Management Committee may be called at any time by the member of the Management Committee, to be held at the principal office of the Company, or at such other place or places, within or without the State of Delaware, as the member of the Management Committee shall designate.

3.10 Quorum and Manner of Acting. Except as otherwise provided in this Agreement or by law, the presence of a majority of the then authorized and required number of members of the Management Committee shall be required to constitute a quorum for the transaction of business at any meeting of the Management Committee. All matters shall be decided at any such meeting, a quorum being present, by the affirmative votes of a majority of the members of the Management Committee present. In the absence of a quorum, a majority of members of the Management Committee present at any meeting may adjourn the same from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given. The Management Committee shall act only as a committee and no individual member thereof shall have the authority, as such, to act for and on behalf of the Company.

3.11 Action by Consent. Any action required or permitted to be taken at any meeting of the Management Committee or of any committee thereof may be taken without a meeting if a written consent thereto is signed by all members of the Management Committee or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Management Committee or committee.

3.12 Compensation. No stated salary need be paid members of the Management Committee, as such, for their services, but, by resolution of the Management Committee, reasonable expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the Management Committee; provided that, nothing herein contained shall be construed to preclude any member of the Management Committee from serving the Company in any other capacity and receiving compensation therefor.



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3.13 Committees. The Management Committee may designate one or more

committees. Any such committee, to the extent provided in the resolution of the Management Committee, and except as otherwise limited by law, shall have and may exercise all the powers and authority of the Management Committee in the management of the business and affairs of the Company. Any such committee shall keep written minutes of its meetings and report the same to the Management Committee at the next regular meeting of the Management Committee.

3.14 Officers of the Management Committee. The Management Committee shall have a Chairman of the Management Committee and may, at the discretion of the Management Committee, have a Vice Chairman. The Chairman of the Management Committee and the Vice Chairman shall be appointed from time to time by the Management Committee and shall have such powers and duties as shall be designated by the Management Committee.

3.15 Officers of the Company. The Management Committee shall designate one or more persons to act as the Chief Executive Officer, President, Chief Financial Officer, Treasurer and Secretary of the Company. The Company may also have, at the discretion of the Management Committee, a Chief Operating Officer, one or more Vice Presidents or Assistant Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers and such other officers as may be appointed in accordance with the provisions of Section 3.17 below. One person may hold two or more offices, except that the Secretary may not also hold the office of President or Chief Executive Officer.

3.16 Election. The officers of the Company, except such officers as may be appointed in accordance with the provisions of Section 3.17 or Section 3.19 of this Article, shall be chosen annually by the Management Committee, and each shall hold office until such officer shall resign or shall be removed or otherwise disqualified to serve, or such officer's successor shall be elected and qualified.





3.17 Subordinate Officers, etc. The Management Committee may appoint such other officers as the business of the Company may require, each of whom shall have such authority and perform such duties as the Management Committee may from time to time specify, and shall hold office until such officer shall resign or shall be removed or otherwise disqualified to serve, or such officer's successor shall be elected and qualified.

3.18 Removal and Resignation. Any officer may be removed, either with or without cause, by the Management Committee at any regular or special meeting thereof or by any officer upon whom such power of removal may be conferred by the Management Committee.

Any officer may resign at any time by giving written notice to the

Management Committee, the Chairman of the Management Committee, the President or the Secretary of the Company. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

3.19 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled by the election of the Management Committee at any meeting thereof.

3.20 Chairman of the Management Committee. The Chairman of the Management Committee shall, subject to the control of the Management Committee, serve a general oversight, planning and policy making function, shall preside at all meetings of Members and at all meetings of the Management Committee, and shall perform such other functions as determined from time to time by the Management Committee.

3.21 Chief Executive Officer. The Chief Executive Officer of the Company shall, subject to the control of the Management Committee, have general supervision, direction and control of the



business and affairs of the Company. In the absence of the Chairman of the Management Committee, the Chief Executive Officer shall preside at all meetings of Members. The Chief Executive Officer shall have the general powers and duties of management usually vested in the chief executive officer of a corporation, and shall have such other powers and duties with respect to the administration of the business and affairs of the Company as may from time to time be assigned by the Management Committee.

3.22 President. The President shall exercise and perform such powers and duties with respect to the administration of the business and affairs of the Company as may from time to time be assigned to such officer by the Chief Executive Officer (unless the President is also the Chief Executive Officer) or by the Management Committee. In the absence or disability of the Chief Executive Officer, the President shall perform all of the duties of the Chief Executive Officer and when so acting shall have all of the powers and be subject to all the restrictions upon the Chief Executive Officer.

3.23 Vice Presidents. The Vice Presidents shall exercise and perform such powers and duties with respect to the administration of the business and affairs of the Company as may from time to time be assigned to each of them by the President or by the Chief Executive Officer or by the Management Committee. In the absence or disability of the President, the Vice Presidents, in order of their rank as fixed by the Management Committee, or if not ranked, the Vice

President designated by the Management Committee, shall perform all of the duties of the President and when so acting shall have all of the powers of and be subject to all the restrictions upon the President.

3.24 The Chief Financial Officer and Treasurer. The Chief Financial Officer and Treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the Company, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, surplus and Membership Units. The books of account



shall at all reasonable times be open to inspection by any Management Committee Representative.

The Chief Financial Officer and Treasurer shall deposit all moneys and other valuables in the name and to the credit of the Company with such depositories as may be designated by the Management Committee. Such officer shall disburse the funds of the Company as may be ordered by the Management Committee, shall render to the President, to the Chief Executive Officer, and to the Management Committee, whenever they request it, an account of all of transactions as Chief Financial Officer and Treasurer and of the financial condition of the Company, and shall have such other powers and perform such other duties as may be prescribed by the Management Committee or the Chief Executive Officer or the President.

3.25 Secretary. The Secretary shall keep, or cause to be kept, a book of minutes at the principal office of the Company, or such other place as the Management Committee may order, of all meetings of the Management Committee and Members, with the time and place of holding, whether regular or special, and if special, how authorized and the notice thereof given, the names of those present at meetings of the Management Committee, the number of Membership Units present or represented at Members' meetings and the proceedings thereof.

The Secretary shall keep, or cause to be kept, at the principal office of the Company or at the office of the Company's transfer agent, a Membership Unit register, or a duplicate Membership Unit register, showing the names of the Members and their addresses; the number and Classes of Membership Units held by each; the number and date of certificates, if any, issued for the same; and the number and date of cancellation of every certificate surrendered for cancellation.

The Secretary shall give, or cause to be given, notice of all the meetings of the Members and of the Management Committee required by this Agreement or by law to be given, and shall keep the seal of the Company in safe

custody, and shall have such other powers and





perform such other duties as may be prescribed by the Management Committee, the Chief Executive Officer or the President. If for any reason the Secretary shall fail to give notice of any special meeting of the Management Committee or of the Members called by one or more of the persons permitted to do so in this Agreement, then any such permitted person may give notice of any such special meeting.

3.26 Compensation. The compensation of the officers of the Company shall be fixed from time to time by the Management Committee. None of such officers shall be prevented from receiving such compensation by reason of the fact that such officer is also a Management Committee Representative. Nothing contained herein shall preclude any officer from serving the Company, or any Affiliate of the Company, in any other capacity and receiving proper compensation therefor.

3.27 Execution of Contracts. Except as otherwise provided in this Agreement, the Management Committee may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name and on behalf of the Company, and such authority may be general or confined to specific instances; and unless so authorized by the Management Committee or by this Agreement, no officer, Member, agent or employee shall have any power or authority to bind the Company by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

3.28 Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidence of indebtedness, issued in the name of or payable to the Company, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Management Committee. Each such person shall give such bond, if any, as the Management Committee may require.

3.29 Deposits. Subject to Section 3.2(e) hereof, all funds of the Company not otherwise employed shall be deposited from time to





time to the credit of the Company in such banks, trust companies or other

depositories as the Management Committee may select, or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Company to whom such power shall have been delegated by the Management Committee. For the purpose of deposit and for the purpose of collection for the account of the Company, the Chief Executive Officer, the President, any Vice President or the Chief Financial Officer and Treasurer (or any other officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Company who shall from time to time be determined by the Management Committee) may endorse, assign and deliver checks, drafts and other orders for the payment of money which are payable to the order of the Company.

3.30 General and Special Bank Accounts. The Management Committee may from time to time authorize the opening and keeping of general and special bank accounts with such banks, trust companies or other depositories as the Management Committee may select or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Company to whom such power shall have been delegated by the Management Committee. The Management Committee may make such special rules and regulations with respect to such bank accounts, not inconsistent with the provisions of this Agreement, as it may deem expedient.

## ARTICLE IV

## AUTHORIZATION OF MEMBERSHIP UNITS; RIGHTS AND DUTIES OF MEMBERS; MEETINGS OF MEMBERS; VOTING

4.1 Authorization of Membership Units; Characteristic of Membership Units. The Company is hereby authorized to issue five (5) Membership Units in exchange for the initial contribution as provided in Section 6.1 of this Agreement. Each Membership Unit has (i) equal governance rights with every other Membership Unit and in matters



subject to a vote of the Members has one vote and (ii) subject to Section 4.2, each Membership Unit has equal rights with every other Membership Unit with respect to sharing of profits and losses and with respect to distributions.

4.2 Participation of Membership Units in Net Income and Net Loss. Each Membership Unit shall participate in the Net Income and Net Loss of the Company in the proportion that such Unit bears to the total number of Membership Units outstanding.

4.3 Annual Meetings. Annual meetings of the Members of the Company for the purpose of electing the members of the Management Committee and for the transaction of such other proper business as may come before such meetings may be held at such time, date and place as the Management Committee shall determine by resolution.

4.4 Special Meetings. Special meetings of the Members of the Company for any purpose or purposes may be called at any time by the Management Committee, or by a committee of the Management Committee which has been duly designated by the Management Committee and whose powers and authority, as provided in a resolution of the Management Committee or in this Agreement, include the power to call such meetings, but such special meetings may not be called by any other Person or Persons.

4.5 Place of Meetings. All meetings of the Members shall be held at such places, within or without the State of Delaware, as may from time to time be designated by the person or persons calling the respective meeting and specified in the respective notices or waivers of notice thereof.

4.6 Notice of Meetings. Except as otherwise required by law, notice of each meeting of the Members, whether annual or special, shall be given not less than fifteen (15) nor more than sixty (60) days before the date of the meeting to each Member of record entitled to vote at such meeting by delivering a written notice thereof to such Member personally, or by depositing such notice in the United



States mail, in a postage prepaid envelope, directed to such Member at the post office address furnished by such Member to the Secretary of the Company for such purpose or, if such Member shall not have furnished to the Secretary the address for such purpose, then at such Member's post office address last known to the Secretary. Except as otherwise expressly required by law, no publication of any notice of a meeting of the Members shall be required. Every notice of a meeting of the Members shall state the place, date and hour of the meeting, and, in the case of a special meeting, shall also state the purpose or purposes for which the meeting is called. Notice of any meeting of Members shall not be required to be given to any Member who shall have waived such notice and such notice shall be deemed waived by any Member who shall attend such meeting in person or by proxy, except as a Member who shall attend such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Except as otherwise expressly required by law, notice of any adjourned meeting of the Members need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken.

4.7 Quorum. The holders of record of a majority of Membership Units of the Company, present in person or by proxy, shall constitute a quorum for the transaction of business at any meeting of the Members of the Company or any adjournment thereof. In the absence of a quorum at any meeting or any adjournment thereof, a majority of Unit Membership holders actually present in person or by proxy or, in the absence therefrom of all the Members, any officer entitled to preside at, or to act as secretary of, such meeting, may adjourn such meeting from time to time. At any such adjourned meeting at which a quorum is present any business may be transacted which might have been transacted at the meeting as originally called.

4.8 Voting. (a) Each Member shall, at each meeting of the Members, be entitled to one vote per Membership Unit as held by such Member in person or by proxy on the matter in question and which





shall have been held by such Member and registered in such Member's name on the books of the Company:

(i) on the date fixed pursuant to Section 4.9 of this Agreement as the record date for the determination of Members entitled to notice of and to vote at such meeting, or

(ii) if no such record date shall have been so fixed, then (1) at the close of business on the day next preceding the day on which notice of the meeting shall be given or (2) if notice of the meeting shall be waived, at the close of business on the day next preceding the day on which the meeting shall be held.

(b) Membership Units owned, directly or indirectly, by the Company, shall neither be entitled to vote nor be counted for quorum purposes. Persons holding Membership Units of the Company in a fiduciary capacity shall be entitled to vote such stock. Persons whose Membership Units are pledged shall be entitled to vote such Membership Units.

(c) Any such voting rights may be exercised by the Member entitled thereto in person or by proxy appointed by an instrument in writing, subscribed by such Member or by such Member's attorney thereunto authorized and delivered to the secretary of the meeting. The attendance at any meeting of a Member who may theretofore have given a proxy shall not have the effect of revoking the same.

(d) At any meeting of the Members all matters, except as otherwise provided in this Agreement or by law, shall be decided by the vote of holders of a majority of Membership Units present in person or by proxy and entitled to

vote thereat and thereon, a quorum being present.

(e) Any action required or permitted to be taken at any regular or special meeting of the Members of the Company may be taken without a meeting, without prior notice and without a vote, if a



written consent thereto is signed by Members holding Units representing not less than the minimum interest in the Net Income and Net Loss of the Company that would be necessary to authorize or take such action at a meeting at which all Units entitled to vote thereon were present and voted, and such written consent is filed with the minutes of proceedings of the Members.

4.9 Fixing Date for Determination of Members of Record. In order that the Company may determine the Members entitled to notice of or to vote at any meeting of Members or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other change, conversion or exchange of Membership Units or for the purpose of any other lawful action the Management Committee may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action. If in any case involving the determination of Members for any purpose other than notice of or voting at a meeting of Members the Management Committee shall not fix such a record date, the record date for determining Members for such purpose shall be the close of business on the day on which the Management Committee shall adopt the resolution relating thereto. A determination of Members entitled to notice of or to vote at a meeting of Members shall apply to any adjournment of such meeting; provided, that the Management Committee may fix a new record date for the adjourned meeting.

## ARTICLE V

## BOOKS AND RECORDS

5.1 Books of Account. At all times during the continuance of the Company, the Company shall keep or cause to be kept, true and complete books of account utilizing the GAAP method of accounting, on the basis of the Company's Fiscal Year.

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5.2 Availability of Books of Account. All of the books of account referred to in Section 5.1 hereof, together with an executed copy of this Agreement and the Certificate of Formation of the Company, and any amendments thereto, shall at all times be maintained at the principal office of the Company, and shall be open to the inspection and examination of each Member or its representative at such Member's expense during reasonable business hours.

5.3 Annual Reports and Other Statements. (a) The Company shall cause to be prepared, and shall deliver to each Member as soon as practical, but in any event on or before the 90th day following the end of the Company's Fiscal Year, an unaudited, end of the year, balance sheet and preliminary statement of income and loss of the Company, certified by the Chief Financial Officer.

(b) The Company shall cause to be prepared, and shall deliver to each Member as soon as practical, but in any event on or before the 90th day following the end of the Company's Fiscal Year, a statement of such Member's Capital Account as of the end of such Fiscal Year, a statement indicating such Member's share of the Company's Net Income or Net Loss for such Fiscal Year, and other items relevant for Federal income tax purposes, all of which shall be certified by the Chief Financial Officer.

5.4 Tax Matters Partner. (a) TV Games, Inc. is hereby designated as the Tax Matters Partner of the Company within the meaning of Section 6231 of the Code. Each Member, by the execution of this Agreement, consents to such designation.

(b) To the extent and in the manner provided by applicable law and regulations, the Tax Matters Partner shall furnish the name, address, profits interest and taxpayer identification number of each Member, including any successor or Additional Member, to the Internal Revenue Service, and shall keep each Member informed of the administrative and judicial proceedings for the adjustment at the Company level of any item required to be taken into account by a Member for income tax purposes (such an administrative proceeding



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referred to hereinafter as a "tax audit" and such a judicial proceeding referred to hereinafter as "judicial review"). If the Tax Matters Partner, on behalf of the Company, receives a notice with respect to a tax audit from the Internal Revenue Service, the Tax Matters Partner shall promptly forward a copy of such notice to the Members or former Members who hold or held interests in the profits or losses of the Company for any taxable year to which the notice relates.

(c) The Tax Matters Partner is hereby authorized, but not required:

(1) subject to pre-approval by the Management Committee, to enter into any settlement with the Internal Revenue Service with respect to any tax audit or judicial review;

(2) in the event that a notice of a final administrative adjustment (a "final adjustment") is mailed to the Tax Matters Partner, to seek judicial review of such final adjustment;

(3) to intervene in any action brought by any other Member for judicial review of a final adjustment;

(4) to file a request for an administrative adjustment with the Internal Revenue Service at any time and, if any part of such request is not allowed by the Internal Revenue Service, to file a petition for judicial review with respect to such request;

(5) to enter into an agreement with the Internal Revenue Service to extend the period for assessing any tax which is attributable to any item required to be taken into account by a Member for tax purposes, or an item affected by such item; and

(6) to take any other action on behalf of the Members in connection with any administrative or judicial tax proceeding to



the extent permitted or required by applicable law or regulations.

(d) The Tax Matters Partner shall have no obligation to provide funds for the purpose of contesting any tax audit or final adjustment, intervening in any action, or seeking an administrative adjustment or judicial review. The taking of any action and the incurring of any expense by the Tax Matters Partner in connection with any such proceeding, except to the extent required by law, is a matter in the sole discretion of the Tax Matters Partner and the provisions on limitation of liability of the members of the Management Committee set forth in Article XI hereof shall be fully applicable to the Tax Matters Partner in its capacity as such; provided, that in any event the Tax Matters Partner shall always act in the best interests of the Members.

## ARTICLE VI

## CAPITAL CONTRIBUTIONS

6.1 Capital Contributions. On or before the Closing Date the Member listed on Exhibit A shall contribute _____ (_____) cash, in immediately available U.S. funds, for each Membership Unit set forth opposite such Member's name on Exhibit A hereto.

6.2 Advances, Etc. Except as otherwise provided in this Agreement, no Member shall be entitled to withdraw any part of his Capital Account or to receive any distribution from the Company and no Member shall be obligated or entitled to make any additional Capital Contributions to the Company. Loans by a Member to the Company shall not (i) be considered as a contribution to the capital of the Company; (ii) increase the Capital Account of the lending Member; (iii) entitle the lending Member to an increase in its share of the income of the Company; or (iv) subject the lending Member to any greater portion of any losses which the Company may sustain. The



amount of any such loan shall be a debt due from the Company to such Member.

6.3 Additional Capital Contributions. Any Member may, with the prior Majority Vote of the Members, make additional capital contributions to the Company upon terms and conditions approved by such Majority Vote of the Members.

6.4 Return of Capital Contribution. Except as otherwise expressly provided in this Agreement, no Member shall have the right to demand of the Company the return of all or any part of any contribution to the capital of the Company until the Company has been dissolved and terminated and then only to the extent provided in Article X hereof, and no Member shall have the right to demand or receive property other than cash in return for its contribution.

## ARTICLE VII

## CAPITAL ACCOUNTS; ALLOCATIONS

7.1 Capital Accounts. A Capital Account shall be maintained for each Member. Such Account shall be credited with (i) such Member's Contributed Capital and (ii) any Net Income (or items thereof), and income and gain described in Treasury Regulation Section 1.704-1(b)(2)(iv)(g) (exclusive of income described in Treasury Regulation Section 1.704-1(b)(4)(i)) and (iii) the fair market value of property hereafter contributed to the Company by such Member (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Section 752 of the Code). Such Account shall be reduced by (i) any cash distribution to such

Member pursuant to Article VIII or XI hereof and the fair market value of any other property distributed thereto pursuant to either such Article (net of any liability secured thereby which such Member is considered to assume or take subject to under Section 752 of the Code), and (ii) any Net Loss (or item thereof), and loss or deduction described in Treasury Regulation Section





1.704-1(b)(2)(iv)(g) (exclusive of amounts described in Treasury Regulation Section 1.704-1(b)(4)(i) or (iii)). Such Capital Account shall be otherwise credited, reduced and maintained in accordance with Treasury Regulation Section 1.704-1(b). Except as otherwise provided in this Agreement, whenever it is necessary to determine the Capital Account of any Member for purposes of this Agreement, the Capital Account of such Member shall be determined after giving effect to all prior distributions and to all allocations under this Article VII in respect of transactions effected prior to or on the date as of which such determination is to be made.

7.2 Allocations. (a) After giving effect to the special allocations set forth in Section 7.2(b) and 7.2(c), the Net Income and Net Loss of the Company shall be allocated to the Members in accordance Section 4.2.

(b) The following special allocations shall be made in the following order:

(i) Company Minimum Gain Chargeback. Except as otherwise provided in Treasury Regulation Section 1.704-2(f), notwithstanding any other provision of this Section 7.2, if there is a net decrease in Company Minimum Gain during any Fiscal Year, each Member shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, determined in accordance with Treasury Regulations Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. This Section 7.2(c)(i) is intended to comply with the minimum gain chargeback requirement of the Treasury Regulations Section 1.704-1(f) and shall be interpreted consistently therewith.

(ii) Member Minimum Gain Chargeback. Except as otherwise provided in Section 1.704-1(i)(4) of the Treasury Regulations,

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notwithstanding any other provision of this Section 7.2, if there is a net decrease in Member Nonrecourse Debt Minimum Gain attributable to a Member Nonrecourse Debt during any Fiscal Year, each Member who has a share of the Member Nonrecourse Debt Minimum Gain attributable to such Nonrecourse Debt, determined in accordance with Section 1.704-2(i)(5) of the Treasury Regulations, shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such share of the net decrease in Member Nonrecourse Debt Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Treasury Regulations Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. This Section 7.2(c)(ii) is intended to comply with the minimum gain chargeback requirement in Section 1.704-2(i)(4) of the Treasury Regulations and shall be interpreted consistently therewith.

(iii) Partner Nonrecourse Deductions. Any Member Nonrecourse Deductions for any Fiscal Year shall be specially allocated to the Member who bears the economic risk of loss with respect to the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable in accordance with Treasury Regulations Section 1.704-2(i)(1).

(iv) Code Section 754 Adjustment. To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(2) or Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as the result of a distribution to a Member in complete liquidation of his interest in the Company, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such



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gain or loss shall be specially allocated to the Members in accordance with their interests in the Company in the event Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(2) applies, or to the Members to whom such distribution was made in the event Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(4) applies.

(v) Code Section 704(c). In accordance with Code Section 704(c) and the Treasury Regulations thereunder, income, gain, loss and deduction with respect to any property contributed by a Member to the Company shall, solely for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its fair market value as of the date of contribution.

(c) The allocations set forth in Sections 7.2(b) hereof (the "Regulatory Allocations") are intended to comply with certain requirements of the Treasury Regulations. It is the intent of the Members that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss, or deduction pursuant to this Section 7.2(d). Therefore, notwithstanding any other provision of this Section 7.2 (other than the Regulatory Allocations), the Company shall make such offsetting special allocations of Company income, gain, loss, or deduction in whatever manner appropriate so that, after such offsetting allocations are made, each Member Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had if the Regulatory Allocations were not part of the Agreement and all Company items were allocated pursuant to Section 7.2(a) hereof. In exercising this discretion under this Section 7.2(c), the Company shall take into account future Regulatory Allocations that, although not yet made, are likely to offset other Regulatory Allocations previously made.

7.3 Varying Interests. All allocations pursuant to Section 7.2 hereof shall take due account of increases and decreases



in the number of Membership Units owned by each Member during the Fiscal Year.

7.4. Transferred Interests. In the event all or a portion of an interest in the Company is transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred interest.

7.5 Distributions in Kind. The amount by which the fair market value of any property to be distributed in kind to the Members pursuant to Article VIII or XI hereof exceeds or is less than the adjusted basis of such property for federal income tax purposes shall, to the extent not otherwise recognized to the Company, be taken into account in computing gain or loss of the Company for purposes of crediting or charging the Capital Accounts of, and distributing proceeds to, the Members under Articles VII, VIII or XI hereof.

7.6 Composition of Net Income or Loss. Net Income or Net Loss shall be determined for each Fiscal Year (or for any portion thereof as may be required by Section 7.3 hereof). For federal income tax purposes each item of income, gain, loss or deduction which enters into the calculation of Net Income or Net Loss shall be allocated in the same proportions as such Net Income or Net Loss is allocated pursuant to Section 7.2 hereof.

7.7 Authority of Management Committee to Vary Allocations. It is the intent of the Members that each Member's allocable share of income, gain, loss, deduction, or credit (or item thereof) (hereinafter, "Tax Items") shall be determined and allocated in accordance with this Article VII to the fullest extent permitted by Section 704(b) of the Code. The Management Committee is authorized and directed to allocate Tax Items arising in any Fiscal Year differently than otherwise provided for in this Article VII to the extent that allocating Tax Items in the manner provided for in Article VII, in the opinion of tax counsel or the accountants to the



Company, would cause the determinations and allocations of each Member's distributive share of Tax Items not to be permitted by Section 704(b) of the Code and Treasury Regulations promulgated thereunder.

7.8. Partnership Treatment for Income Tax Purposes. The Members are aware of the income tax consequences of the allocations made by this Article VII and hereby agree to be bound by the provisions of this Article VII in reporting their share of the Company's Net Income and Net Loss for income tax purposes.

## ARTICLE VIII

## DISTRIBUTIONS

8.1 Minimum Distributions. In general, Company income will be retained, first, to repay Company debt, pay Company Expenses and to provide working capital and, thereafter, to make Minimum Distributions to the Members. After providing for the satisfaction of any current debts and other obligations of the Company and the setting up of any reserves for Company liabilities, contingent or otherwise, deemed necessary or appropriate by the Management Committee in its sole discretion, the Company shall make the Minimum Distribution to each Member according to Section 8.2.

8.2 Estimated Tax Payments. The Company shall determine as of March 31, May 31, August 31 and November 30 (hereinafter referred to as a "Determination Date") the estimated amount of tax required to be paid by a

Member in respect of such Member's share of Taxable Income in order to avoid a penalty under Section 6655 of the Code (and any comparable provision of a State) on such Taxable Income for the year date through the fiscal period ending nearest to the Determination Date in accordance with the provisions of this Agreement. The Company shall pay over to each Member the amount so determined, less any prior estimated payments made, within fifteen (15) days following such Determination Date.



8.3 Final Tax Payment. At the time of delivery of the report referred to in Section 5.3(b) hereof, the Company shall compute the required Minimum Distribution for the applicable Fiscal Year. To the extent the estimated tax payments made to a Member pursuant to Section 8.2 hereof are less than the amount of the required Minimum Distribution, the Company shall pay each Member such difference. The extent the estimated tax payments made to a Member pursuant to Section 8.2 hereof are more than the amount of the required Minimum Distribution, each Member shall pay the Company such difference.

## ARTICLE IX

## TRANSFERS OF MEMBERSHIP UNITS

9.1 Assignment of Membership Units by Members. (a) Except as otherwise expressly provided in this Section 9.1, no Member shall transfer (whether by gift, court order, operation of law, or otherwise) all or any part of a Membership Unit to any person unless such transfer is made in accordance with the terms and provisions of Section 9.1(b) hereof. Any transferee pursuant to this Section 9.1 shall take and hold the transferred interest subject to this Agreement and to all other obligations and restrictions upon the transferor Member, shall observe and comply with this Agreement and with such obligations and restrictions and shall, unless such transferee is a Member or is admitted as an Additional Member pursuant to Section 9.3 hereof, as a condition of transfer, execute and deliver to the Company an agreement, in form and substance satisfactory to the Management Committee in its sole discretion, pursuant to which such transferee agrees to be bound by all of the terms and provisions of this Agreement. Any attempted transfer in violation of this Section 9.1(a) shall be null and void.

(b) A Member may transfer Membership Units only as follows (and any Person to whom a Membership Unit is permitted to be transferred in accordance with this Section 9.1(b) is herein called a "Permitted Transferee"):

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(1) Upon death by will or by the laws of intestate distribution.

(2) With consent after a majority vote of the Management Committee, which consent may be granted or withheld in the sole and absolute discretion of the Management Committee. The failure to exercise the rights of first refusal set forth in Section 9.8 hereof shall not be deemed to be the giving of such consent.

(3) In compliance with the provisions of Sections 9.8 and 9.9 hereof.

9.2 When Transfers Binding on Company. No transfer of all or any part of a Membership Unit by Member permitted to be made under this Agreement shall be binding upon the Company unless and until a duplicate original of the instrument of transfer, duly executed and acknowledged by the transferor, has been delivered to the Company.

9.3 Additional Members. Permitted Transferees of a Member shall be admitted to the Company as an Additional Member and shall participate in Net Income and Net Loss of the Company on the same basis as the transferor Member.

9.4 Costs to Additional Members. As a condition further to those described in Section 9.1 hereof to the admission of any Additional Member, such Additional Member shall, if required by the Management Committee in its sole discretion, pay all reasonable expenses actually incurred in connection with such admission as a Member.

9.5 Election to Adjust Tax Basis. The Management Committee may, but shall not be required to, cause the Company to make an election, or to revoke any such election previously made, under Section 754 of the Code to adjust the basis of Company property under Sections 734 and 743 of the Code. Any Member requesting that such



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election be made in the context of a transaction to which Section 743 of the Code would apply shall reimburse the Company for any additional accounting costs resulting from such election.

9.6 Distributions and Allocations in Respect to Transferred Interests. If any Membership Units are sold, assigned, or transferred during any

accounting period in compliance with the provisions of this Section 9, Net Income, Net Loss, each item thereof, and all other items attributable to the transferred interest for such period shall be divided and allocated between the transferor and the transferee by taking into account their varying interests during the period in accordance with Code Section 706(d), using any conventions permitted by law and selected by the Management Committee. All distributions on or before the date of such transfer shall be made to the transferor, and all distributions thereafter shall be made to the transferee.

9.7 Legends. The Company shall be entitled to affix to each certificate evidencing outstanding Membership Units that is issued to any Member a legend in substantially the following form:

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. NO REGISTRATION OF TRANSFER OF SUCH SECURITIES WILL BE MADE ON THE BOOKS OF THE COMPANY UNLESS SUCH TRANSFER IS MADE IN CONNECTION WITH AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT OR SUCH ACT DOES NOT APPLY.

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE THE RIGHTS, PRIVILEGES AND PREFERENCES AND ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AS SET FORTH IN A LIMITED LIABILITY COMPANY AGREEMENT DATED AS OF JANUARY 15, 1996, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE





COMPANY. NO REGISTRATION OF TRANSFER OF SUCH SECURITIES WILL BE MADE ON THE BOOKS OF THE COMPANY UNLESS AND UNTIL SUCH RESTRICTIONS SHALL HAVE BEEN COMPLIED WITH."

9.8 Right of First Refusal. (a) If any Member receives from or otherwise negotiates with a Third Party a bona fide offer to purchase for cash (for purposes of this Section 9.8, an "Offer") any of the Membership Units owned or held by such Member, and such Member intends to pursue a sale of such Membership Units to such Third Party, such Member (for purposes of this Section 9.8, the "Prospective Seller") shall provide the Company and each of the other Members (for purposes of this Section 9.8, the "Remaining Members") written notice of such Offer (for purposes of this Section 9.8, an "Offer Notice"). The Offer Notice shall identify the Third Party making the Offer, the number of Membership Units with respect to which the Prospective Seller has such an Offer (for purposes of this Section 9.8, the "Offered Membership Units"), the cash price per Membership Unit at which a sale is proposed to be made (for purposes of this Section 9.8, the "Offer Price"), and all the other material terms and conditions of the Offer. The number of Membership Units

which may become Offered Membership Units shall be limited to two Membership Units per Member, per year unless increased by the Management Committee in its sole discretion.

(b) The receipt of an Offer Notice by each Remaining Member and the Company from a Prospective Seller shall constitute an offer by the Prospective Seller to sell to each Remaining Member and the Company the Offered Membership Units at the Offer Price in cash. Such offer shall be irrevocable for 20 business days after receipt of the Offer Notice by each Remaining Member and for two additional five (5) business day periods thereafter as hereinafter provided. During such 20 business day period, each Remaining Member and the Company shall, subject to the priorities set forth in the next succeeding paragraph, have the right to accept such offer as to all or a portion of the Offered Membership Units by giving a written notice of acceptance (for purposes of this Section 9.8, the "Notice of





Acceptance") to the Prospective Seller prior to the expiration of such 20 business day period. If after expiration of such 20 business day period the Prospective Seller shall not have received Notices of Acceptance for all the Offered Membership Units, the Prospective Seller shall thereupon notify each Accepting Party (as hereinafter defined) by telecopy or personal delivery of such fact and shall provide each Accepting Party an opportunity, during a period of five (5) business days from the date such notice is so given, to submit an additional Notice of Acceptance of any such Offered Membership Units. For purposes of this Section 9.8, any Remaining Member submitting a Notice of Acceptance pursuant to this Section 9.8 is herein called an "Accepting Party."

Each Remaining Member and the Company shall be entitled to accept the offer from the Prospective Seller in the following order of priority:

(i) first, the Company shall be entitled to accept such offer for any or all of the Offered Membership Units.

(ii) second, to the extent the Company shall not have accepted such offer for all the Offered Membership Units, each Remaining Member shall be entitled to accept such offer for not more than a portion of the Offered Membership Units determined on a pro rata basis based on the ratio of the interest in the Net Income and Net Loss represented by the Membership Units then owned by such Remaining Member to the total interest in the Net Income and Net Loss represented by all Membership Units then outstanding (other than the Offered Membership Units); and

(iii) third, to the extent that any Offered Membership Units remain after application of clause (i) and (ii) above, each Accepting Party shall then

be entitled to purchase such remaining Offered Membership Units on a pro rata basis based upon the ratio that the interest in the Net Income and Net Loss represented by the Membership Units owned by each Accepting Party exercising its rights pursuant to this clause (iii) bears to the interest in the Net Income and Net




Loss represented by the Membership Units owned by all Accepting Parties exercising their rights pursuant to this clause (iii).

If the Company or any Remaining Member so accepts the Prospective Seller's offer, each Accepting Party will purchase for cash from the Prospective Seller, and the Prospective Seller will sell to each Accepting Party, such number of Offered Membership Units as to which each Accepting Party shall have accepted the Prospective Seller's offer. The price per Membership Unit to be paid by each Accepting Party shall be the Offer Price specified in the Offer Notice. The Notice of Acceptance shall specify (i) such Accepting Party's acceptance of the Prospective Seller's offer and (ii) the number of Offered Membership Units to be purchased by such Accepting Party.

(c) The consummation of any purchase by any Accepting Party shall take place on such date, not later than 10 days after the expiration of the 20 business day period referred to in Section 9.8(b) above (or, if applicable, the expiration of the additional five (5) business day period referred to in Section 9.8(b) above), as such Accepting Party and the Prospective Seller shall select. Upon the consummation of such purchase and sale, the Prospective Seller shall (i) deliver to the Accepting Party certificates evidencing the Offered Membership Units so purchased, duly endorsed in blank or accompanied by written instruments of transfer in form satisfactory to such Accepting Party and duly executed by the Prospective Seller, and (ii) assign all its rights under this Agreement with respect to the Offered Membership Units so purchased pursuant to an instrument of assignment reasonably satisfactory to such Accepting Party.

(d) In the event that (i) each Remaining Member and the Company shall have received an Offer Notice from a Prospective Seller but the Prospective Seller shall not have received Notices of Acceptance as to all the Offered Membership Units, or (ii) an Accepting Party shall have failed to consummate, other than as a result of the fault of the Prospective Seller, the purchase of the Offered Membership Units to be purchased by such Accepting Party (and another Accepting Party or Parties does not purchase such Membership Units), the Prospective

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Seller shall have the right to reject any or all Notices of Acceptance theretofore received and nothing in this Section 9.8 shall limit the right of the Prospective Seller to make a sale of the Offered Membership Units so long as all the Offered Membership Units that are sold or otherwise disposed of by the Prospective Seller (which number of Offered Membership Units shall be not less than the number of Offered Membership Units specified in Offer Notice) are sold for cash (A) within 60 days after the date of receipt of the Offer Notice by each Remaining Member, (B) at a price not less than the Offer Price included in the Offer Notice, (C) to the Third Party making the Offer, and (D) the Number of Offered Membership Units does not exceed two per Member, per year, unless increased by the Management Committee.

(e) In the event that the Prospective Seller shall not have sold the Offered Membership Units before the expiration of the 60-day period in accordance with paragraph (d) above, then the provisions of this Section 9.8 shall be reinstated as to the Offered Membership Units as if an Offer Notice had not been delivered and such Prospective Seller shall not give another Offer Notice for a period of 120 days from the earlier of the date the transactions contemplated herein were terminated or such 60-day period.

(f) The provisions of this Section 9.8 shall apply to any proposed sale pursuant to Section 9.9 and any notice given pursuant to Section 9.9 shall first be deemed an Offer Notice pursuant to this Section 9.8. The provisions of this Section 9.8 shall not be applicable to (i) any sale or transfer made pursuant to Section 9.1(b)(1).

9.9 Provisions Relating to Put Right. (a) If any Member, for any reason whatsoever, wishes to sell its Membership Units to the Company, the Company shall be obligated (the "Put Option"), by delivery of written notice to the Company (the "Put Notice"), to cause the Company to purchase, and the Company shall purchase, all Membership Units which the Member desires to sell (collectively, the "Put Securities") as and to the extent specified in the Put Notice,



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at a price per Membership Unit equal to the Fair Market Value thereof; provided, however, that each Member may exercise his Put Option upon no more than [two (2) Membership Units] per year, unless otherwise determined by the Management Committee in its sole discretion. Notwithstanding the foregoing, in the event of the death of any Person holding Membership Units which were validly acquired pursuant to this Agreement, the decedents estate shall have

until thirty (30) days after the appointment of an executor or administrator of such deceased Person's estate or affairs to exercise the Put Option pursuant to this Section 9.9.

(b) The closing of the purchase of any Put Securities by the Company pursuant to this Section 9.9 shall take place at the principal office of the Company not less than one hundred eighty (180) days after the delivery of the Put Notice. At any closing pursuant to this Section 9.9, the Company shall deliver, against delivery of certificates duly endorsed and stock powers representing the Membership Units specified in the Put Notice, a certified check or checks payable to the order of such Person selling Put Securities as specified in the Put Notice, in an amount equal to the lessor of Contributed Capital used as consideration for the purchase of the Put Securities (the "Initial Contribution") or the Fair Market Value of the Put Securities. To the extent, if any, that the Fair Market Value of the Put Securities exceeds the Initial Contribution of the Put Securities (the "Remaining Value"), the Management Committee shall pay the Remaining Value of the Put Securities, either by (i) a certified check or checks payable to the order of such Person selling Put Securities as specified in the Put Notice, (ii) issuance to such Member of a promissory note of the Company, dated the date of the closing of the purchase of Put Securities, bearing interest on such principal amount at the rate of ten percent (10%) per annum, payable in arrears semi-annually, subordinated to any Senior Debt and secured by the Put Securities, or (iii) any combination thereof as determined, in its sole discretion, by the Management Committee.

(c) Notwithstanding any provisions set forth in this Section 9.9 to the contrary, the Company shall not be obligated to repurchase





Membership Units under this Section 9.9 if at the time of the proposed cash payment the Company is, or would be upon delivery of such cash payment and as a consequence thereof, in default under or otherwise in violation of the terms of any loan or credit agreements to which the Company is a party or by which the Company and its assets is bound. In such event, the Company shall, in lieu of such cash payment for the Initial Contribution or the Remaining Value, issue a promissory note equal to the Fair Market Value of the Put Securities upon the terms as provided in Section 9.9(b) above. The Company shall pay such promissory note if and to the extent the Company will not as a consequence of such payment be in violation of the terms of any such loan or credit agreements.

9.10 Certificates for Membership Units. Every owner of a Membership Unit shall be entitled to have a certificate or certificates, to be in such form as the Management Committee shall prescribe, certifying the number of

Membership Units owned by such Member. The certificates representing Membership Units shall be numbered in the order in which they shall be issued and shall be signed in the name of the Company by the President, or a Vice President, and by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer. Any or all of the signatures on the certificates may be a facsimile. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, any such certificate shall thereafter have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may nevertheless be issued by the Company with the same effect as though the person who signed such certificate, or whose facsimile signature shall have been placed thereupon, were such officer, transfer agent or registrar at the date of issue. A record shall be kept of the respective names of the Persons owning the Membership Units represented by such certificates, the number of Membership Units represented by such certificates, respectively, and the respective dates thereof, and in case of cancellation, the respective dates of cancellation. Every certificate surrendered to the Company for exchange or transfer shall be canceled, and no new certificate or certificates shall be issued





in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases of lost or mutilated certificates as provided for in Section 9.11 below. The person in whose name Membership Units stand on the books of the Company shall be deemed the owner thereof for all purposes as regards the Company. Certificates shall be issued for fractional Membership Units.

9.11 Lost, Stolen, Destroyed, and Mutilated Certificates. In any case of loss, theft, destruction, or mutilation of any certificate of Membership Units, another may be issued in its place upon proof of such loss, theft, destruction, or mutilation and upon the giving of a bond of indemnity to the Company in such form and in such sum as the Management Committee may direct; provided, however, that a new certificate may be issued without requiring any bond when, in the judgment of the Management Committee, it is proper to do so.

## ARTICLE X

## DISSOLUTION AND TERMINATION OF COMPANY; LIQUIDATION AND DISTRIBUTION OF ASSETS

10.1 Dissolution and Termination. The Company shall be dissolved upon the earliest of:

(a) the fortieth anniversary of the date hereof;

(b) 90 days after the death, retirement, resignation, expulsion, bankruptcy or dissolution of any Member, or the entry of a decree of judicial dissolution under Section 18-802 of the Delaware Law, unless the action described in Section 10.2 hereof shall have been taken;

(c) the date as of which all or substantially all of the assets of the Company shall have been distributed or converted to cash or its equivalent; or





(d) at any time, upon the majority vote in favor of such dissolution by the Management Committee.

Upon dissolution, the Company shall wind up its affairs and shall be liquidated and a certificate of cancellation of the Company, as required by law, shall be filed.

10.2 Continuation of Company. The business of the Company shall be continued after an event described in Section 10.1(b) hereof if within 90 days after any such event a Majority Vote of (acting together and not as a separate Class) shall elect in writing that the business of the Company should be continued.

10.3 Distribution upon Liquidation. Upon any dissolution of the Company, each of the following shall be accomplished within the period described in Treasury Regulation Section 1.704-1(b)(2)(ii)(b):

(i) the Company shall prepare a statement setting forth the assets and liabilities of the Company as of the date of termination, and such statement shall be furnished to all of the Members;

(ii) the assets of the Company shall be liquidated as promptly as possible, but in an orderly and businesslike manner so as not to involve undue sacrifice;

(iii) Company funds shall be applied to the payment and discharge of the claims of creditors (including Members who are creditors) in the order of priority provided by law or to the establishment or increase of reserves therefor;

(iv) the Company Net Income and Net Loss for the final Fiscal Year shall be allocated, and the Members' Capital Accounts shall be credited or charged in accordance with the terms of this Agreement; and

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(v) the balance of any remaining cash and other assets shall be distributed to the Members in accordance with their respective Capital Accounts.

## ARTICLE XI

## INDEMNIFICATION

11.1 Actions, Etc. Other Than by or in the Right of the Company. The Company shall indemnify any Person (herein, together with any Affiliates of such Person, an "Indemnified Person") who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company) by reason of the fact that the Indemnified Person is or was a Member, a Management Committee Representative, an officer, an employee or an agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another Person or other enterprise or as a member of any committee or similar body, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Indemnified Person in connection with such action, suit or proceeding if the Indemnified Person acted in good faith and in a manner the Indemnified Person reasonably believed to be in or not opposed to, the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Indemnified Person did not act in good faith and in a manner which the Indemnified Person reasonably believed to be in, or not opposed to, the best interests of the Company, and, with respect to any criminal action or proceeding, that the Indemnified Person had reasonable cause to believe that such conduct was unlawful.



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11.2 Actions, Etc., by or in the Right of the Company. The Company shall indemnify any Indemnified Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company to procure a judgment in its favor by reason of the

fact that the Indemnified Person is or was a Member, a Management Committee Representative, an officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another Person or other enterprise, or as a member of any committee or similar body, against expenses (including attorneys' fees) actually and reasonably incurred by the Indemnified Person in connection with the defense or settlement of such action or suit if the Indemnified Person acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Company, except that no indemnification shall be made in respect of any claim, issue or matter as to which the Indemnified Person shall have been adjudged to be liable for negligence or misconduct in the performance of the Indemnified Person's duty to the Company unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the Indemnified Person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

11.3 Determination of Right of Indemnification. Any indemnification under Section 11.1 or 11.2 (unless ordered by a court) shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the Indemnified Person is proper in the circumstances because the Indemnified Person has met the applicable standard of conduct set forth in Section 11.1 and 11.2. Such determination shall be made (i) by the Management Committee by a majority vote of a quorum consisting of members who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested members of the Management Committee so





directs, by independent legal counsel in a written opinion, or (iii) by a Majority Vote of the Members.

11.4 Indemnification Against Expenses of Successful Party. Notwithstanding the provisions of Section 11.1 or 11.2, to the extent that an Indemnified Person has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 11.1 or 11.2, or in defense of any claim, issue or matter therein, the Indemnified Person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by the Indemnified Person in connection therewith.

11.5 Advance of Expenses. Expenses incurred in defending a civil or criminal action, suit or proceeding referred to in Section 11.1 or 11.2 shall be paid by the Company in advance of the final disposition of such action, suit or proceeding as authorized by the Management Committee in the specific case

upon receipt of an undertaking by or on behalf of the Indemnified Person to repay such amount unless it shall ultimately be determined that the Indemnified Person is entitled to be indemnified by the Company as authorized in this Article.

11.6 Other Rights and Remedies. The indemnification provided by Section 11.1 and 11.2 shall not be deemed exclusive and is declared expressly to be nonexclusive of any other rights to which one seeking indemnification may be entitled under any agreement, vote of Members or of disinterested members of the Management Committee or otherwise, both as to action in an Indemnified Person's official capacity and as to action in another capacity while holding such office, and shall continue as to an Indemnified Person who has ceased to be a Member, Management Committee Representative, officer, employee or agent of the Company and shall inure to the benefit of the heirs, executors and administrators of such an Indemnified Person.



## ARTICLE XII

## MISCELLANEOUS

12.1 Further Assurances. Each party to this Agreement agrees to execute, acknowledge, deliver, file and record such further certificates, amendments, instruments and documents, and to do all such other acts and things, as may be required by law, or as may be necessary or advisable to carry out the intents and purposes of this Agreement.

12.2 Amendments. This Agreement may be amended Majority Vote of the Members; provided, that no such amendment shall be made without the consent of all Members if the effect of any such amendment would be to (i) increase any Member's personal liability; (ii) change any Members' right and interest in the Net Income, Net Loss or distributions from the Company; (iii) change any Member's rights upon liquidation of the Company; or (iv) cause the Company to be treated for tax purposes as an association taxable as a corporation.

12.3 Notices. Unless otherwise specified in this Agreement, all notices, demands, elections, requests or other communications that any party to this Agreement may desire or be required to give hereunder shall be in writing (which shall include telecopier, telegram or cable) and shall be deemed to have been duly given or made upon the transmittal thereof by telecopier, answerback received, or the delivery thereof to the telegraph office, or on receipt following the deposit thereof in the mails or when delivered by hand, in each case to the person to whom notice is being given, addressed as follows:

(a) to the Company, at the principal place of business of the

Company or at such other address as may be designated by the Company upon written notice to the Members;





(b) to each Member at the address set forth beneath the signature of such Member on the signature pages to this Agreement, or at such other address as may be designated by written notice to the Company as provided in this Section; and

(c) to any person who hereafter becomes an Additional Member, at such address as may be designated by it by written notice to the Company.

12.4 Headings and Captions. All headings and captions contained in this Agreement are for convenience only and shall not be deemed a part of this Agreement.

12.5 Variations of Pronouns. All pronouns and all variations thereof shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or entity may require.

12.6 Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one agreement.

12.7 Governing Law. This Agreement is made pursuant to the provisions of the Delaware Law and shall be construed accordingly.

12.8 Successors and Assigns. This Agreement shall be binding upon the parties hereto and their respective successors, executors, administrators, legal representatives, heirs and assigns and shall inure to the benefit of the parties hereto and, except as otherwise provided herein, their respective successors, executors, administrators, legal representatives, heirs and assigns.

12.9 Waiver of Right of Partition. Each of the Members does hereby agree to and does hereby irrevocably waive (a) any right it may have, whether by statute or by rule of law, to cause any asset of the Company to be partitioned or to file a complaint or to institute any proceeding at law, or in equity, to cause any asset to be

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partitioned, or to complete a sale of all or any part of the assets of the Company, and (b) any right to take any action which otherwise may be available to such Member for the purpose of severing its relation with the Company or its interest in the assets of the Company from the interest of the other Members other than any rights such Member may have pursuant to the terms of this Agreement, throughout the term of the Company and during the period of its liquidation following any dissolution.

12.10 Entire Agreement. This Agreement and the other documents contemplated herein constitutes the entire agreement of the Members with respect to the transactions contemplated hereby and supersedes all prior oral or written agreements and understandings.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the ____ day of June, 1996.

AGN Venturers L.L.C.

By: ----------

ADDRESS:

TV Games, Inc.

By: ----------

ADDRESS:

EXHIBIT 10.21

# LIMITED LIABILITY COMPANY AGREEMENT
# OF
# AMERICAN GAMING NETWORK L.L.C.

THIS LIMITED LIABILITY COMPANY AGREEMENT (the "Agreement"), dated as of July 20, 1996, by and among American Gaming Network L.L.C., a limited liability company formed pursuant to the laws of the State of Delaware (the "Company"), and Mike Howard, an individual residing in Tulsa, Oklahoma.

In consideration of the covenants, conditions and agreements contained herein, the parties hereto hereby agree as follows:

## ARTICLE I

## DEFINITIONS

As used in this Agreement, the following terms shall have the meanings set forth below:

"Additional Member" shall mean a Person admitted as a Member pursuant to Article IX of this Agreement.

"Affiliate" shall mean, with respect to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with, the Person in question.

"Assets" shall mean all rights and ownership interests of the Company.

"Capital Account" shall mean the capital account maintained for each Member pursuant to Article VII hereof.





"Claim" shall mean any demand, claim, action or cause of action based on any Loss.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Company Expenses" shall mean all amounts of expense, loss, amortization or depreciation which are deductible from the Company's gross income for

federal income tax purposes and all amounts of expense described in Section 705(a)(2)(B) of the Code.

"Company Minimum Gain" shall have the meaning as set forth in Section 1.704-2(d) of the Treasury Regulations.

"Company Nonrecourse Liabilities" shall mean nonrecourse liabilities (or portions thereof) of the Company for which no Member bears the economic risk of loss.

"Contributed Capital" shall mean, with respect to each Member, any cash, cash equivalents or the value of other property that a Member contributes to the Company pursuant to Section 6.1 of this Agreement, in each case as the same may from time to time be adjusted as provided in this Agreement.

"Delaware Law" shall mean the Delaware Limited Liability Company Act, as amended from time to time, or any successor statute or statutes.

"Fair Market Value" shall mean (i) such value as is determined in good faith by the Management Committee and delivered in writing to each Member, or (ii) if such valuation by the Management Committee is objected to by a majority of the Members and written notice of such (the "Objection Notice") is given within twenty (20) business days after the receipt by such holders of the Management Committee's valuation, which Objection Notice to be valid



shall state the valuation proposed by the objecting party, such value as is determined by mutual agreement among the Management Committee and the majority of the Members, or (iii) if no such mutual agreement is reached in a twenty (20) business day period following the receipt of the Objection Notice, such value as is determined in good faith in a written report to the Company by an appraisal or investment banking firm of recognized national standing selected by the Management Committee from a list of three such firms submitted by a majority of the Members that, in each case, are independent of the Company, any Member and any of their respective Affiliates. The cost and expense of such independent appraisal or investment banking firm shall be paid or shared by the Company and/or the objecting party in an amount determined by the extent to which the valuation of the Management Committee and the objecting party is sustained (e.g., if the Management Committee proposes a valuation of $5 per Membership Unit, the objecting party proposes $10 per Membership Unit and the independent firm determines $6 to be the Fair Market Value, then the Company shall pay 20% and the objecting party 80% of such cost and expense. The "Fair Market Value," to be determined shall be the price at which a willing seller under no compulsion to sell would sell in a private transaction to an unaffiliated third party under no compulsion to buy.

"Fiscal Year" shall mean the fiscal year of the Company, which shall end on each September 30.

"GAAP" shall mean the generally accepted accounting principles used in the preparation of the financial records with respect to all periods presented thereby, applied on a consistent basis for all such periods and in accordance with past practice.

"Liquidation Value" shall mean an amount equal to the amount which the Terminated Member would have received had the Company been dissolved under Section 9.3 herein and its Assets disposed of at Fair Market Value and following





satisfaction of all the Terminated Member's obligations to the Company.

"Loss" shall mean any loss, damage, liability, cost, assessment and expense including, without limitation, any interest, fine, court cost and reasonable investigation cost, penalty and attorneys' and expert witnesses' fees, disbursements and expenses, after taking into account any insurance proceeds actually received by or paid on behalf of any party incurring a Loss.

"Majority Vote of the Members" shall mean the affirmative vote of the holders of a majority of the Outstanding Membership Units held by the Members.

"Management Committee" shall mean the Management Committee established pursuant to this Agreement and having the rights and powers set forth herein.

"Member" shall mean those Persons executing this Agreement as Members of the Company on the signature pages hereto and each Additional Member.

"Member Nonrecourse Debt" shall have the meaning as set forth in Section 1.752-1(a)(2) of the Treasury Regulations.

"Member Nonrecourse Debt Minimum Gain" shall mean an amount, with respect to each Member Nonrecourse Debt, equal to the Company Minimum Gain that would result if such Member Nonrecourse Debt were treated as a nonrecourse liability, determined in accordance with Section 1.704-2(i)(3) of the Treasury Regulations.

"Member Nonrecourse Deductions" shall have the meaning set forth in Section 1.752-3(a) of the Treasury Regulations.

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"Membership Unit" shall mean units which reflect ownership rights in the Company.

"Net Income" shall mean the excess of (i) the Company's gross income (determined for federal income tax purposes but including income which is exempt from federal income tax) over (ii) the sum of the Company's Expenses.

"Net Loss" shall mean the excess of the amount above described in clause (ii) of Net Income over the amount above described in clause (i) of Net Income.

"Outstanding" shall mean the number of Membership Units issued by the Company as shown on the Company's books and records, less any Membership Units held by the Company.

"Person" shall mean an individual, a partnership, a joint venture, a corporation, an association, a trust, an individual retirement account or any other entity or organization, including a government or any department or agency thereof.

"Remaining Members" shall mean (i) where used in Section 8.8 hereof, are Members other than a Prospective Seller, and (ii) when used in Section 9.2 hereof, all Members of the Company who are not Terminated Members.

"Subsidiary" shall mean any corporation or similar business entity of which more that fifty percent (50%) of the issued and outstanding securities having ordinary voting power for the election of directors is owned or controlled, directly or indirectly, by the Company.

"Taxable Income" shall mean the excess of (i) the Company's gross income determined for federal income tax purposes over (ii) the sum of all amounts of expense, loss, amortization or depreciation which are deductible from the Company's gross income for federal income tax purposes.



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"Taxes" shall mean all taxes, levies or other like assessments, charges or fees, including, without limitation, income, gross receipts, real or personal property, withholding, asset, sales, use, license, payroll, transaction, capital, business, corporation, employment, net worth and franchise taxes, or other governmental taxes imposed by or payable to the United States of America or any State, local or foreign governmental entity,

whether computed on a separate, consolidated, unitary, combined or any other basis; and in each instance such term shall include any interest, penalties or additions to tax attributable to any such Tax.

"Terminated Member" shall mean a Member as to which an event described in Section 9.1(b) has occurred.

"Third Party" shall mean, with respect to any Member, any other Person, other than the Company or any Affiliate of such Member.

"Treasury Regulation" shall mean the Income Tax Regulations, including Temporary Regulations, promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

## ARTICLE II

## THE COMPANY AND ITS BUSINESS

2.1 Formation. The Members do hereby associate themselves for the purpose of organizing and conducting a limited liability company pursuant to the provisions of Delaware Law and this Agreement.

2.2 Firm Name. The name of the Company shall be American Gaming Network L.L.C. All properties of the Company shall be held, all contracts shall be made, all instruments and documents shall be executed and all acts of the Company shall be done, in the name of



American Gaming Network L.L.C. The Management Committee shall cause to be filed on behalf of the Company such limited liability company certificate or assumed or fictitious name certificate or similar instruments as may from time to time be required by applicable law.

2.3 Filings. Upon the request of the Management Committee, each Member shall at the expense of the Company promptly execute and deliver all such certificates and other instruments conforming hereto as shall be necessary for the Company to accomplish all filing, recording, publishing and other acts appropriate to comply with all requirements for the formation and operation of a limited liability company under the laws of all jurisdictions where the Company shall propose to conduct business. Prior to conducting business in a jurisdiction where the Company proposes to conduct business the Company shall, to the fullest extent possible to establish limited liability for each Member under the laws of such jurisdiction and otherwise to comply with the laws of

such jurisdiction, cause the Company to comply with all requirements for the registration, qualification or reformation of the Company to conduct business as a limited liability company in such jurisdiction. Thereafter, the Company shall continue to comply with all requirements necessary to maintain the limited liability of each Member in each jurisdiction where the Company does business.

2.4 Term. The Company shall be formed and commence upon the later of (i) the filing for record of an initial certificate of formation with the Secretary of State of the State of Delaware in accordance with Delaware Law and (ii) the execution of this Agreement by the Members, and shall continue for a period of forty (40) years or until sooner terminated as hereinafter provided in this Agreement.

2.5 Purposes of the Company. Subject to the terms hereof, the purposes of the Company shall be to (i) own and operate the Assets to the fullest extent permitted under applicable law, (ii) conduct any lawful business permitted by Delaware Law and the laws of any jurisdiction in which the Company may do business, and (iiii) take all such other actions and to engage in such other businesses as may



be incidental to or in furtherance of any of the foregoing as the Management Committee may determine to be necessary or desirable or to be in the best interests of the Company.

2.6 Powers of the Company. The Company shall be empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business of the Company described in Section 2.5 and for the protection and benefit of the Company.

2.7 Compliance with Applicable Laws and Rules. No business or activities shall be conducted by the Company that are or would be forbidden by, or contrary to, any applicable law or to the rules or regulations lawfully promulgated thereunder.

2.8 Principal Office, Registered Office and Registered Agent. The principal office of the Company shall be at American Gaming Network L.L.C.,7335 South Lewis, Suite 204, Tulsa, Oklahoma, but other or additional places of business within and without the State of Oklahoma may be selected from time to time by the Management Committee upon notice to each Member. The registered office of the Company in the State of Delaware shall be located at The Corporation Trust Center, 1209 Orange Street, New Castle County, Wilmington, Delaware 19801 and the registered agent for service of process on the Company

in the State of Delaware at such registered office shall be The Corporation Trust Company.

## ARTICLE III

## MANAGEMENT OF COMPANY BUSINESS; MANAGEMENT COMMITTEE; MEETINGS; OFFICERS

3.1 Management and Control; Management Committee. Except as otherwise specifically set forth in this Agreement, including without limitation Section 3.2 hereof, management, operation and policy decisions of the Company shall be vested exclusively in the





Management Committee, which shall have the power, on behalf and in the name of the Company, to cause the Company to carry out any and all of the business and purposes of the Company and to perform or cause to be performed all acts and enter into and perform or cause to be performed all contracts and other undertakings which the Management Committee may deem necessary or advisable or incidental thereto.

3.2 Certain Required Consents. Notwithstanding any other provision of this Agreement, the Management Committee may not, without a Majority Vote of the Members, cause or authorize the Company to:

(a) Purchase all or substantially all of the assets or business of any other Person.

(b) Sell all or substantially all of its assets to, or consolidate or merge with, any other Person.

(c) Engage in any business activities or operations other than as set forth in Section 2.5 hereof.

(d) Amend, modify or terminate this Agreement or any of the terms and provisions hereof, waive compliance with or enforcement of any of such terms and provisions, agree to or permit any such amendment, modification, termination or waiver, or breach, violate or be in default under any of the foregoing agreements.

(e) Authorize or issue (whether by split-up, recombination, reclassification or otherwise) any interest in the Net Income or Net Loss of the Company, or any security convertible into or representing the right to purchase or acquire any such interest, other than the issuance of Membership

Units as provided in Section 4.1 hereof.

3.3 Number and Term of Office. (a) The authorized number of members of the Management Committee shall be one (1) which shall be





elected by a Majority Vote of the Members. The initial member of the Management Committee shall be Mike Howard.

(b) Members of the Management Committee, including the initial member, shall hold office until the member's successor shall have been duly elected and shall qualify or until the member shall die or resign or shall have been removed in the manner hereinafter provided in Section 3.4(b). Nominations of persons to serve as members of the Management Committee must be submitted to the Secretary of the Company in a writing signed by a Member not less than ten (10) days prior to the meeting of Members at which the member of the Management Committee shall be elected.

3.4 Resignations and Removals. (a) Members of the Management Committee may resign at any time by giving written notice to the Management Committee or to the Secretary of the Company. Any such resignation shall take effect at the time specified therein, or, if the time be not specified, it shall take effect immediately upon its receipt; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

(b) Members of the Management Committee may be removed for any reason by a Majority Vote of the Members.

3.5 Vacancies. Any vacancy in the Management Committee, whether because of death, resignation, removal or any other cause, shall be filled by a Majority Vote of the Members at a special meeting of the Members called for such purpose. The member of the Management Committee so chosen to fill a vacancy shall hold office until his successor shall have been elected and shall qualify or until he shall resign or shall have been removed.

3.6 Place of Meeting, Etc. The Management Committee may hold any of its meetings at such place or places within or without the State of Delaware as the Management Committee may from time to time by resolution designate or as shall be designated by the person or

persons calling the meeting or in the notice or a waiver of notice of any such meeting.

3.7 Annual Organizational Meeting. The Management Committee shall meet as soon as practicable after each annual election of members of the Management Committee and notice of such meeting shall not be required.

3.8 Regular Meetings. Regular meetings of the Management Committee may be held at such times as the Management Committee shall from time to time by resolution determine. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting shall be held at the same hour and place on the next succeeding business day not a legal holiday. Except as provided by law, notice of regular meetings need not be given.

3.9 Special Meetings. Special meetings of the Management Committee may be called at any time by the member of the Management Committee, to be held at the principal office of the Company, or at such other place or places, within or without the State of Delaware, as the member of the Management Committee shall designate.

3.10 Quorum and Manner of Acting. Except as otherwise provided in this Agreement or by law, the presence of a majority of the then authorized and required number of members of the Management Committee shall be required to constitute a quorum for the transaction of business at any meeting of the Management Committee. All matters shall be decided at any such meeting, a quorum being present, by the affirmative votes of a majority of the members of the Management Committee present. In the absence of a quorum, a majority of members of the Management Committee present at any meeting may adjourn the same from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given. The Management Committee shall act only as a committee and no individual member thereof shall have the authority, as such, to act for and on behalf of the Company.




3.11 Action by Consent. Any action required or permitted to be taken at any meeting of the Management Committee or of any committee thereof may be taken without a meeting if a written consent thereto is signed by all members of the Management Committee or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Management Committee or committee.

3.12 Compensation. No stated salary need be paid members of the Management Committee, as such, for their services, but, by resolution of the

Management Committee, reasonable expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the Management Committee; provided that, nothing herein contained shall be construed to preclude any member of the Management Committee from serving the Company in any other capacity and receiving compensation therefor.

3.13 Committees. The Management Committee may designate one or more committees. Any such committee, to the extent provided in the resolution of the Management Committee, and except as otherwise limited by law, shall have and may exercise all the powers and authority of the Management Committee in the management of the business and affairs of the Company. Any such committee shall keep written minutes of its meetings and report the same to the Management Committee at the next regular meeting of the Management Committee.

3.14 Officers of the Management Committee. The Management Committee shall have a Chairman of the Management Committee and may, at the discretion of the Management Committee, have a Vice Chairman. The Chairman of the Management Committee and the Vice Chairman shall be appointed from time to time by the Management Committee and shall have such powers and duties as shall be designated by the Management Committee.

3.15 Officers of the Company. The Management Committee may designate one or more persons to act as the Chief Executive Officer, President, Chief Financial Officer, Treasurer and Secretary of the Company. The Company may also have a Chief Operating Officer, one or



more Vice Presidents or Assistant Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers and such other officers as may be appointed in accordance with the provisions of Section 3.17 below. One person may hold two or more offices, except that the Secretary may not also hold the office of President or Chief Executive Officer.

3.16 Election. The officers of the Company, except such officers as may be appointed in accordance with the provisions of Section 3.17 or Section 3.19 of this Article, shall be chosen annually by the Management Committee, and each shall hold office until such officer shall resign or shall be removed or otherwise disqualified to serve, or such officer's successor shall be elected and qualified.

3.17 Subordinate Officers, etc. The Management Committee may appoint such other officers as the business of the Company may require, each of whom shall have such authority and perform such duties as the Management Committee may from time to time specify, and shall hold office until such officer shall resign or shall be removed or otherwise disqualified to serve, or such

officer's successor shall be elected and qualified.

3.18 Removal and Resignation. Any officer may be removed, either with or without cause, by the Management Committee at any regular or special meeting thereof or by any officer upon whom such power of removal may be conferred by the Management Committee.

Any officer may resign at any time by giving written notice to the Management Committee, the Chairman of the Management Committee, the President or the Secretary of the Company. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.





3.19 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled by the election of the Management Committee at any meeting thereof.

3.20 Chairman of the Management Committee. The Chairman of the Management Committee shall, subject to the control of the Management Committee, serve a general oversight, planning and policy making function, shall preside at all meetings of Members and at all meetings of the Management Committee, and shall perform such other functions as determined from time to time by the Management Committee.

3.21 Chief Executive Officer. The Chief Executive Officer of the Company shall, subject to the control of the Management Committee, have general supervision, direction and control of the business and affairs of the Company. In the absence of the Chairman of the Management Committee, the Chief Executive Officer shall preside at all meetings of Members. The Chief Executive Officer shall have the general powers and duties of management usually vested in the chief executive officer of a corporation, and shall have such other powers and duties with respect to the administration of the business and affairs of the Company as may from time to time be assigned by the Management Committee.

3.22 President. The President shall exercise and perform such powers and duties with respect to the administration of the business and affairs of the Company as may from time to time be assigned to such officer by the Chief Executive Officer (unless the President is also the Chief Executive Officer) or by the Management Committee. In the absence or disability of the Chief Executive Officer, the President shall perform all of the duties of the Chief Executive Officer and when so acting shall have all of the powers and be subject to all the restrictions upon the Chief Executive Officer.

3.23 Vice Presidents. The Vice Presidents shall exercise and perform such powers and duties with respect to the administration of





the business and affairs of the Company as may from time to time be assigned to each of them by the President or by the Chief Executive Officer or by the Management Committee. In the absence or disability of the President, the Vice Presidents, in order of their rank as fixed by the Management Committee, or if not ranked, the Vice President designated by the Management Committee, shall perform all of the duties of the President and when so acting shall have all of the powers of and be subject to all the restrictions upon the President.

3.24 The Chief Financial Officer and Treasurer. The Chief Financial Officer and Treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the Company, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, surplus and Membership Units. The books of account shall at all reasonable times be open to inspection by any Management Committee Representative.

The Chief Financial Officer and Treasurer shall deposit all moneys and other valuables in the name and to the credit of the Company with such depositories as may be designated by the Management Committee. Such officer shall disburse the funds of the Company as may be ordered by the Management Committee, shall render to the President, to the Chief Executive Officer, and to the Management Committee, whenever they request it, an account of all of transactions as Chief Financial Officer and Treasurer and of the financial condition of the Company, and shall have such other powers and perform such other duties as may be prescribed by the Management Committee or the Chief Executive Officer or the President.

3.25 Secretary. The Secretary shall keep, or cause to be kept, a book of minutes at the principal office of the Company, or such other place as the Management Committee may order, of all meetings of the Management Committee and Members, with the time and place of holding, whether regular or special, and if special, how authorized and the notice thereof given, the names of those present at meetings





of the Management Committee, the number of Membership Units present or

represented at Members' meetings and the proceedings thereof.

The Secretary shall keep, or cause to be kept, at the principal office of the Company or at the office of the Company's transfer agent, a Membership Unit register, or a duplicate Membership Unit register, showing the names of the Members and their addresses; the number and Classes of Membership Units held by each; the number and date of certificates, if any, issued for the same; and the number and date of cancellation of every certificate surrendered for cancellation.

The Secretary shall give, or cause to be given, notice of all the meetings of the Members and of the Management Committee required by this Agreement or by law to be given, and shall keep the seal of the Company in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Management Committee, the Chief Executive Officer or the President. If for any reason the Secretary shall fail to give notice of any special meeting of the Management Committee or of the Members called by one or more of the persons permitted to do so in this Agreement, then any such permitted person may give notice of any such special meeting.

3.26 Compensation. The compensation of the officers of the Company shall be fixed from time to time by the Management Committee. None of such officers shall be prevented from receiving such compensation by reason of the fact that such officer is also a Management Committee Representative. Nothing contained herein shall preclude any officer from serving the Company, or any Affiliate of the Company, in any other capacity and receiving proper compensation therefor.

3.27 Execution of Contracts. Except as otherwise provided in this Agreement, the Management Committee may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name and on behalf of the Company, and such authority may be general or confined to specific instances; and



unless so authorized by the Management Committee or by this Agreement, no officer, Member, agent or employee shall have any power or authority to bind the Company by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

3.28 Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidence of indebtedness, issued in the name of or payable to the Company, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Management Committee. Each such person shall give such bond,

if any, as the Management Committee may require.

3.29 Deposits. Subject to Section 3.2(e) hereof, all funds of the Company not otherwise employed shall be deposited from time to time to the credit of the Company in such banks, trust companies or other depositories as the Management Committee may select, or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Company to whom such power shall have been delegated by the Management Committee. For the purpose of deposit and for the purpose of collection for the account of the Company, the Chief Executive Officer, the President, any Vice President or the Chief Financial Officer and Treasurer (or any other officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Company who shall from time to time be determined by the Management Committee) may endorse, assign and deliver checks, drafts and other orders for the payment of money which are payable to the order of the Company.

3.30 General and Special Bank Accounts. The Management Committee may from time to time authorize the opening and keeping of general and special bank accounts with such banks, trust companies or other depositories as the Management Committee may select or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Company to whom such power shall have been delegated by the Management Committee. The




Management Committee may make such special rules and regulations with respect to such bank accounts, not inconsistent with the provisions of this Agreement, as it may deem expedient.

## ARTICLE IV

## AUTHORIZATION OF MEMBERSHIP UNITS; RIGHTS AND DUTIES OF MEMBERS; MEETINGS OF MEMBERS; VOTING

4.1 Authorization of Membership Units; Characteristic of Membership Units. The Company is hereby authorized to issue one hundred (100) Membership Units in exchange for the initial contribution as provided in Section 6.1 of this Agreement. Each Membership Unit has (i) equal governance rights with every other Membership Unit and in matters subject to a vote of the Members has one vote and (ii) subject to Section 4.2, each Membership Unit has equal rights with every other Membership Unit with respect to sharing of profits and losses and with respect to distributions.

4.2 Participation of Membership Units in Net Income and Net Loss. Each Membership Unit shall participate in the Net Income and Net Loss of the Company in the proportion that such Unit bears to the total number of Membership Units outstanding.

4.3 Annual Meetings. Annual meetings of the Members of the Company for the purpose of electing the members of the Management Committee and for the transaction of such other proper business as may come before such meetings may be held at such time, date and place as the Management Committee shall determine by resolution.

4.4 Special Meetings. Special meetings of the Members of the Company for any purpose or purposes may be called at any time by the Management Committee, or by a committee of the Management Committee which has been duly designated by the Management Committee and whose powers and authority, as provided in a resolution of the Management





Committee or in this Agreement, include the power to call such meetings, but such special meetings may not be called by any other Person or Persons.

4.5 Place of Meetings. All meetings of the Members shall be held at such places, within or without the State of Delaware, as may from time to time be designated by the person or persons calling the respective meeting and specified in the respective notices or waivers of notice thereof.

4.6 Notice of Meetings. Except as otherwise required by law, notice of each meeting of the Members, whether annual or special, shall be given not less than fifteen (15) nor more than sixty (60) days before the date of the meeting to each Member of record entitled to vote at such meeting by delivering a written notice thereof to such Member personally, or by depositing such notice in the United States mail, in a postage prepaid envelope, directed to such Member at the post office address furnished by such Member to the Secretary of the Company for such purpose or, if such Member shall not have furnished to the Secretary the address for such purpose, then at such Member's post office address last known to the Secretary. Except as otherwise expressly required by law, no publication of any notice of a meeting of the Members shall be required. Every notice of a meeting of the Members shall state the place, date and hour of the meeting, and, in the case of a special meeting, shall also state the purpose or purposes for which the meeting is called. Notice of any meeting of Members shall not be required to be given to any Member who shall have waived such notice and such notice shall be deemed waived by any Member who shall attend such meeting in person or by proxy, except as a Member who shall attend such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the

meeting is not lawfully called or convened. Except as otherwise expressly required by law, notice of any adjourned meeting of the Members need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken.





4.7 Quorum. The holders of record of a majority of Membership Units of the Company, present in person or by proxy, shall constitute a quorum for the transaction of business at any meeting of the Members of the Company or any adjournment thereof. In the absence of a quorum at any meeting or any adjournment thereof, a majority of Unit Membership holders actually present in person or by proxy or, in the absence therefrom of all the Members, any officer entitled to preside at, or to act as secretary of, such meeting, may adjourn such meeting from time to time. At any such adjourned meeting at which a quorum is present any business may be transacted which might have been transacted at the meeting as originally called.

4.8 Voting. (a) Each Member shall, at each meeting of the Members, be entitled to one vote per Membership Unit as held by such Member in person or by proxy on the matter in question and which shall have been held by such Member and registered in such Member's name on the books of the Company:

(i) on the date fixed pursuant to Section 4.9 of this Agreement as the record date for the determination of Members entitled to notice of and to vote at such meeting, or

(ii) if no such record date shall have been so fixed, then (1) at the close of business on the day next preceding the day on which notice of the meeting shall be given or (2) if notice of the meeting shall be waived, at the close of business on the day next preceding the day on which the meeting shall be held.

(b) Membership Units owned, directly or indirectly, by the Company, shall neither be entitled to vote nor be counted for quorum purposes. Persons holding Membership Units of the Company in a fiduciary capacity shall be entitled to vote such stock. Persons whose Membership Units are pledged shall be entitled to vote such Membership Units.





(c) Any such voting rights may be exercised by the Member entitled

thereto in person or by proxy appointed by an instrument in writing, subscribed by such Member or by such Member's attorney thereunto authorized and delivered to the secretary of the meeting. The attendance at any meeting of a Member who may theretofore have given a proxy shall not have the effect of revoking the same.

(d) At any meeting of the Members all matters, except as otherwise provided in this Agreement or by law, shall be decided by the vote of holders of a majority of Membership Units present in person or by proxy and entitled to vote thereat and thereon, a quorum being present.

(e) Any action required or permitted to be taken at any regular or special meeting of the Members of the Company may be taken without a meeting, without prior notice and without a vote, if a written consent thereto is signed by Members holding Units representing not less than the minimum interest in the Net Income and Net Loss of the Company that would be necessary to authorize or take such action at a meeting at which all Units entitled to vote thereon were present and voted, and such written consent is filed with the minutes of proceedings of the Members.

4.9 Fixing Date for Determination of Members of Record. In order that the Company may determine the Members entitled to notice of or to vote at any meeting of Members or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other change, conversion or exchange of Membership Units or for the purpose of any other lawful action the Management Committee may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action. If in any case involving the determination of Members for any purpose other than notice of or voting at a meeting of Members the Management Committee shall not fix such a record date, the record date for determining Members for such purpose shall be the close of business



on the day on which the Management Committee shall adopt the resolution relating thereto. A determination of Members entitled to notice of or to vote at a meeting of Members shall apply to any adjournment of such meeting; provided, that the Management Committee may fix a new record date for the adjourned meeting.

## ARTICLE V

## BOOKS AND RECORDS

5.1 Books of Account. At all times during the continuance of the Company, the Company shall keep or cause to be kept, true and complete books of account utilizing the GAAP method of accounting, on the basis of the Company's Fiscal Year.

5.2 Availability of Books of Account. All of the books of account referred to in Section 5.1 hereof, together with an executed copy of this Agreement and the Certificate of Formation of the Company, and any amendments thereto, shall at all times be maintained at the principal office of the Company, and shall be open to the inspection and examination of each Member or its representative at such Member's expense during reasonable business hours.

5.3 Annual Reports and Other Statements. (a) The Company shall cause to be prepared, and shall deliver to each Member as soon as practical, but in any event on or before the 90th day following the end of the Company's Fiscal Year, an unaudited, end of the year, balance sheet and preliminary statement of income and loss of the Company, certified by the Chief Financial Officer.

(b) The Company shall cause to be prepared, and shall deliver to each Member as soon as practical, but in any event on or before the 90th day following the end of the Company's Fiscal Year, a statement of such Member's Capital Account as of the end of such Fiscal Year, a statement indicating such Member's share of the Company's Net Income or Net Loss for such Fiscal Year, and other



items relevant for Federal income tax purposes, all of which shall be certified by the Chief Financial Officer.

5.4 Tax Matters Partner. (a) Mike Howard is hereby designated as the Tax Matters Partner of the Company within the meaning of Section 6231 of the Code. Each Member, by the execution of this Agreement, consents to such designation.

(b) To the extent and in the manner provided by applicable law and regulations, the Tax Matters Partner shall furnish the name, address, profits interest and taxpayer identification number of each Member, including any successor or Additional Member, to the Internal Revenue Service, and shall keep each Member informed of the administrative and judicial proceedings for the adjustment at the Company level of any item required to be taken into account by a Member for income tax purposes (such an administrative proceeding referred to hereinafter as a "tax audit" and such a judicial proceeding referred to hereinafter as "judicial review"). If the Tax Matters Partner, on behalf of the Company, receives a notice with respect to a tax audit from the Internal

Revenue Service, the Tax Matters Partner shall promptly forward a copy of such notice to the Members or former Members who hold or held interests in the profits or losses of the Company for any taxable year to which the notice relates.

(c) The Tax Matters Partner is hereby authorized, but not required:

(1) subject to pre-approval by the Management Committee, to enter into any settlement with the Internal Revenue Service with respect to any tax audit or judicial review;

(2) in the event that a notice of a final administrative adjustment (a "final adjustment") is mailed to the Tax Matters Partner, to seek judicial review of such final adjustment;





(3) to intervene in any action brought by any other Member for judicial review of a final adjustment;

(4) to file a request for an administrative adjustment with the Internal Revenue Service at any time and, if any part of such request is not allowed by the Internal Revenue Service, to file a petition for judicial review with respect to such request;

(5) to enter into an agreement with the Internal Revenue Service to extend the period for assessing any tax which is attributable to any item required to be taken into account by a Member for tax purposes, or an item affected by such item; and

(6) to take any other action on behalf of the Members in connection with any administrative or judicial tax proceeding to the extent permitted or required by applicable law or regulations.

(d) The Tax Matters Partner shall have no obligation to provide funds for the purpose of contesting any tax audit or final adjustment, intervening in any action, or seeking an administrative adjustment or judicial review. The taking of any action and the incurring of any expense by the Tax Matters Partner in connection with any such proceeding, except to the extent required by law, is a matter in the sole discretion of the Tax Matters Partner and the provisions on limitation of liability of the members of the Management Committee set forth in Article XI hereof shall be fully applicable to the Tax Matters Partner in its capacity as such; provided, that in any event the Tax Matters Partner shall always act in the best interests of the Members.

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## ARTICLE VI

## CAPITAL CONTRIBUTIONS

6.1 Capital Contributions. On or before the Closing Date the Member listed on Exhibit A shall contribute ten dollars ($10.00) cash, in immediately available U.S. funds, for each Membership Unit set forth opposite such Member's name on Exhibit A hereto.

6.2 Advances, Etc. Except as otherwise provided in this Agreement, no Member shall be entitled to withdraw any part of his Capital Account or to receive any distribution from the Company and no Member shall be obligated or entitled to make any additional Capital Contributions to the Company. Loans by a Member to the Company shall not (i) be considered as a contribution to the capital of the Company; (ii) increase the Capital Account of the lending Member; (iii) entitle the lending Member to an increase in its share of the income of the Company; or (iv) subject the lending Member to any greater portion of any losses which the Company may sustain. The amount of any such loan shall be a debt due from the Company to such Member.

6.3 Additional Capital Contributions. Any Member may, with the prior Majority Vote of the Members, make additional capital contributions to the Company upon terms and conditions approved by such Majority Vote of the Members.

6.4 Return of Capital Contribution. Except as otherwise expressly provided in this Agreement, no Member shall have the right to demand of the Company the return of all or any part of any contribution to the capital of the Company until the Company has been dissolved and terminated and then only to the extent provided in Article IX hereof, and no Member shall have the right to demand or receive property other than cash in return for its contribution.



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## ARTICLE VII

## CAPITAL ACCOUNTS; ALLOCATIONS

7.1 Capital Accounts. A Capital Account shall be maintained for each Member. Such Account shall be credited with (i) such Member's Contributed Capital and (ii) any Net Income (or items thereof), and income and gain

described in Treasury Regulation Section 1.704-1(b)(2)(iv)(g) (exclusive of income described in Treasury Regulation Section 1.704-1(b)(4)(i)) and (iii) the fair market value of property hereafter contributed to the Company by such Member (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Section 752 of the Code). Such Account shall be reduced by (i) any cash distribution to such Member pursuant to Article X hereof and the fair market value of any other property distributed thereto pursuant to either such Article (net of any liability secured thereby which such Member is considered to assume or take subject to under Section 752 of the Code), and (ii) any Net Loss (or item thereof), and loss or deduction described in Treasury Regulation Section 1.704-1(b)(2)(iv)(g) (exclusive of amounts described in Treasury Regulation Section 1.704-1(b)(4)(i) or (iii)). Such Capital Account shall be otherwise credited, reduced and maintained in accordance with Treasury Regulation Section 1.704-1(b). Except as otherwise provided in this Agreement, whenever it is necessary to determine the Capital Account of any Member for purposes of this Agreement, the Capital Account of such Member shall be determined after giving effect to all prior distributions and to all allocations under this Article VII in respect of transactions effected prior to or on the date as of which such determination is to be made.

7.2 Allocations. (a) After giving effect to the special allocations set forth in Section 7.2(b) and 7.2(c), the Net Income and Net Loss of the Company shall be allocated to the Members in accordance Section 4.2.



(b) The following special allocations shall be made in the following order:

(i) Company Minimum Gain Chargeback. Except as otherwise provided in Treasury Regulation Section 1.704-2(f), notwithstanding any other provision of this Section 7.2, if there is a net decrease in Company Minimum Gain during any Fiscal Year, each Member shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, determined in accordance with Treasury Regulations Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. This Section 7.2(c)(i) is intended to comply with the minimum gain chargeback requirement of the Treasury Regulations Section 1.704-1(f) and shall be interpreted consistently therewith.

(ii) Member Minimum Gain Chargeback. Except as otherwise provided in Section 1.704-1(i)(4) of the Treasury Regulations,

notwithstanding any other provision of this Section 7.2, if there is a net decrease in Member Nonrecourse Debt Minimum Gain attributable to a Member Nonrecourse Debt during any Fiscal Year, each Member who has a share of the Member Nonrecourse Debt Minimum Gain attributable to such Nonrecourse Debt, determined in accordance with Section 1.704-2(i)(5) of the Treasury Regulations, shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such share of the net decrease in Member Nonrecourse Debt Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Treasury Regulations Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. This Section 7.2(c)(ii) is intended to comply with the minimum gain chargeback requirement



in Section 1.704-2(i)(4) of the Treasury Regulations and shall be interpreted consistently therewith.

(iii) Partner Nonrecourse Deductions. Any Member Nonrecourse Deductions for any Fiscal Year shall be specially allocated to the Member who bears the economic risk of loss with respect to the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable in accordance with Treasury Regulations Section 1.704-2(i)(1).

(iv) Code Section 754 Adjustment. To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(2) or Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as the result of a distribution to a Member in complete liquidation of his interest in the Company, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Members in accordance with their interests in the Company in the event Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(2) applies, or to the Members to whom such distribution was made in the event Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(4) applies.

(v) Code Section 704(c). In accordance with Code Section 704(c) and the Treasury Regulations thereunder, income, gain, loss and deduction with respect to any property contributed by a Member to the

Company shall, solely for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its fair market value as of the date of contribution.



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(c) The allocations set forth in Sections 7.2(b) hereof (the "Regulatory Allocations") are intended to comply with certain requirements of the Treasury Regulations. It is the intent of the Members that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss, or deduction pursuant to this Section 7.2(d). Therefore, notwithstanding any other provision of this Section 7.2 (other than the Regulatory Allocations), the Company shall make such offsetting special allocations of Company income, gain, loss, or deduction in whatever manner appropriate so that, after such offsetting allocations are made, each Member Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had if the Regulatory Allocations were not part of the Agreement and all Company items were allocated pursuant to Section 7.2(a) hereof. In exercising this discretion under this Section 7.2(c), the Company shall take into account future Regulatory Allocations that, although not yet made, are likely to offset other Regulatory Allocations previously made.

7.3 Varying Interests. All allocations pursuant to Section 7.2 hereof shall take due account of increases and decreases in the number of Membership Units owned by each Member during the Fiscal Year.

7.4. Transferred Interests. In the event all or a portion of an interest in the Company is transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred interest.

7.5 Distributions in Kind. The amount by which the fair market value of any property to be distributed in kind to the Members pursuant to Article X hereof exceeds or is less than the adjusted basis of such property for federal income tax purposes shall, to the extent not otherwise recognized to the Company, be taken into account in computing gain or loss of the Company for purposes of crediting or

charging the Capital Accounts of, and distributing proceeds to, the Members under Articles VII or X hereof.

7.6 Composition of Net Income or Loss. Net Income or Net Loss shall be determined for each Fiscal Year (or for any portion thereof as may be required by Section 7.3 hereof). For federal income tax purposes each item of income, gain, loss or deduction which enters into the calculation of Net Income or Net Loss shall be allocated in the same proportions as such Net Income or Net Loss is allocated pursuant to Section 7.2 hereof.

7.7 Authority of Management Committee to Vary Allocations. It is the intent of the Members that each Member's allocable share of income, gain, loss, deduction, or credit (or item thereof) (hereinafter, "Tax Items") shall be determined and allocated in accordance with this Article VII to the fullest extent permitted by Section 704(b) of the Code. The Management Committee is authorized and directed to allocate Tax Items arising in any Fiscal Year differently than otherwise provided for in this Article VII to the extent that allocating Tax Items in the manner provided for in Article VII, in the opinion of tax counsel or the accountants to the Company, would cause the determinations and allocations of each Member's distributive share of Tax Items not to be permitted by Section 704(b) of the Code and Treasury Regulations promulgated thereunder.

7.8. Partnership Treatment for Income Tax Purposes. The Members are aware of the income tax consequences of the allocations made by this Article VII and hereby agree to be bound by the provisions of this Article VII in reporting their share of the Company's Net Income and Net Loss for income tax purposes.





## ARTICLE VIII

## TRANSFERS OF MEMBERSHIP UNITS

8.1 Assignment of Membership Units by Members. (a) Except as otherwise expressly provided in this Section 8.1, no Member shall transfer (whether by gift, court order, operation of law, or otherwise) all or any part of a Membership Unit to any person unless such transfer is made in accordance with the terms and provisions of Section 8.1(b) hereof. Any transferee pursuant to this Section 8.1 shall take and hold the transferred interest subject to this Agreement and to all other obligations and restrictions upon the transferor Member, shall observe and comply with this Agreement and with such obligations and restrictions and shall, unless such transferee is a Member or is admitted as an Additional Member pursuant to Section 8.3 hereof, as a

condition of transfer, execute and deliver to the Company an agreement, in form and substance satisfactory to the Management Committee in its sole discretion, pursuant to which such transferee agrees to be bound by all of the terms and provisions of this Agreement. Any attempted transfer in violation of this Section 8.1(a) shall be null and void.

(b) A Member may transfer Membership Units only as follows (and any Person to whom a Membership Unit is permitted to be transferred in accordance with this Section 8.1(b) is herein called a "Permitted Transferee"):

(1) Upon death by will or by the laws of intestate distribution.

(2) To a Person other than a Third Party with consent after a majority vote of the Management Committee, which consent may be granted or withheld in the sole and absolute discretion of the Management Committee.

(3) To a Third Party in compliance with the provisions of Section 8.8 hereof and with written consent after a majority





vote of the Management Committee, which consent may be granted or withheld in the sole and absolute discretion of the Management Committee. The failure to exercise the rights of first refusal set forth in Section 8.8 hereof shall not be deemed to be the giving of such consent.

8.2 When Transfers Binding on Company. No transfer of all or any part of a Membership Unit by Member permitted to be made under this Agreement shall be binding upon the Company unless and until a duplicate original of the instrument of transfer, duly executed and acknowledged by the transferor, has been delivered to the Company.

8.3 Additional Members. Permitted Transferees of a Member shall be admitted to the Company as an Additional Member and shall participate in Net Income and Net Loss of the Company on the same basis as the transferor Member.

8.4 Costs to Additional Members. As a condition further to those described in Section 8.1 hereof to the admission of any Additional Member, such Additional Member shall, if required by the Management Committee in its sole discretion, pay all reasonable expenses actually incurred in connection with such admission as a Member.

8.5 Election to Adjust Tax Basis. The Management Committee may, but shall not be required to, cause the Company to make an election, or to revoke

any such election previously made, under Section 754 of the Code to adjust the basis of Company property under Sections 734 and 743 of the Code. Any Member requesting that such election be made in the context of a transaction to which Section 743 of the Code would apply shall reimburse the Company for any additional accounting costs resulting from such election.

8.6 Distributions and Allocations in Respect to Transferred Interests. If any Membership Units are sold, assigned, or transferred during any accounting period in compliance with the provisions of this Section 9, Net Income, Net Loss, each item



thereof, and all other items attributable to the transferred interest for such period shall be divided and allocated between the transferor and the transferee by taking into account their varying interests during the period in accordance with Code Section 706(d), using any conventions permitted by law and selected by the Management Committee. All distributions on or before the date of such transfer shall be made to the transferor, and all distributions thereafter shall be made to the transferee.

8.7 Legends. The Company shall be entitled to affix to each certificate evidencing outstanding Membership Units that is issued to any Member a legend in substantially the following form:

> "THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. NO REGISTRATION OF TRANSFER OF SUCH SECURITIES WILL BE MADE ON THE BOOKS OF THE COMPANY UNLESS SUCH TRANSFER IS MADE IN CONNECTION WITH AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT OR SUCH ACT DOES NOT APPLY.
>
> THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE THE RIGHTS, PRIVILEGES AND PREFERENCES AND ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AS SET FORTH IN A LIMITED LIABILITY COMPANY AGREEMENT DATED AS OF JANUARY 15, 1996, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE COMPANY. NO REGISTRATION OF TRANSFER OF SUCH SECURITIES WILL BE MADE ON THE BOOKS OF THE COMPANY UNLESS AND UNTIL SUCH RESTRICTIONS SHALL HAVE BEEN COMPLIED WITH."

8.8 Right of First Refusal. (a) If any Member receives from or otherwise negotiates with a Third Party a bona fide offer to purchase for cash (for purposes of this Section 8.8, an "Offer") any

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of the Membership Units owned or held by such Member, and such Member intends to pursue a sale of such Membership Units to such Third Party, such Member (for purposes of this Section 8.8, the "Prospective Seller") shall provide the Company and each of the other Members (for purposes of this Section 8.8, the "Remaining Members") written notice of such Offer (for purposes of this Section 8.8, an "Offer Notice"). The Offer Notice shall identify the Third Party making the Offer, the number of Membership Units with respect to which the Prospective Seller has such an Offer (for purposes of this Section 8.8, the "Offered Membership Units"), the cash price per Membership Unit at which a sale is proposed to be made (for purposes of this Section 8.8, the "Offer Price"), and all the other material terms and conditions of the Offer. The number of Membership Units which may become Offered Membership Units shall be limited to two Membership Units per Member, per year unless increased by the Management Committee in its sole discretion.

(b) The receipt of an Offer Notice by each Remaining Member and the Company from a Prospective Seller shall constitute an offer by the Prospective Seller to sell to each Remaining Member and the Company the Offered Membership Units at the Offer Price in cash. Such offer shall be irrevocable for 20 business days after receipt of the Offer Notice by each Remaining Member and for two additional five (5) business day periods thereafter as hereinafter provided. During such 20 business day period, each Remaining Member and the Company shall, subject to the priorities set forth in the next succeeding paragraph, have the right to accept such offer as to all or a portion of the Offered Membership Units by giving a written notice of acceptance (for purposes of this Section 8.8, the "Notice of Acceptance") to the Prospective Seller prior to the expiration of such 20 business day period. If after expiration of such 20 business day period the Prospective Seller shall not have received Notices of Acceptance for all the Offered Membership Units, the Prospective Seller shall thereupon notify each Accepting Party (as hereinafter defined) by telecopy or personal delivery of such fact and shall provide each Accepting Party an opportunity, during a period of five (5) business days from the date such notice is so given, to submit an



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additional Notice of Acceptance of any such Offered Membership Units. For purposes of this Section 8.8, any Remaining Member submitting a Notice of Acceptance pursuant to this Section 8.8 is herein called an "Accepting Party."

Each Remaining Member and the Company shall be entitled to accept the offer from the Prospective Seller in the following order of priority:

(i) first, the Company shall be entitled to accept such offer for any or all of the Offered Membership Units.

(ii) second, to the extent the Company shall not have accepted such offer for all the Offered Membership Units, each Remaining Member shall be entitled to accept such offer for not more than a portion of the Offered Membership Units determined on a pro rata basis based on the ratio of the interest in the Net Income and Net Loss represented by the Membership Units then owned by such Remaining Member to the total interest in the Net Income and Net Loss represented by all Membership Units then outstanding (other than the Offered Membership Units); and

(iii) third, to the extent that any Offered Membership Units remain after application of clause (i) and (ii) above, each Accepting Party shall then be entitled to purchase such remaining Offered Membership Units on a pro rata basis based upon the ratio that the interest in the Net Income and Net Loss represented by the Membership Units owned by each Accepting Party exercising its rights pursuant to this clause (iii) bears to the interest in the Net Income and Net Loss represented by the Membership Units owned by all Accepting Parties exercising their rights pursuant to this clause (iii).

If the Company or any Remaining Member so accepts the Prospective Seller's offer, each Accepting Party will purchase for cash from the Prospective Seller, and the Prospective Seller will sell to each Accepting Party, such number of Offered Membership Units as to which each Accepting Party shall have accepted the Prospective Seller's



offer. The price per Membership Unit to be paid by each Accepting Party shall be the Offer Price specified in the Offer Notice. The Notice of Acceptance shall specify (i) such Accepting Party's acceptance of the Prospective Seller's offer and (ii) the number of Offered Membership Units to be purchased by such Accepting Party.

(c) The consummation of any purchase by any Accepting Party shall take place on such date, not later than 10 days after the expiration of the 20 business day period referred to in Section 8.8(b) above (or, if applicable, the expiration of the additional five (5) business day period referred to in Section 8.8(b) above), as such Accepting Party and the Prospective Seller shall select. Upon the consummation of such purchase and sale, the Prospective Seller shall (i) deliver to the Accepting Party certificates evidencing the Offered Membership Units so purchased, duly endorsed in blank or accompanied by written instruments of transfer in form satisfactory to such Accepting Party and duly executed by the Prospective Seller, and (ii) assign all its rights

under this Agreement with respect to the Offered Membership Units so purchased pursuant to an instrument of assignment reasonably satisfactory to such Accepting Party.

(d) In the event that (i) each Remaining Member and the Company shall have received an Offer Notice from a Prospective Seller but the Prospective Seller shall not have received Notices of Acceptance as to all the Offered Membership Units, or (ii) an Accepting Party shall have failed to consummate, other than as a result of the fault of the Prospective Seller, the purchase of the Offered Membership Units to be purchased by such Accepting Party (and another Accepting Party or Parties does not purchase such Membership Units), the Prospective Seller shall have the right to reject any or all Notices of Acceptance theretofore received and nothing in this Section 8.8 shall limit the right of the Prospective Seller to make a sale of the Offered Membership Units so long as all the Offered Membership Units that are sold or otherwise disposed of by the Prospective Seller (which number of Offered Membership Units shall be not less than the number of Offered Membership Units specified in Offer Notice) are sold for cash (A) within 60 days after the date of receipt of the



Offer Notice by each Remaining Member, (B) at a price not less than the Offer Price included in the Offer Notice, (C) to the Third Party making the Offer, and (D) the Number of Offered Membership Units does not exceed two per Member, per year, unless increased by the Management Committee.

(e) In the event that the Prospective Seller shall not have sold the Offered Membership Units before the expiration of the 60-day period in accordance with paragraph (d) above, then the provisions of this Section 8.8 shall be reinstated as to the Offered Membership Units as if an Offer Notice had not been delivered and such Prospective Seller shall not give another Offer Notice for a period of 120 days from the earlier of the date the transactions contemplated herein were terminated or such 60-day period.

8.9 Certificates for Membership Units. Every owner of a Membership Unit shall be entitled to have a certificate or certificates, to be in such form as the Management Committee shall prescribe, certifying the number of Membership Units owned by such Member. The certificates representing Membership Units shall be numbered in the order in which they shall be issued and shall be signed in the name of the Company by the President, or a Vice President, and by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer. Any or all of the signatures on the certificates may be a facsimile. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, any such certificate shall thereafter have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may nevertheless be issued

by the Company with the same effect as though the person who signed such certificate, or whose facsimile signature shall have been placed thereupon, were such officer, transfer agent or registrar at the date of issue. A record shall be kept of the respective names of the Persons owning the Membership Units represented by such certificates, the number of Membership Units represented by such certificates, respectively, and the respective dates thereof, and in case of cancellation, the respective dates of cancellation. Every



certificate surrendered to the Company for exchange or transfer shall be canceled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases of lost or mutilated certificates as provided for in Section 8.10 below. The person in whose name Membership Units stand on the books of the Company shall be deemed the owner thereof for all purposes as regards the Company. Certificates shall be issued for fractional Membership Units.

8.10 Lost, Stolen, Destroyed, and Mutilated Certificates. In any case of loss, theft, destruction, or mutilation of any certificate of Membership Units, another may be issued in its place upon proof of such loss, theft, destruction, or mutilation and upon the giving of a bond of indemnity to the Company in such form and in such sum as the Management Committee may direct; provided, however, that a new certificate may be issued without requiring any bond when, in the judgment of the Management Committee, it is proper to do so.

## ARTICLE IX

## DISSOLUTION AND TERMINATION OF COMPANY; LIQUIDATION AND DISTRIBUTION OF ASSETS

9.1 Dissolution and Termination. The Company shall be dissolved upon the earliest of:

(a) the fortieth anniversary of the date hereof;

(b) 90 days after the death, retirement, resignation, expulsion, bankruptcy or dissolution of any Member, or the entry of a decree of judicial dissolution under Section 18-802 of the Delaware Law, unless the action described in Section 9.2 hereof shall have been taken;

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(c) the date as of which all or substantially all of the assets of the Company shall have been distributed or converted to cash or its equivalent; or

(d) at any time, upon the majority vote in favor of such dissolution by the Management Committee.

Upon dissolution, the Company shall wind up its affairs and shall be liquidated and a certificate of cancellation of the Company, as required by law, shall be filed.

9.2 Continuation of Company. The business of the Company shall be continued after an event described in Section 9.1(b) hereof if within 90 days after any such event (i) all of the Members (including any Person that becomes an Additional Member in respect of the interest of a Terminated Member) elect in writing that the business of the Company should be continued, or (ii) a majority of the Remaining Members shall elect in writing that the business of the Company should be continued. In the event all of the Members elect to continue the business of the Company pursuant to clause (i) above, such continuation shall include the interest of the Terminated Member and the Company shall not be obligated to pay to the Terminated Member the Liquidation Value of the Terminated Member's interest in the Company. In the event the Remaining Members elect to continue the business of the Company pursuant to clause (ii) above, such continuation shall not include the interest of the Terminated Member and the Company shall pay to the Terminated Member, in full and complete settlement of the Terminated Member's interest in the Company, an amount equal to the Liquidation Value of the Terminated Member's interest in the Company. Such amount shall be paid in cash or in the form of a promissory note, or in any combination thereof, as determined by the management committee in its sole discretion. Any promissory note so issued shall bear interest at the Prime Interest Rate.



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9.3 Distribution upon Liquidation. Upon any dissolution of the Company, each of the following shall be accomplished within the period described in Treasury Regulation Section 1.704-1(b)(2)(ii)(b):

(i) the Company shall prepare a statement setting forth the assets and liabilities of the Company as of the date of termination, and such statement shall be furnished to all of the Members;

(ii) the assets of the Company shall be liquidated as promptly as possible, but in an orderly and businesslike manner so as not to involve undue sacrifice;

(iii) Company funds shall be applied to the payment and discharge of the claims of creditors (including Members who are creditors) in the order of priority provided by law or to the establishment or increase of reserves therefor;

(iv) the Company Net Income and Net Loss for the final Fiscal Year shall be allocated, and the Members' Capital Accounts shall be credited or charged in accordance with the terms of this Agreement; and

(v) the balance of any remaining cash and other assets shall be distributed to the Members in accordance with their respective Capital Accounts.

## ARTICLE X

## INDEMNIFICATION

10.1 Actions, Etc. Other Than by or in the Right of the Company. The Company shall indemnify any Person (herein, together with any Affiliates of such Person, an "Indemnified Person") who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil,





criminal, administrative or investigative (other than an action by or in the right of the Company) by reason of the fact that the Indemnified Person is or was a Member, a Management Committee Representative, an officer, an employee or an agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another Person or other enterprise or as a member of any committee or similar body, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Indemnified Person in connection with such action, suit or proceeding if the Indemnified Person acted in good faith and in a manner the Indemnified Person reasonably believed to be in or not opposed to, the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Indemnified Person did not act in good faith and in a manner which the Indemnified Person reasonably believed to be

in, or not opposed to, the best interests of the Company, and, with respect to any criminal action or proceeding, that the Indemnified Person had reasonable cause to believe that such conduct was unlawful.

10.2 Actions, Etc., by or in the Right of the Company. The Company shall indemnify any Indemnified Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company to procure a judgment in its favor by reason of the fact that the Indemnified Person is or was a Member, a Management Committee Representative, an officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another Person or other enterprise, or as a member of any committee or similar body, against expenses (including attorneys' fees) actually and reasonably incurred by the Indemnified Person in connection with the defense or settlement of such action or suit if the Indemnified Person acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests





of the Company, except that no indemnification shall be made in respect of any claim, issue or matter as to which the Indemnified Person shall have been adjudged to be liable for negligence or misconduct in the performance of the Indemnified Person's duty to the Company unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the Indemnified Person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

10.3 Determination of Right of Indemnification. Any indemnification under Section 10.1 or 10.2 (unless ordered by a court) shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the Indemnified Person is proper in the circumstances because the Indemnified Person has met the applicable standard of conduct set forth in Section 10.1 and 10.2. Such determination shall be made (i) by the Management Committee by a majority vote of a quorum consisting of members who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested members of the Management Committee so directs, by independent legal counsel in a written opinion, or (iii) by a Majority Vote of the Members.

10.4 Indemnification Against Expenses of Successful Party. Notwithstanding the provisions of Section 10.1 or 10.2, to the extent that an Indemnified Person has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 10.1 or 10.2, or in

defense of any claim, issue or matter therein, the Indemnified Person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by the Indemnified Person in connection therewith.

10.5 Advance of Expenses. Expenses incurred in defending a civil or criminal action, suit or proceeding referred to in Section 10.1 or 10.2 shall be paid by the Company in advance of the final





disposition of such action, suit or proceeding as authorized by the Management Committee in the specific case upon receipt of an undertaking by or on behalf of the Indemnified Person to repay such amount unless it shall ultimately be determined that the Indemnified Person is entitled to be indemnified by the Company as authorized in this Article.

10.6 Other Rights and Remedies. The indemnification provided by Section 10.1 and 10.2 shall not be deemed exclusive and is declared expressly to be nonexclusive of any other rights to which one seeking indemnification may be entitled under any agreement, vote of Members or of disinterested members of the Management Committee or otherwise, both as to action in an Indemnified Person's official capacity and as to action in another capacity while holding such office, and shall continue as to an Indemnified Person who has ceased to be a Member, Management Committee Representative, officer, employee or agent of the Company and shall inure to the benefit of the heirs, executors and administrators of such an Indemnified Person.

## ARTICLE XI

## MISCELLANEOUS

11.1 Further Assurances. Each party to this Agreement agrees to execute, acknowledge, deliver, file and record such further certificates, amendments, instruments and documents, and to do all such other acts and things, as may be required by law, or as may be necessary or advisable to carry out the intents and purposes of this Agreement.

11.2 Amendments. This Agreement may be amended by a Majority Vote of the Members; provided, that no such amendment shall be made without the consent of all Members if the effect of any such amendment would be to (i) increase any Member's personal liability; (ii) change any Members' right and interest in the Net Income, Net

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Loss or distributions from the Company; (iii) change any Member's rights upon liquidation of the Company; or (iv) cause the Company to be treated for tax purposes as an association taxable as a corporation.

11.3 Notices. Unless otherwise specified in this Agreement, all notices, demands, elections, requests or other communications that any party to this Agreement may desire or be required to give hereunder shall be in writing (which shall include telecopier, telegram or cable) and shall be deemed to have been duly given or made upon the transmittal thereof by telecopier, answerback received, or the delivery thereof to the telegraph office, or on receipt following the deposit thereof in the mails or when delivered by hand, in each case to the person to whom notice is being given, addressed as follows:

(a) to the Company, at the principal place of business of the Company or at such other address as may be designated by the Company upon written notice to the Members;

(b) to each Member at the address set forth beneath the signature of such Member on the signature pages to this Agreement, or at such other address as may be designated by written notice to the Company as provided in this Section; and

(c) to any person who hereafter becomes an Additional Member, at such address as may be designated by it by written notice to the Company.

11.4 Headings and Captions. All headings and captions contained in this Agreement are for convenience only and shall not be deemed a part of this Agreement.

11.5 Variations of Pronouns. All pronouns and all variations thereof shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or entity may require.



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11.6 Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one agreement.

11.7 Governing Law. This Agreement is made pursuant to the provisions of the Delaware Law and shall be construed accordingly.

11.8 Successors and Assigns. This Agreement shall be binding upon the parties hereto and their respective successors, executors, administrators, legal representatives, heirs and assigns and shall inure to the benefit of the parties hereto and, except as otherwise provided herein, their respective successors, executors, administrators, legal representatives, heirs and assigns.

11.9 Waiver of Right of Partition. Each of the Members does hereby agree to and does hereby irrevocably waive (a) any right it may have, whether by statute or by rule of law, to cause any asset of the Company to be partitioned or to file a complaint or to institute any proceeding at law, or in equity, to cause any asset to be partitioned, or to complete a sale of all or any part of the assets of the Company, and (b) any right to take any action which otherwise may be available to such Member for the purpose of severing its relation with the Company or its interest in the assets of the Company from the interest of the other Members other than any rights such Member may have pursuant to the terms of this Agreement, throughout the term of the Company and during the period of its liquidation following any dissolution.

11.10 Entire Agreement. This Agreement and the other documents contemplated herein constitutes the entire agreement of the Members with respect to the transactions contemplated hereby and supersedes all prior oral or written agreements and understandings.

11.11 Future Members. While the Company will initially consist of a sole Member, Mike Howard, this Agreement has been written in contemplation that there will be multiple Members of the Company shortly after the formation of the Company.





IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the ____ day of July, 1996.

American Gaming Network L.L.C.

By: ----------

ADDRESS:

---

Mike Howard

ADDRESS:



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Exhibit A
American Gaming Network L.L.C.
Limited Liability Company Agreement

<TABLE>
<CAPTION>

| Member | Number of Membership Units |
|---|---|
| <S> | <C> |
| Mike Howard | one (1) |

</TABLE>

EXHIBIT 10.22

# CERTIFICATE OF MERGER
# OF
# AMERICAN GAMING NETWORK, L.P.
# INTO
# AMERICAN GAMING NETWORK, L.L.C.

American Gaming Network, L.L.C., a limited liability company organized under the Delaware Limited Liability Company Act (the "Act"), for the purpose of merger with other entities pursuant to Section 18-209 of the Act, hereby certifies that:

1. The name and jurisdiction of formation or organization of each of the domestic limited liability companies or other business entities that are constituent entities are:

<TABLE>
<CAPTION>

| Name | Jurisdiction |
|---|---|
| <S> | <C> |
| American Gaming Network, L.P. | New York |
| American Gaming Network, L.L.C. | Delaware |

</TABLE>

2. An agreement of merger has been approved and executed by each domestic limited liability company or other business entity which is a constituent entity.

3. The name of the surviving domestic limited liability company is American Gaming Network, L.L.C.

4. The agreement of merger is on file at the following place of business of the surviving domestic limited liability:

American Gaming Network, L.L.C.
7535 South Lewis, Suite 302
Tulsa, Oklahoma
Attn: Gordon Graves or Larry Montgomery

5. A copy of the agreement of merger will be furnished by American Gaming Network, L.L.C. on request and without cost, to any member of any domestic limited liability company or any person holding an interest in another business entity which is a constituent entity.

IN WITNESS WHEREOF, this Certificate of Merger has been duly executed as of the ____ day of July, 1996, and is being filed in accordance with Section 18-209 of the Act by an authorized person of the surviving domestic limited liability company.

American Gaming Network, L.L.C.

By: ----------

, Authorized Person

EXHIBIT 10.23

# GUARANTY
(individual)

WHEREAS, American Gaming Network L.L.C., a Delaware limited liability company (the "Company"), is indebted to Multimedia Games, Inc., a Texas corporation ("Creditor");

WHEREAS, this guaranty is being executed and delivered in order to induce TV Games, Inc., a Delaware corporation and a wholly owned subsidiary of Creditor ("TVG"), to enter into a certain Unit Purchase Agreement dated the 14th day of August, 1996, by and between TVG, AGN Venturer L.L.C., a Delaware limited liability company ("Venturer"), and the Buyers (as defined therein) (the "Unit Purchase Agreement");

WHEREAS, TVG has required this guaranty to be delivered as a condition precedent to the TVG's obligations under the Unit Purchase Agreement; and

WHEREAS, the undersigned is a Buyer of "Units" under the Unit Purchase Agreement ("Guarantor");

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, Guarantor hereby agrees with Creditor as follows:

1. As used throughout this guaranty, the term "Company" shall include, without limitation, the Company, the Company as a debtor-in-possession, and any receiver, trustee, liquidator, conservator, custodian, or similar party hereafter appointed for the Company or all or substantially all of its assets pursuant to any liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, or other similar laws from time to time in effect affecting the rights of creditors generally.

2. The term "Guaranteed Indebtedness," as used herein, includes: (a) all principal indebtedness of the Company to Creditor arising out of that certain Promissory Note, dated the 28th day of June, 1996 in the principal amount of $336,000.00 (the "Note"), bearing interest at the rate of 10.5% per annum and maturing on the 30th day of June, 1998; provided that Guaranteed Indebtedness shall not include interest on the Note and (b) any and all costs, reasonable attorneys' fees, and expenses incurred by Creditor by reason of the Company's default in payment of the foregoing principal indebtedness. Notwithstanding anything in this guaranty to the contrary, the obligation of the Guarantor under this Guaranty with respect to the Guaranteed Indebtedness of shall not exceed the product of (x), the

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number of Units in Venturer purchased by Guarantor pursuant to the Unit Purchase Agreement multiplied by (y) three thousand three hundred sixty (3,360).

3. This guaranty is a guaranty of payment and performance and not of collection and Guarantor agrees that, in the event the Company fails to make such payments in accordance with the terms of the Guaranteed Indebtedness, Creditor may proceed in the first instance against Guarantor under the terms of this agreement without first proceeding against or exhausting Creditor's remedies against the Company. Notwithstanding the preceding sentence, Creditor shall have no greater right against Guarantor than Creditor would have had against the Company under the terms of the Guaranteed Indebtedness.

4. Guarantor hereby agrees that its obligations under the terms of this guaranty shall not be released, diminished, impaired, reduced, or affected by the occurrence of any one or more of the following events: (a) any partial release of the liability of Guarantor hereunder; (b) the insolvency, bankruptcy, or lack of corporate power of the Company; (c) any renewal, extension, or rearrangement of the payment of any or all of the Guaranteed Indebtedness, either with or without notice to or consent of Guarantor; or (d) the unenforceability of all or any part of the Guaranteed Indebtedness against the Company by reason of the fact that the Guaranteed Indebtedness exceeds the amount permitted by law, the act of creating the Guaranteed Indebtedness, or any part thereof, is ultra vires, or the officers creating same acted in excess of their authority or violated any fiduciary duties in connection therewith.

5. Should Guarantor become insolvent, or fail to pay its debts generally as they become due, or voluntarily seek, consent to, or acquiesce in the benefit of any bankruptcy, insolvency or other similar laws, or become a party to (or be made the subject of) any proceeding provided for by any bankruptcy, insolvency or other similar laws (other than as a creditor or claimant) that could suspend or otherwise adversely affect the rights of Creditor granted hereunder, then, in any such event, the Guaranteed Indebtedness shall be, as between Guarantor and Creditor, a fully matured, due, and payable obligation to Creditor (without regard to whether the Company is then in default under the document or instrument evidencing the indebtedness guaranteed hereunder or whether such indebtedness, or any part thereof is then due and owing by the Company to Creditor), and Guarantor shall pay to Creditor upon demand the estimated amount owing to Creditor by Guarantor in respect of the contingent claim created hereunder.

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6. Guarantor represents and warrants to Creditor as follows:

(a) This guaranty constitutes the legal, valid, and binding obligation of Guarantor enforceable against Guarantor in accordance with its terms.

(b) Guarantor is not, nor will the execution, delivery, and the performance of and compliance with the terms of this guaranty cause Guarantor to be, in violation of (i) any laws, or (ii) any indenture, mortgage, lease, deed of trust, agreement, contract, instrument, or law to which Guarantor is a party or by which Guarantor or any of Guarantor's property, assets, or revenue is bound or to which it is subject.

(c) No order, consent, approval, license, permit, waiver, exemption, authorization of or validation of, or filing, recording or registration with (except as heretofore have been obtained or made), or exemption by, any person, entity or governmental authority is required to authorize, or is required in connection with, the execution, delivery, performance, legality, validity, binding effect, or enforceability of this guaranty.

7. This guaranty is for the benefit of Creditor and Creditor's successors and assigns, and in the event of an assignment of the Guaranteed Indebtedness, or any part thereof, the rights and benefits hereunder, to the extent applicable to the indebtedness so assigned, may be transferred with such indebtedness. This guaranty is binding not only on Guarantor, but on Guarantor's successors and assigns.

8. This guaranty shall be construed according to the laws of the State of Oklahoma.

9. This Agreement embodies the entire agreement between Guarantor and Creditor and supersedes all prior proposals, agreement and understandings relating to the subject matter hereof.

10. This guaranty shall expire at such time as the Guaranteed Indebtedness has been paid in full.

IN WITNESS WHEREOF, Guarantor has executed this guaranty for the benefit of Creditor as of the 14th day of August, 1996.

GUARANTOR

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NAME:

EXHIBIT 10.24

# PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT, dated this 25th day of June, 1996 (this "Agreement"), by and among each of the MMG Parties, each of the Graff Parties and the Venture (as these and certain other capitalized terms used herein are defined in Article I hereof),

W I T N E S S E T H:

WHEREAS, on June 28, 1995, TVG and AGNI entered into the Joint Venture Agreement for the purpose of forming the AGNJV to own and operate the TV MegaBingo Business, the AGN Charity Hall Bingo Business, the AGN On-Line Services and the AGN Web Site and to conduct other activities related thereto;

WHEREAS, in connection with the Joint Venture Agreement, (i) MMG issued to Graff a warrant (the "Initial Warrant") to purchase 175,000 shares of MMG's Common Stock, $.01 par value, at an exercise price of $2.50 per share, and (ii) Graff, AGNI, MMG and TVG entered into the Technology Transfer Agreement, pursuant to which MMG and TVG sold to Graff a one-third interest in the TV MegaBingo Business Intellectual Property in consideration of the delivery to MMG of the Graff IP Purchase Note;

WHEREAS, in connection with the Joint Venture Agreement, Graff, AGNI, MMG and TVG entered into the Side Letter Agreement as later amended by the Amendment to Side Letter Agreement, pursuant to which (i) MMG sold 100,000 shares of its Common Stock to Graff at $2.75 per share in consideration of the delivery to MMG of the Graff Stock Purchase Note, (ii) the terms of the Initial Warrant were amended to reduce the exercise price to $2.25 per share, and (iii) Graff agreed to (and did) exercise the Initial Warrant (as so amended) and MMG issued to Graff (A) the Replacement Warrant, and (B) the 175,000 shares of the Company's Common Stock issuable upon exercise of the Initial Warrant (such 175,000 shares of Common Stock together with the 100,000 shares of Common Stock referred to in clause (i) of this





WHEREAS paragraph, being herein collectively called the "MMG Shares");

WHEREAS, subject to the terms of the Joint Venture Agreement, (i) AGNI agreed to provide financing to the Venture which AGNI discontinued doing in

December 1995, (ii) since December 1995, MMG has advanced $336,000 to the Venture which is evidenced by the Venture Note;

WHEREAS, pursuant to the December Agreement, MMG accepted the Graff JV Note as the final payment due by Graff pursuant to Section 1.5 of the Joint Venture Agreement;

WHEREAS, the parties hereto desire to terminate any and all interests of Graff and AGNI in the Venture and, in connection therewith, Newco (or its Permitted Designee) has agreed to purchase all of AGNI's right, title and interest in the AGNI Venture Interest, and AGNI has agreed to sell its AGNI Venture Interest to Newco (or its Permitted Designee), upon the terms and subject to the conditions hereinafter set forth; and

WHEREAS, MMG (or its Permitted Designee) desires to purchase all of the MMG Shares from Graff and Graff desires to sell all the MMG Shares to MMG (or its Permitted Designee), upon the terms and subject to the conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I

DEFINITIONS

1.1 For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:



"Accounts" shall mean all accounts and other rights of AGNI to receive payments or distributions from the Venture.

"Additional Products" shall mean as such term is defined in the Joint Venture Agreement.

"Affiliate" shall have the meaning prescribed by Rule 12b-2 of the regulations promulgated pursuant to the Securities Exchange Act of 1934, as amended.

"AGN Charity Hall Bingo Business" shall mean as such term is defined in the Joint Venture Agreement.

"AGNI" shall mean American Gaming Network, Inc., a Delaware corporation

wholly owned by CVS.

"AGNJV" or the "Venture" shall mean American Gaming Network, JV, a joint venture formed pursuant to the general partnership laws of the State of New York comprised of TVG and AGNI, as Venturers,

"AGN On-Line Services" shall mean as such term is defined in the Joint Venture Agreement.

"AGN Web Site" shall mean as such term is defined in the Joint Venture Agreement.

"AGNI Venture Interest" shall mean all right, title and interest owned by AGNI in or related to the Venture, including without limitation, all Contract Rights, all Accounts and all Intellectual Property.

"Amendment to Side Letter Agreement" shall mean the Letter Agreement, dated September 26, 1995, by and among Graff, AGNI, MMG and TVG that amends the Side Letter Agreement.





"Business Day" shall mean any day other than Saturday, Sunday, Federal holiday or day on which the banks in New York are required or permitted by law to be closed.

"Claim" shall mean any demand, claim, action or cause of action based on any Loss.

"Closing" shall mean the closing referred to in Section 4.01 of this Agreement.

"Commercial Efforts" shall mean such efforts as shall not require the performing party (i) to do any act that is unreasonable under the circumstances, (ii) to make any capital contribution not expressly contemplated hereunder, (iii) to amend or waive any rights under this Agreement, or (iv) to incur or expend any funds other than reasonable out-of-pocket expenses incurred in satisfying its obligation hereunder, including the fees, expenses and disbursements of accountants, counsel and other professionals.

"Contract Rights" shall mean all right, title and interest of the Graff Parties in and to all contracts, arrangements and agreements relating to the Venture Business, including without limitation the Joint Venture Agreement, the Technology Transfer Agreement, the Side Letter Agreement and the December Agreement; provided that, "Contract Rights" shall not include (i) the rights of Graff under the Replacement Warrants, (ii) the rights of Graff under the

Registration Rights Agreement,(iii) the rights of Graff, CVS and AGNI under and pursuant to this Agreement, and (iv) the rights of Graff under each of the Graves Guaranty, the MMG Guaranty and the Venture Guaranty (each of the rights referred to in the foregoing clauses (i) through (iv) being herein called the "Retained Contract Rights").

"CVS" shall mean Cable Video Store, Inc., a Delaware corporation wholly owned by Graff.





"December Agreement" shall mean the Letter Agreement, dated December 11, 1995, by and among MMG, TVG, AGNI and Graff.

"GPPV-Developed Products" shall mean as such term is defined in the Joint Venture Agreement.

"Graff" shall mean Graff Pay-Per-View Inc., a Delaware corporation.

"Graff IP Purchase Note" shall mean the promissory note of Graff in the principal amount of $500,000.00 payable to MMG and/or TVG, and issued pursuant to the Technology Transfer Agreement.

"Graff JV Note" shall mean the promissory note of Graff payable to MMG in the principal amount of $75,000.00 and delivered by Graff pursuant to the December Agreement.

"Graff Parties" shall mean, individually and collectively as the context requires, Graff, AGNI and CVS.

"Graff Stock Purchase Note" shall mean the promissory note of Graff payable to MMG in the original principal amount of $275,000.00 of which $75,000.00 principal amount has been paid as of the date of this Agreement.

"Graves Guaranty" shall mean the Guaranty (Graves) of Gordon Graves, to be dated the Closing Date, in substantially the form attached hereto as Exhibit E.

"Intellectual Property" shall mean:

(i) all of the intellectual property acquired by any Graff Party from MMG or TVG pursuant to the LOI, the Joint Venture Agreement and the Technology Transfer Agreement, including without limitation, all property and assets listed in paragraphs 1 and 2 of Schedule C to the Joint Venture Agreement, in each

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case to the extent the same has not been effectively transferred and contributed by the Graff Parties to the Venture; and

(ii) all right, title and interest of AGNI in and to the name "American Gaming Network, Inc.", and any and all derivations thereof (including all trade names, trade name licenses and applications, if any, related thereto).

"Joint Venture Agreement" shall mean the Joint Venture Agreement, dated June ___, 1995, by and among AGNI and TVG.

"Lien" shall mean any mortgage, pledge, security interest, lien, charge, encumbrance, equity, claim, option, tenancy, right or restriction on transfer of any nature whatsoever.

"LOI" shall mean the letter of understanding dated March 15, 1995, between Graff and MMG.

"Loss" shall mean any loss, damage, liability, cost, assessment and expense including, without limitation, any interest, fine, court cost and reasonable investigation cost, penalty and attorneys' and expert witnesses' fees, disbursements and expenses, after taking into account any insurance proceeds actually received by or paid on behalf of any party incurring a Loss which are not required to be remitted by such party to the other party pursuant to the terms hereof.

"MMG" shall mean Multimedia Games, Inc., a Texas corporation.

"MMG Guaranty" shall mean the Guaranty (MMG) of MMG, to be dated the Closing Date, in substantially the form attached hereto as Exhibit F.

"MMG Retained Contract Rights" shall mean (i) the rights of MMG under the Replacement Warrants, (ii) the rights of MMG under the Registration Rights Agreement,(iii) the rights of the MMG Parties under and pursuant to this Agreement, (iv) the rights of Gordon



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Graves under the Graves Guaranty, (v) the rights of MMG under the MMG Guaranty, and (vi) the rights of AGNJV under the Venture Guaranty.

"MMG Parties" shall mean, individually and collectively as the context requires, MMG, TVG and Newco.

"Newco" shall mean AGN Venturer L.L.C., a Delaware limited liability company wholly owned by TVG.

"Off-Reservation Bingo Play" shall mean as such term is defined in the Joint Venture Agreement.

"Person" shall mean an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, a governmental entity or any other entity.

"Products" shall mean as such term is defined in the Joint Venture Agreement.

"Registration Rights Agreement" shall mean in this Agreement and for purposes of Section 9 of the Replacement Warrant, the Registration Rights Agreement between MMG and Graff in substantially the form attached hereto as Exhibit C.

"Replacement Warrant" shall mean the Warrant Certificate (No. W-43), dated July 31, 1995, issued by MMG to Graff evidencing the right of Graff to purchase 175,000 shares of MMG's Common Stock at a purchase price of $3.50 per share.

"Side Letter Agreement" shall mean the Letter Agreement, dated June 28, 1995, by and among Graff, AGNI, MMG and TVG.



"Technology Transfer Agreement" shall mean the agreement so captioned by and among Graff, AGNI, MMG and TVG entered into simultaneously with the Joint Venture Agreement.

"TVG" shall mean TV Games Inc., a Texas corporation wholly owned by MMG.

"TV MegaBingo Business" shall mean as such term is defined in the Joint Venture Agreement.

"TV MegaBingo Business Intellectual Property" shall mean as such term is defined in the Technology Transfer Agreement.

"Venture Business" shall mean all business and activities conducted or contemplated to be conducted by the Venturers pursuant to the Joint Venture

Agreement, including without limitation owning and operating the TV MegaBingo Business, the AGN Charity Hall Bingo Business, the AGN On-Line Services, and the AGN Web Site.

"Venture Guaranty" shall mean the Guaranty (Venture) of AGNJV, to be dated the Closing Date, in substantially the form attached hereto as Exhibit F.

"Venture Note" shall mean the promissory note of the Venture to MMG in the principal amount of $336,000 which evidences all advances to the Venture made by MMG and TVG since December 1, 1995, to the Closing Date.

1.2 Plurals; Etc. As used herein, the plural form of any noun shall include the singular and the singular shall include the plural, unless the context otherwise requires. Each of the masculine, neuter and feminine forms of any pronoun shall include all such forms unless the context otherwise requires.





## ARTICLE II

## PURCHASE AND SALE OF AGNI VENTURE INTEREST

2.1 Purchase and Sale. Upon the terms and subject to the conditions of this Agreement, at the Closing Newco (which for purposes of this Article II shall include its Permitted Designee) will purchase the AGNI Venture Interest from AGNI and AGNI will sell all of its right, title and interest in the AGNI Venture Interest to Newco, free and clear of all Liens.

2.2 Purchase Price. In consideration of Graff's and AGNI's performance of this Agreement and the sale of the AGNI Venture Interest, at the Closing:

(a) Newco will deliver to AGNI the promissory note of Newco in the principal amount of ONE HUNDRED THOUSAND DOLLARS ($100,000.00) in substantially the form attached hereto as Exhibit A (the "Newco A Note"); and

(b) Newco will deliver to AGNI the promissory note of Newco in the principal amount of FOUR HUNDRED THOUSAND DOLLARS ($400,000.00) in substantially the form attached hereto as Exhibit B (the "Newco B Note").

## ARTICLE III

## PURCHASE AND SALE OF MMG SHARES

3.1 Purchase and Sale. Upon the terms and subject to the conditions of this Agreement, at the Closing MMG (which for purposes of this Article III

shall include its Permitted Designee) will purchase the MMG Shares from Graff and Graff will sell all right, title and interest in the MMG Shares to MMG, free and clear of all Liens.



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3.2 Purchase Price. In consideration of the sale of the MMG Shares, at the Closing:

(a) MMG will deliver to Graff the Graff Stock Purchase Note marked "canceled" and thereupon the Graff Stock Purchase Note shall be of no further force or effect and Graff shall have no obligation or liability thereunder including, without limitation, any obligation to pay principal or accrued interest thereon; and

(b) MMG will deliver to Graff the Graff IP Purchase Note and the Graff JV Note, each marked "canceled" and thereupon each of the Graff IP Purchase Note and the Graff JV Note shall be of no further force or effect and Graff shall have no obligation or liability thereunder including, without limitation, any obligation to pay principal or accrued interest thereon.

(c) Notwithstanding the foregoing, MMG may, at its sole option, direct Graff to sell the MMG Shares to a Permitted Designee for such consideration (whether in cash or property, or both) as MMG may direct. In such event:

(i) Graff agrees to sell the MMG Shares to such Permitted Designee for such consideration and to deliver such consideration to MMG in the same form and amount as received by Graff, without recourse to Graff and without any representation or warranty of Graff other than as to Graff's own actions; and

(ii) MMG agrees to accept such consideration in the form delivered by Graff and, in consideration thereof, to deliver to Graff each of the Graff Stock Purchase Note, the Graff IP Purchase Note and the Graff JV Note, each marked "canceled" and thereupon each of the Graff Stock Purchase Note, the Graff IP Purchase Note and the Graff JV Note shall be of no further force or effect and Graff shall have no obligation or liability thereunder including, without limitation, any obligation to pay principal or accrued interest thereon.

ARTICLE IV

CLOSING

4.1 Closing. Subject to Section 9.01 hereof, the Closing of the sale and purchase of the AGNI Venture Interest and the MMG Shares hereunder shall take place at 10:00 A.M., on the second business day following the receipt by the Graff Parties of the consent referred to in Section 8.2(d) hereof, or at such other date and time as the parties hereto may mutually agree. The Closing shall be conducted by the mutual exchange of documents and instruments delivered at the respective offices of the parties by overnight courier.

4.2 Deliveries at Closing.

(a) At the Closing, MMG or Newco (or their respective Permitted Designees), as appropriate, shall deliver or cause to be delivered the following:

(i) the Newco A Note to AGNI;

(ii) the Newco B Note to AGNI;

(iii) the Graff IP Note marked "canceled" to Graff;

(iv) the Graff Stock Purchase Note marked "canceled" to Graff;

(v) the Graff JV Note marked "canceled" to Graff;

(vi) the Registration Rights Agreement to Graff;

(vii) the MMG Guaranty to Graff;

(viii) the Graves Guaranty to Graff;





(ix) the Venture Guaranty to Graff; and

(x) such other documents and instruments as reasonably may be requested by Graff not less than five Business Days prior to the Closing.

(b) At the Closing, Graff or AGNI, as appropriate, shall deliver or cause to be delivered the following:

(i) a certificate or certificates evidencing the MMG Shares to MMG (or its Permitted Designee);

(ii) in the event Section 3.02(c) of this Agreement is applicable, such consideration as was received by Graff from such Permitted Designee;

(iii) an assignment of the AGNI Venture Interest, in substantially the form attached hereto as Exhibit D, to Newco (or its Permitted Designee);

(iv) evidence of the satisfaction of the condition set forth in Section 8.2(d); and

(v) such other documents and instruments as reasonably may be requested by MMG not less than five Business Days prior to the Closing.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF GRAFF PARTIES

Each Graff Party hereby represents and warrants, jointly and severally, to each MMG Party and the Venture as follows:

5.1 Organization; Qualification; Authority. Each Graff Party is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and each has the



power and authority to make, execute, deliver and perform this Agreement and to incur and perform the obligations provided for herein, all of which have been duly authorized by all necessary and proper corporate action, including shareholder action. Neither the execution, delivery and performance of this Agreement by any Graff Party nor the consummation by any Graff Party of the transactions contemplated hereby conflict with or will result in any breach or default of any provision of the Certificate of Incorporation or Bylaws of any Graff Party. This Agreement has been duly and validly executed and delivered by the duly authorized officers of each Graff Party and constitutes the valid, legally binding and enforceable obligations of each Graff Party in accordance with the terms of this Agreement.

5.2 Consents and Approvals; No Violation. Neither the execution, delivery and performance of this Agreement by any Graff Party (a) requires any consent, approval, authorization or permit of, or filing with or notification

to, any Person including any governmental or regulatory authority; (b) constitutes a breach or will result in a default under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, contract, agreement or other instrument or obligation of any kind to which any Graff Party is a party or by which any Graff Party may be bound; or (c) violates any order, writ, injunction, judgment, decree, law, statute, rule, regulation or governmental permit or license applicable to any Graff Party, the Venture or the Venture Business.

5.3 Title, Etc. AGNI is the sole owner of the AGNI Venture Interest and has good and valid title thereto, free and clear of all Liens. Graff is the sole owner of the MMG Shares and has good and valid title thereto, free and clear of all Liens.

5.4 Venture Property. Each Graff Party has validly and effectively transferred and contributed to the Venture all property, rights and assets acquired by any Graff Party from MMG and TVG pursuant to the LOI, the Joint Venture Agreement and the Technology Transfer Agreement, in each case in such form and in such condition



as was received by such Graff Party. Such transfer and contribution was (and is) made by such Graff Party free and clear of any Liens created or permitted by any Graff Party but without recourse (except as to such Graff Party's own actions) and without any representation or warranty as to title or fitness for use. No Graff Party has or claims any interest in any such property, rights or assets. The representation and warranty of each Graff Party made in this Section 5.4 includes, but is not limited to, all right, title and interest of any Graff Party in and to the following property, rights and assets:

(a) All Products and Additional Products.

(b) All of the property and assets listed in paragraphs 1 and 2 of Schedule C to the Joint Venture Agreement.

(c) All intellectual property created by MMG or TVG for any Graff Party as work made for hire and any modifications, developments or enhancements thereto.

(d) All ownership and proprietary rights to Off-Reservation Bingo Play and any modifications, developments, or enhancements thereto, including Proxy Play software, telephone order entry software, TV Bingo game shows, subcontracts for proxy service and TV Bingo market research.

(e) All ownership and proprietary rights to the TV MegaBingo

Business, the AGN Charity Hall Bingo Business, the AGN Web Site and the AGN On-Line Services, and any modification, developments or enhancements thereto.

(f) All ownership and proprietary rights to TV MegaBingo Business Intellectual Property and any modifications, developments or enhancements thereto.

Notwithstanding the foregoing, the MMG Parties and the Venture acknowledge and agree that the Graff Parties have no further



obligation to transfer or contribute to the Venture any GPPV-Developed Products.

5.5 Legal Proceedings, Etc. There is no claim, action, proceeding or investigation pending or, to the knowledge of any Graff Party, threatened against or relating to or involving any Graff Party or AGNJV with respect to the Venture, the Venture Business, the AGNI Venture Interest or the MMG Shares before any court or governmental or regulatory authority or body or which questions or challenges the validity of this Agreement or any action taken or to be taken pursuant to this Agreement or in connection with the transactions contemplated hereby. No Graff Party or AGNJV is subject to any outstanding order, writ, judgment, injunction or decree of any court or governmental or regulatory authority or body.

## ARTICLE VI

## REPRESENTATIONS AND WARRANTIES OF MMG Parties

Each MMG Party, jointly and severally, represents and warrants to each Graff Party as follows:

6.1 Organization; Qualification; Authority. Each MMG Party is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation and each has the power and authority to make, execute, deliver and perform this Agreement and to incur and perform the obligations provided for herein, all of which have been duly authorized by all necessary and proper corporate action, including shareholder action. Neither the execution, delivery and performance of this Agreement by any MMG Party nor the consummation by them of the transactions contemplated hereby conflict with or will result in any breach or default of any provision of the Certificate of Incorporation or Bylaws of any MMG Party. This Agreement has been duly and validly executed and delivered by the duly authorized officers of each MMG Party and constitutes the valid, legally binding and enforceable obligations of each of them in accordance with the terms of this Agreement.

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6.2 Consents and Approvals; No Violation. Neither the execution, delivery and performance of this Agreement by any MMG Party (a) requires any consent, approval, authorization or permit of, or filing with or notification to, any Person including any governmental or regulatory authority; (b) constitutes a breach or will result in a default under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, contract, agreement or other instrument or obligation of any kind to which MMG Party is a party or by which any of them may be bound; or (c) violates any order, writ, injunction, judgment, decree, law, statute, rule, regulation or governmental permit or license applicable to any Graff Party.

6.3 Legal Proceedings, Etc. There is no claim, action, proceeding or investigation pending or, to the knowledge of the MMG Parties, threatened against or relating to the MMG Parties before any court or governmental or regulatory authority or body or against or involving any MMG Party which questions or challenges the validity of this Agreement or any action taken or to be taken by the MMG Parties pursuant to this Agreement or in connection with the transactions contemplated hereby.

## ARTICLE VII

## COVENANTS OF THE PARTIES

7.1 Expenses. All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby will be paid by the party incurring such costs and expenses, whether or not the transactions contemplated hereby are consummated.

7.2 Further Assurances. Subject to the terms and conditions of this Agreement, each of the parties hereto will use its Commercial Efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary under applicable laws and regulations to consummate the transactions contemplated by this Agreement. On and from time to time after the Closing Date, without



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further consideration, each Graff Party will, at its own expense, execute and deliver such documents to the MMG Parties as the MMG Parties may reasonably

request in order to consummate the transactions contemplated by the Agreement. On and from time to time after the Closing Date, without further consideration, each MMG Party will, at its own expense, execute and deliver such documents to the Graff Parties as the Graff Parties may reasonably request in order to consummate the transactions contemplated by this Agreement.

7.3 Filing.

(a) The MMG Parties promptly will make, or cause to be made, all such filings and submissions under laws and regulations applicable to the MMG Parties, if any, as may be required of the MMG Parties for the consummation of the transactions contemplated hereby. The Graff Parties promptly will make, or cause to be made, all such filings and submissions under laws and regulations applicable to the Graff Parties, as may be required of the Graff Parties, for consummation of the transactions contemplated hereby. The parties hereto will coordinate and cooperate with one another in exchanging such information and reasonable assistance as may be requested in connection with all of the foregoing.

(b) To the extent that the approval, consent or permission of any governmental entity or other Person is necessary or desirable for the MMG Parties to obtain in connection with the conduct of the Venture Business after the Closing, including the issuance of such new permits as may be required for the MMG Parties to conduct the Venture Business, the Graff Parties shall, at the MMG Parties's request and expense, reasonably cooperate with the MMG Parties in obtaining all such approvals, consents or permissions.

7.4 Transfer Taxes. The Graff Parties shall pay the cost of any conveyance, deed, transfer, excise, stamp, sales, use, recording or similar taxes or fees, arising out of the sale, transfer, conveyance or assignment of the AGNI Venture Interest and the MMG



Shares as contemplated hereby. The covenants contained in this Section 7.4 shall survive the Closing Date until fully discharged.

7.5 Public Announcements. Neither the Graff Parties nor the MMG Parties shall issue any press release or make any other public disclosure or announcement concerning the transactions contemplated by this Agreement without the prior written consent of the other parties hereto as to both the timing and content of such press release or public disclosure, which consent shall not be unreasonably withheld; provided that any party may make such disclosure as in the opinion of counsel to such party is required by applicable law.

7.6 Confidentiality; Absence of Covenant Not To Compete. (a) The Graff

Parties shall hold and shall cause each of their Affiliates to hold in strict confidence (unless compelled to disclose by judicial or administrative process or in making any filings with governmental entities with respect to the transactions contemplated hereby or, in the written reasonable opinion of its counsel, by other requirements of law) all documents and information concerning any MMG Party, AGNJV or the Venture Business obtained or furnished to or acquired or developed by it in connection with the Venture Business and the transactions contemplated by the Joint Venture Agreement (except to the extent that such information can be shown to have been (i) previously known by the party to which it was furnished, (ii) in the public domain through no fault of such party, or (iii) later lawfully acquired by the party to which it was furnished from other sources not bound by a confidentiality obligation with respect to such information), and no Graff Party will use, release or disclose such information to any other Person, except its auditors and attorneys who need to know such information in the ordinary course of their representation of the Graff Parties.

(b) The MMG Parties shall hold and shall cause each of their Affiliates to hold in strict confidence (unless compelled to disclose by judicial or administrative process or in making any filings with governmental entities with respect to the transactions contemplated hereby or, in the written reasonable opinion of its counsel, by other




requirements of law) all documents and information concerning any Graff Party obtained or furnished to or acquired or developed by it in connection with the Venture Business and the transactions contemplated by the Joint Venture Agreement (except to the extent that such information can be shown to have been (i) previously known by the party to which it was furnished, (ii) in the public domain through no fault of such party, or (iii) later lawfully acquired by the party to which it was furnished from other sources not bound by a confidentiality obligation with respect to such information), and no MMG Party will use, release or disclose such information to any other Person, except its auditors and attorneys who need to know such information in the ordinary course of their representation of the MMG Parties.

(c) The Graff Parties acknowledge and agree that, because of the nature and subject matter of the provisions of Section 7.06(a), it would be impractical and extremely difficult to determine actual damages in the event of the breach of any such provisions. Accordingly, if any Graff Party or any Affiliate of any Graff Party commits a breach, or threatens to commit a breach, of any matter set forth in Section 7.06(a), MMG shall have the right to have the provisions of Section 7.06(a) specifically enforced by any court having equity jurisdiction, it being further acknowledged and agreed by the Graff Parties that any such breach or threatened breach will cause irreparable injury

to MMG and that an injunction may be issued against the breaching Graff Party to stop or prevent such breach or threatened breach. If any such action shall be instituted, the breaching Graff Party agrees to waive, and does hereby waive to the fullest extent permitted by law, the defense that MMG has an adequate remedy at law and agrees to interpose no opposition, legal or otherwise, as to the propriety of pursuing specific performance as a remedy and agrees not to request any bonding for the issuance of the relief sought.

(d) The MMG Parties acknowledge and agree that, because of the nature and subject matter of the provisions of Section 7.06(b), it would be impractical and extremely difficult to determine actual



damages in the event of the breach of any such provisions. Accordingly, if any MMG Party or any Affiliate of any MMG Party commits a breach, or threatens to commit a breach, of any matter set forth in Section 7.06(b), Graff shall have the right to have the provisions of Section 7.06(b) specifically enforced by any court having equity jurisdiction, it being further acknowledged and agreed by the MMG Parties that any such breach or threatened breach will cause irreparable injury to Graff and that an injunction may be issued against the breaching MMG Party to stop or prevent such breach or threatened breach. If any such action shall be instituted, the breaching MMG Party agrees to waive, and does hereby waive to the fullest extent permitted by law, the defense that Graff has an adequate remedy at law and agrees to interpose no opposition, legal or otherwise, as to the propriety of pursuing specific performance as a remedy and agrees not to request any bonding for the issuance of the relief sought.

(e) Anything to the contrary contained in this Agreement, the LOI or the Joint Venture Agreement (or in any other agreement between the parties whether or not related thereto) notwithstanding, each of the Graff Parties and each of the MMG Parties and each of their respective Affiliates shall be free to engage in any business whatsoever including, but not limited to, a business that competes, directly or indirectly, with the Venture Business or any other business or activity currently conducted, proposed to be conducted or hereafter conducted by any such person.

7.7 Releases. (a) In consideration of the promises and payments of the MMG Parties made in this Agreement, and provided that the Closing shall have occurred, each of the Graff Parties, for and on behalf of their respective Affiliates, officers, subsidiaries and affiliated companies, successors and assigns, hereby release and forever discharge each of the MMG Parties and its subsidiaries and affiliated companies (including AGNJV), successors and assigns, and the officers, directors, shareholders, employees and agents of each of the MMG Parties, and its and their respective officers, directors,

shareholders, employees and agents, including, in each case, any of





the foregoing in their individual as well as corporate capacities, of and from all liabilities, obligations, manner of actions, causes of action, suits, debts, sums of money, accounts, damages, judgments, executions, claims, counterclaims and demands whatsoever, whether in law, equity or otherwise, known or unknown, that relate to the period of time on and prior to the Closing Date including, but not limited to, any claims arising under or with respect to the Joint Venture Agreement and the other agreements and transactions entered into in connection therewith; provided that the foregoing release does not release any right of the Graff Parties under this Agreement or with respect to any of the other Retained Contract Rights.

(b) In consideration of the promises and payments of the Graff Parties made in this Agreement, and provided that the Closing shall have occurred, each of the MMG Parties and the Venture, for and on behalf of their respective affiliates, officers, subsidiaries and affiliated companies, successors and assigns, hereby release and forever discharge each of the Graff Parties and its subsidiaries and affiliated companies, successors and assigns, and the officers, directors, shareholders, employees and agents of each of the Graff Parties, and its and their respective officers, directors, shareholders, employees and agents, including, in each case, any of the foregoing in their individual as well as corporate capacities, of and from all liabilities, obligations, manner of actions, causes of action, suits, debts, sums of money, accounts, damages, judgments, executions, claims, counterclaims and demands whatsoever, whether in law, equity or otherwise, known or unknown, that relate to the period of time on and prior to the Closing Date including, but not limited to, any claims arising under or with respect to the Joint Venture Agreement and the other agreements and transactions entered into in connection therewith; provided that the foregoing release does not release any right of the MMG Parties under this Agreement or with respect to any of the other MMG Retained Contract Rights.





## ARTICLE VIII

## CLOSING CONDITIONS

8.1 Conditions to Each Party's Obligations. The respective obligations

of the parties to consummate the transactions contemplated by this Agreement shall be subject to each of the following conditions:

(a) No party shall be subject to any order, judgment, decree or injunction of a court of competent jurisdiction or governmental body, agency or official nor any applicable law or regulation or executive order which prevents consummation of the transactions contemplated hereby.

(b) All filings required by applicable law shall have been made and all consents thereunder with respect to the transactions contemplated by this Agreement shall have been obtained.

8.2 Conditions to the Obligations of Graff Parties. The obligation of the Graff Parties to consummate the transaction contemplated hereby shall be further subject to the fulfillment on or prior to the Closing Date of each of the following conditions:

(a) Each MMG Party shall have performed and complied in all material respects with the agreements contained in this Agreement required to be performed and complied with by it at or prior to the Closing Date.

(b) The representations and warranties of the MMG Parties set forth in this Agreement shall be true and correct in all material respects as of the date made and as of the Closing Date as though made at and as of the Closing Date (except as otherwise contemplated by this Agreement).

(c) The Graff Parties shall have received a certificate, dated the Closing Date, certifying to the fulfillment of the



conditions set forth in paragraphs (a) and (b) of this Section 8.2 and signed on behalf of the MMG Parties by an authorized officer of the MMG Parties.

(d) The Graff Parties shall have received the consent of Midlantic Bank, N.A., Graff's senior secured lender, to the transactions contemplated by this Agreement.

8.3 Conditions to the Obligations of the MMG Parties. The obligation of the MMG Parties to consummate the transactions contemplated hereby shall be further subject to the fulfillment on or prior to the Closing Date of each of the following conditions:

(a) Each Graff Party shall have performed and complied in all material respects with the agreements contained in this Agreement required to be performed and complied with by it at or prior to the Closing Date.

(b) The representations and warranties of the Graff Parties set forth in this Agreement shall be true and correct in all material respects as of the date made and as of the Closing Date as though made at and as of the Closing Date (except as otherwise contemplated by this Agreement).

(c) The MMG Parties shall have received a certificate, dated the Closing Date, signed by an authorized officer of Graff Parties certifying to the fulfillment of the conditions set forth in paragraphs (a) and (b) of this Section 8.3.

## ARTICLE IX

## TERMINATION

9.1 Termination. This Agreement may be terminated at any time prior to the Closing Date:

(a) By mutual written consent of MMG and Graff.



(b) By written notice by either MMG or Graff to the other party if the Closing shall not have occurred on or before 5:00 p.m., local time in Tulsa, Oklahoma, on July 10, 1996, unless such failure to occur is due to the failure of the party seeking to terminate this Agreement to perform in all material respects each of its obligations under this Agreement required to be performed by it or its affiliate at or before the Closing Date.

(c) By the MMG Parties if there has been a material violation or breach by any of the Graff Parties of any agreement, representation or warranty contained in this Agreement which has rendered the satisfaction of any condition to the obligations of the MMG Parties specified in Section 8.3 impossible and such violation or breach has not been waived by the MMG Parties or cured by the Graff Parties within 15 days after written notice to the Graff Parties of such violation or breach.

(d) By the Graff Parties if there has been a material violation or breach by any of the MMG Parties of any agreement, representation or warranty contained in this Agreement which has rendered the satisfaction of any condition to the obligations of the Graff Parties specified in Section 8.2 impossible and such violation or breach has not been waived by the Graff Parties or cured by the MMG Parties within 15 days after written notice to the MMG Parties of such violation or breach.

9.2 Procedure and Effect of Termination.

(a) In the event of termination of this Agreement pursuant to Section 9.1, this Agreement shall terminate, and in each case the transactions contemplated hereby shall be abandoned, without further action by any of the parties hereto, and there shall be no liability on the part of the parties, except as set forth in Section 7.1, which Section shall survive the termination of this Agreement and except that the foregoing shall not relieve any party from liability for damages actually incurred as a result of breach by it of this Agreement.





(b) If this Agreement is terminated as provided in Section 9.1, all filings, applications and other submissions made pursuant to this Agreement shall, to the extent practicable, be withdrawn from the agency or other person to which they were made.

## ARTICLE X

## SURVIVAL AND INDEMNIFICATION

10.1 Survival. The representations, warranties, covenants and agreements of the parties hereto shall survive the execution and delivery hereof and the delivery of all of the documents executed in connection herewith and shall continue in full force and effect after the date hereof and after the Closing Date for a period of one (1) year after the Closing Date, except that (i) the representation and warranty of the Graff Parties and the MMG Parties contained in Section 5.1 and Section 6.1, respectively, shall survive without limitation or until the expiration of any applicable statute of limitations, and (ii) any covenants or agreements contained herein or made pursuant hereto which by their terms are to be performed after the Closing Date shall survive until fully discharged. The date until which the representations, warranties, covenants and agreements of the parties hereto survive, as set forth herein, is known as the "Expiration Date". From and after the Expiration Date, no party shall be under any liability whatsoever with respect to any such representation or warranty or any obligation or liability based upon such representation or warranty, except for breaches as to which a party shall have given notice (specifying, with reasonable particularity, facts establishing such breach) to the other party or parties prior to the applicable Expiration Date. The respective representations and warranties contained herein or in any certificates delivered pursuant to this Agreement prior to or at the Closing shall not be deemed waived or otherwise affected by any investigation made by any party hereto.

10.2 Indemnification. Subject to the limitation set forth in Section 10.1:

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(a) Each Graff Party, jointly and severally, hereby agrees to indemnify, defend and hold harmless each MMG Party and any subsidiary or Affiliate of any MMG Party, and any officer, director, stockholder, employee, representative or agent of any thereof and their respective successors and assigns from and against all Losses and Claims based upon, arising out of or resulting from, any breach of any representation or warranty of such Graff Party that survives the Closing as provided in Section 10.1 and any covenant or agreement of such Graff Party contained in this Agreement.

(b) Each MMG Party, jointly and severally, hereby agrees to indemnify, defend and hold harmless each Graff Party and any subsidiary or Affiliate of any Graff Party, and any officer, director, stockholder, employee, representative or agent of any thereof and their respective successors and assigns, from and against all Losses and Claims based upon, arising out of or resulting from, any breach of any representation or warranty of such MMG Party that survives the Closing as provided in Section 10.1 and any covenant or agreement of such MMG Party contained in this Agreement.

10.3 Notice of Claim. If any party hereto has suffered or incurred any Loss or Expense or a third-party claim, whether pursuant to an administrative proceeding, action at law, suit in equity, or otherwise ("Third-Party Claim") is instituted which, if decided adversely to a party, would result in such party suffering or incurring any Loss, such party shall give prompt written notice to the party against which a claim for indemnification may be made pursuant to this Agreement ("indemnifying party"), setting forth: (a) the facts or events, in reasonable detail which indicate that such party has suffered or incurred such Loss, (b) the Section or Sections of this Agreement (in addition to this Article X) under which such party has suffered or incurred such Loss and Expense, (c) the amount of such Loss and Expense (estimated, if necessary) or, in the case of a Third-Party Claim, such party's then good faith estimate of the reasonably foreseeable estimated amount of its claim for indemnification for such Loss and Expense, and (d) the method of computation of the amount of such Loss and Expense, any of which



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information shall be promptly amended by such party when its knowledge of the facts or events and any resulting liability so warrant. No party shall be liable for indemnification pursuant to Section 10.2 unless notice of claim for

such indemnification has been given in accordance with this Section 10.3 and on or prior to the applicable Expiration Date.

10.4 Defense of Third-Party Claim. The indemnifying party shall have the right to conduct and control, at its expense and through counsel of its own choosing, the defense of any Third-Party Claim, action or suit, but the indemnified party may, at its election, participate in the defense of such claim, action or suit at its sole cost and expense; provided that if (a) the indemnifying party shall fail to defend any such claim, action or suit, (b) the indemnifying party and indemnified party mutually agree or (c) the named parties to such claim, action or suit (including any impeded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them, then the indemnified party may defend, through counsel of its own choosing, such claim, action or suit and settle such claim, action or suit, and recover from the indemnifying party the amount of any settlement to which the indemnifying party consents or of any resulting judgment and the costs and expenses of such defense, provided that the indemnified party shall not compromise or settle any third-party claim, action or suit without the prior written consent of the indemnifying party, which consent will not be unreasonably withheld, continued or delayed.

## ARTICLE XI

## MISCELLANEOUS PROVISIONS

11.1 Amendment and Modification. This Agreement may be amended, modified or supplemented only by a subsequent written agreement of the Graff Parties and the MMG Parties.



11.2 Waiver of Compliance. Except as otherwise provided in this Agreement, any failure of any of the parties to comply with any obligation, covenant, agreement or condition herein may be waived by the party entitled to the benefits thereof only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

11.3 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile or three days after mailed by registered or certified mail (return receipt requested), postage prepaid, to the parties at the following addresses (or at such other address for a party as shall be specified by like notice; provided, however, that notices of a change of address shall be effective only upon

receipt thereof):

(a) if to The Graff Parties to:

Graff Pay-Per-View Inc.
536 Broadway, 7th Floor
New York, New York 10012
Attention: President

and by telecopy to: (212) 941-4746

(b) if to The MMG Parties, to:

Multimedia Games, Inc.
7335 So. Lewis, Suite 204
Tulsa, Oklahoma 74136

and by telecopy to: (918) 494-0177





with a copy to:

Hall, Estill, Hardwick, Gable,
Golden & Nelson, P.C.
320 South Boston, Suite 400
Tulsa, Oklahoma 74103-3708
Attention: Larry W. Sandel, Esq.

and by telecopy to: (918) 594-0505

11.4 Assignment. This Agreement may not be assigned, in whole or in part, by the parties hereto without the prior written consent of the parties; provided that MMG or Newco, as the case may be, may assign its right to purchase the MMG Shares or the AGNI Venture Interest to a person and in a manner that does not involve a public offering (a "Permitted Designee").

11.5 Governing Law. This Agreement shall be governed by the laws of the State of Oklahoma, without reference to principles of conflicts of law which require that the substantive laws of another jurisdiction apply.

11.6 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.7 Interpretation. The article and section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not in any way affect the meaning or interpretation of this Agreement.

11.8 Severability. The invalidity or unenforceability of any particular provision of this Agreement shall be construed in all respects as if such invalid or unenforceable provision were omitted. All provisions of this Agreement shall be enforced to the full extent permitted by law.





11.9 No Third-Party Beneficiaries. Nothing contained in this Agreement, expressed or implied, is intended or shall be construed to confer upon or give to any Person other than the parties hereto and their successors or permitted assigns, any rights or remedies under or by reason of this Agreement.

11.10 Entire Agreement. This Agreement, including the documents, schedules, certificates and instruments referred to herein, is the entire agreement and understanding of the parties hereto in respect of the transactions contemplated by this Agreement. There are no restrictions, promises, representations, warranties, covenants or undertakings, other than those expressly set forth or referred to herein or therein. This Agreement supersedes all prior agreements and understandings between the parties with respect to the transactions contemplated hereby.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

MULTIMEDIA GAMES, INC.

By:
---

TV GAMES, INC.

By:
---

AGN VENTURER L.L.C.

By:
---



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AMERICAN GAMING NETWORK, INC.

By:
---

CABLE VIDEO STORE, INC.

By:
---

GRAFF PAY-PER-VIEW, INC.

By:
---

AMERICAN GAMING NETWORK, JV.

By:
---

Exhibits
---

A - Newco A Note
B - Newco B Note
C - Registration Rights Agreement
D - Assignment of AGNI Venture Interest
E - Graves Guaranty
F - MMG Guaranty
G - Venture Guaranty

EXHIBIT 10.25

# MULTIMEDIA GAMES, INC.

## REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of July 11, 1996, by and between MULTIMEDIA GAMES, INC., a Texas corporation (the "Company"), and GRAFF PAY-PER VIEW INC., a Delaware corporation ("Graff"),

W I T N E S S E T H:

WHEREAS, Graff is the owner of the Registerable Securities which were acquired by Graff upon the condition that the Company enter into this Agreement to register the Registerable Securities under the 1933 Act; and

WHEREAS, the Company is willing to register the Registerable Securities under the 1933 Act upon the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements herein contained, the parties hereto agree as follows:

### ARTICLE I

### Certain Definitions

For the purposes of this Agreement, the following terms have the following meanings:

"Affiliate", with respect to any Person, means any other Person directly or indirectly controlling, controlled by or under common control with, such Person. For purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" or "under common control with"), as used with respect to any Person, shall mean the





possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Articles of Incorporation" means the Certificate Articles of Incorporation of the Company on the date hereof, as amended from time to time hereafter.

"Beneficial owner" or "beneficially own" has the meaning given such term in Rule 13d-3 under the 1934 Act.

"Business Day" means any day, excluding Saturday, Sunday and any other day on which commercial banks in Boston, Massachusetts or New York, New York are authorized or required by law to close.

"Commission" means the Securities and Exchange Commission, and any successor commission or agency having similar powers.

"Common Stock" means the shares of Common Stock, $.01 par value, of the Company.

"Graff Holders" means Graff, so long as it holds Registrable Securities, and any Permitted Transferee of Graff so long as such Permitted Transferee continues to hold such Registrable Securities.

"Holder" means any Graff Holder holding Registrable Securities.

"1933 Act" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"1934 Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.





"Permitted Transferee" means any Affiliate of Graff or any officer, director or employee of Graff or such Affiliate; provided that, such Permitted Transferee shall have executed and delivered to the Company an executed counterpart of this Agreement and shall have agreed to be bound hereunder in the same manner and to the same extent as Graff is bound hereunder.

"Person" means an individual, a partnership, a joint venture, a corporation, an association, a trust, an individual retirement account or any other entity or organization, including a government or any department or agency thereof.

"Public Company" means if the Company has Shares registered under Section 12 of the 1934 Act.

"Registrable Securities" means (a) the shares of Common Stock issued or issuable upon the exercise of the Warrants (the "Warrant Shares"); and (b) shares of Common Stock issued or issuable by way of a stock dividend or stock split or in connection with a combination or subdivision of shares, reclassification, recapitalization, merger, consolidation or other reorganization of the Company. Registerable Securities shall not include the Warrants. Registrable Securities shall cease to be Registrable Securities when (i) a registration statement (other than a registration statement on Form S-8) with respect to the sale of such securities shall have become effective under the 1933 Act and such securities shall have been disposed of under such registration statement, (ii) they shall have been distributed to the public pursuant to Rule 144, (iii) they shall have been otherwise transferred or disposed of other than to a Permitted Transferee, or (iv) any transfer or disposition of them to the public shall not require their registration or qualification under the 1933 Act or any similar state law then in force, or (v) they shall have ceased to be outstanding.





"Registration Expenses" means all out-of-pocket expenses incident to the Company's performance of or compliance with Article II of this Agreement, including, without limitation, all registration and filing fees (including filing fees with respect to the National Association of Securities Dealers, Inc.), all fees and expenses of complying with state securities or "blue sky" laws (including reasonable fees and disbursements of underwriters' counsel in connection with any "blue sky" memorandum or survey), all printing expenses, all listing fees, all registrars' and transfer agents' fees, the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits and/or "cold comfort" letters required by or incident to such performance and compliance; provided that, "Registration Expenses" shall not include underwriting discounts and commissions and applicable transfer taxes, if any, and any fees and disbursements of counsel retained by the Holders of Registrable Securities being registered, which shall be borne by the sellers of the Registrable Securities being registered in all cases.

"Rule 144" means Rule 144 (or any successor provision) under the 1933 Act.

"Rule 144 Transaction" means any sale of Shares made in reliance upon Rule 144 (as in effect on the date hereof) that complies with paragraphs (e), (f) and (g) thereof (as in effect on the date hereof), regardless of whether at the time of such Sale the seller is entitled to rely upon paragraph (k) of Rule 144 in connection with the Sale of such

Shares.

"Share" means any share of Common Stock and, unless the context otherwise requires, any Warrant Shares. Share shall also mean any equity securities received in exchange for or with respect to the Common Stock by way of merger, consolidation, exchange, stock dividend or reorganization or recapitalization





involving the Company in which the Company is the surviving or resulting entity.

"Warrant" means the Warrant Certificate (No. W-43), dated July 31, 1995, issued by the Company to Graff and evidencing the right of Graff to purchase 175,000 shares of Common Stock at a purchase price of $3.50 per share.

## ARTICLE II

## Registration Rights

SECTION 2.1. Incidental Registration.

(a) If the Company at any time proposes to register for its own account or otherwise, equity securities under the 1933 Act on a form and in a manner that would permit registration of Registrable Securities for sale to the public under the 1933 Act, it will each such time give prompt written notice to all Holders of Registrable Securities of its intention to do so, describing such securities and specifying the form and manner and the other relevant facts involved in such proposed registration (including, without limitation, whether or not such registration will be in connection with an underwritten offering of its Common Stock and, if so, the identity of the managing underwriter and whether such offering will be pursuant to a "best efforts" or "firm commitment" underwriting). Upon the written request of any such Holder of Registrable Securities delivered to the Company within 20 days after such notice shall have been given to such Holder (which request shall specify the Registrable Securities intended to be disposed of by such Holder and the intended method of disposition thereof), the Company will use its best efforts to effect the registration under the 1933 Act, as expeditiously as is reasonable, of all Registrable Securities that the Company has been so requested to register by the Holders of Registrable Securities, to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities so to be registered; provided, however, that:

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(i) if, at any time after giving such written notice of its intention to register any of such securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register such securities, the Company may, at its election, give written notice of such determination to each Holder of Registrable Securities that has requested to register Registrable Securities and thereupon the Company shall be relieved of its obligation to register any Registrable Securities in connection with such registration (but not from its obligation to pay the Registration Expenses in connection therewith to the extent provided in Section 2.1(b));

(ii) if (A) the registration so proposed by the Company involves an underwritten offering of the securities so to be registered, to be distributed by or through one or more underwriters of recognized standing under underwriting terms appropriate for such a transaction, and (B) the managing underwriter of such underwritten offering selected by the Company shall advise the Company that, in its opinion, the number of securities proposed to be included in such offering and the number of shares of Registrable Securities proposed to be included in such offering by the Holder or Holders thereof should be limited due to market conditions, then the Company will promptly advise each such Holder of Registrable Securities thereof and may require, by written notice to each such Holder accompanying such opinion, that, to the extent necessary to meet such limitation on the number of shares of Registrable Securities that the Holders are permitted to sell, all Holders of Registrable Securities proposing to sell shares of Registrable Securities in such offering shall share pro rata in the number of shares of Registrable Securities to be excluded from such offering, such sharing to be based on the respective numbers of shares of Registrable Securities as to which registration has been requested by such Holders;

(iii) if (A) the registration so proposed by the Company (whether or not underwritten) involves an offering of securities by a holder thereof that is exercising demand registration rights that entitle such holder to a preferential right of sale, and



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(B) such holder shall advise the Company that, in its opinion, the number of securities proposed to be included in such offering by the Company and the number of shares of Registrable Securities proposed to be included in such offering by the Holder or Holders thereof should be limited due to market

conditions, then the Company will promptly advise each such Holder of Registrable Securities thereof and may require, by written notice to each such Holder accompanying such opinion, that, to the extent necessary to meet such limitation on the number of shares of Registrable Securities that the Holders are permitted to sell, all Holders of Registrable Securities proposing to sell shares of Registrable Securities in such offering shall share pro rata in the number of shares of Registrable Securities to be excluded from such offering, such sharing to be based on the respective numbers of shares of Registrable Securities as to which registration has been requested by such Holders;

(iv) the Company shall not be obligated to effect any registration of Registrable Securities under this Section 2.1 that is incidental to the registration of any of its securities in connection with any merger, acquisition, exchange offer, dividend reinvestment plan or stock option or other employee benefit plan.

(b) The Company will pay all Registration Expenses in connection with each registration of Registrable Securities effected by it pursuant to this Section 2.1.

SECTION 2.2 Registrations on Form S-3.

(a) In addition to the rights provided the Holders of Registrable Securities in Section 2.2 above, if the registration of Registrable Securities under the 1933 Act can be effected on Form S-3 (or any similar form having similar requirements promulgated by the Commission), then upon the written request of a Holder or Holders of at least thirty percent (30%) of the Registrable Shares, the Company will notify each Holder or Holders of Registrable Securities and then shall, as expeditiously as possible, effect qualification and



registration under the 1933 Act on Form S-3 of all or such portion of the Registrable Securities as the Holder or Holders shall specify.

(b) The Company shall not be required to effect more than three (3) registrations in the aggregate pursuant to this Section 2.2 and not more than one during any twelve-month period. The Company's obligations under this Section 2.2 shall expire five (5) years after the date of this Agreement.

SECTION 2.3 Registration Procedures.

(a) If and whenever the Company is required to use its best efforts to effect the registration of any Registrable Securities under the 1933 Act as provided in Sections 2.1 and 2.2, the Company will as expeditiously as is

reasonable:

(i) in connection with a request pursuant to Section 2.2, use its best efforts to prepare and file with the Commission within sixty (60) days after receipt of such request and use its best efforts to cause such registration statement to become effective;

(ii) prepare and file with the Commission such amendments (including post-effective amendments) and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the 1933 Act with respect to the disposition of all Registrable Securities and other securities covered by such registration statement until the earlier of (A) such time as all such Registrable Securities and other securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof set forth in such registration statement and (B) the expiration of 120 days from the date such registration statement first becomes effective;

(iii) furnish to each seller of such Registrable Securities such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each



case including all exhibits), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus and any summary prospectus), in conformity with the requirements of the 1933 Act, such documents incorporated by reference in such registration statement or prospectus, and such other documents, as such seller may reasonably request in order to facilitate the sale or disposition of such Registrable Securities;

(iv) use its best efforts to register or qualify all Registrable Securities and other securities covered by such registration statement under such other securities or "blue sky" laws of such jurisdictions as each seller shall reasonably request, and do any and all other acts and things that may be necessary to enable such seller to consummate the disposition in such jurisdictions of its Registrable Securities covered by such registration statement, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it is not so qualified, or to subject itself to taxation in respect of doing business in any such jurisdiction, or to consent to general service of process in any such jurisdiction;

(v) in the case of a registration pursuant to Section 2.1 that is an underwritten offering, furnish to each seller of Registrable Securities a

signed counterpart, addressed to such seller, of (l) an opinion of counsel for the Company, dated the date of the closing under the underwriting agreement, in substantially the form delivered pursuant to such underwriting agreement, and (2) a "cold comfort" letter signed by the independent public accountants who have issued a report on the Company's financial statements included in such registration statement, in substantially the form delivered pursuant to such underwritting agreement.

(vi) immediately notify each seller of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the 1933 Act, of the happening of any event as a result of which the prospectus included in such registration statement, as then in





effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing or if it is necessary to amend or supplement such prospectus to comply with law, and at the request of any such seller prepare and furnish to such seller a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Securities or securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing and shall otherwise comply in all material respects with law and so that such prospectus, as amended or supplemented, will comply with law;

(vii) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security Holders, as soon as reasonably practicable, an earnings statement covering the period of at least 12 months, beginning with the first month of the first fiscal quarter after the effective date of such registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the 1933 Act;

(viii) use its best efforts to list such securities on each securities exchange on which shares of Common Stock are then listed, if such securities are not already so listed and if such listing is then permitted under the rules of such exchange, and provide a transfer agent and registrar for such Registrable Securities not later than the effective date of such registration statement; and

(ix) issue to any underwriter to which any Holder of Registrable

Securities may sell such Registrable Securities in connection with any such registration (and to any direct or indirect





transferee of any such underwriter) certificates evidencing shares of Common Stock without any restrictive legends.

The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish the Company with such information regarding such seller and the distribution of such securities as the Company may from time to time reasonably request in writing and as shall be required by law or by the Commission in connection therewith.

(b) If requested by the underwriters for any underwritten offering of Registrable Securities on behalf of a Holder or Holders of Registrable Securities, the Company will enter into an underwriting agreement with such underwriters for such offering, such agreement to contain such representations and warranties by the Company and such other terms and conditions as are customarily contained in underwriting agreements with respect to secondary distributions, including, without limitation, indemnities to the effect and to the extent provided in Section 2.5.

(c) If any registration pursuant to Section 2.1 shall be in connection with an underwritten public offering, each Holder of Registrable Securities agrees (whether or not such Holder has registered Shares in such offering), if so required by the managing underwriters, not to effect any public sale or distribution (including any sale pursuant to Rule 144) of Registrable Securities (other than as part of such underwritten public offering) within 7 days prior to the effective date of the registration statement with respect to such underwritten public offering or 120 days after the effective date of such registration statement (which 120-day period shall be extended to 180 days at the request of the managing underwriter selected by the Company).

(d) The Company agrees, if so required by the managing underwriters in connection with an underwritten offering of Registrable Securities pursuant to Section 2.1, not to effect any public sale or distribution of any of its equity securities or securities convertible into or exchangeable or exercisable for any of

such equity securities during the 7 days prior to and the 120 days after the effective date of any registration statement with respect to such underwritten public offering, except as part of such underwritten offering or except in connection with a stock option plan, stock purchase plan, savings or similar plan, or an acquisition, merger or exchange offer.

(e) It is understood that in any underwritten offering of Registrable Securities in addition to the shares (the "initial shares") the underwriters have committed to purchase, the underwriting agreement may grant the underwriters an option to purchase a number of additional shares (the "option shares") equal to up to 15% of the initial shares (or such other maximum amount as the National Association of Securities Dealers, Inc. may then permit), solely to cover over-allotments. Shares proposed to be sold by the Company, any other holder of Shares included in such offering and the Holders shall (subject to any preferential rights as provided in Section 2.1(a)(iii) hereof) be allocated between initial shares and option shares as agreed or, in the absence of agreement, pro rata in relation to the number of initial shares sold by each.

SECTION 2.4. Preparation; Reasonable Investigation.

In connection with the preparation and filing of each registration statement registering Registrable Securities under the 1933 Act, the Company will give the Holders of Registrable Securities on whose behalf such Registrable Securities are to be so registered and their underwriters, if any, and their respective counsel and accountants, the opportunity to participate in the preparation of such registration statement, each prospectus included therein or filed with the Commission, and each amendment thereof or supplement thereto, and will give each of them such access to its books and records and such opportunities to discuss the business of the Company with its officers and the independent public accountants who have issued a report on its financial statements as shall be necessary, in the opinion of such Holders and such underwriters or their respective counsel, to conduct a reasonable investigation within the meaning of




the 1933 Act. Without limiting the foregoing, each registration statement, prospectus, amendment, supplement or any other document filed with respect to a registration under this Agreement shall be subject to review and reasonable approval by the holders registering Registrable Securities in such registration and by their counsel.

SECTION 2.5. Indemnification.

(a) In the event of any registration of any equity securities of the Company under the 1933 Act, the Company will, and hereby does, indemnify and hold harmless, in the case of any registration statement filed pursuant to Section 2.1 or 2.2, the seller of any Registrable Securities covered by such registration statement, its directors and officers, each other Person who participates as an underwriter in the offering or sale of such securities, each officer and director of each such underwriter, and each other Person, if any, who controls such seller or any such underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, against any losses, claims, damages, liabilities and expenses, including legal and other expenses incurred in investigating and defending any such claim, joint or several, to which such seller or any such director or officer or participating or controlling Person may become subject under the 1933 Act or otherwise, insofar as such losses, claims, damages, liabilities or expenses (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such securities were registered under the 1933 Act, any preliminary prospectus, final prospectus or summary prospectus included therein, or any amendment or supplement thereto, or any document incorporated by reference therein, (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will reimburse such seller, and each such director, officer, underwriter and controlling Person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, liability, action or proceeding or (iii) any



violation of any rule or regulation promulgated under the 1933 Act or any other applicable federal or state securities law and relating to any action or inaction of the Company in connection with such registration; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company for use in the preparation thereof by such seller or underwriter, as the case may be. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such seller or any such director, officer, underwriter or controlling Person and shall survive the transfer of such securities by such seller.

(b) The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to Section

2.1 or 2.2, that the Company shall have received an undertaking satisfactory to it from (i) the prospective seller of such securities, to indemnify and hold harmless (in the same manner and to the same extent as set forth in Section 2.5(a), except that any such prospective seller shall not in any event be liable to the Company pursuant thereto for an amount in excess of the net proceeds of sale of such prospective seller's Registrable Securities so to be sold) the Company, each such underwriter of such securities, each officer and director of each such underwriter and each other Person, if any, who controls the Company or any such underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, and (ii) each such underwriter of such securities, to indemnify and hold harmless (in the same manner and to the same extent as set forth in Section 2.6(a)) the Company, each officer and director of the Company, each prospective seller, each officer and director of each prospective seller (and, if such prospective seller is a portfolio or investment fund, its investment advisors and the directors and officers thereof) and each other Person, if any, who controls the




Company or any such prospective seller within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, with respect to any statement in or omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus included therein, or any amendment or supplement thereto, if such statement or omission was made in reliance upon and in conformity with written information furnished by such prospective seller or such underwriter, as the case may be, to the Company for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling Person and shall survive the transfer of such securities by such seller.

(c) Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding (including any governmental investigation) involving a claim referred to in Section 2.5(a) or (b), such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action; provided, however, that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under the preceding provisions of this Section 2.5, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action is brought against an indemnified party, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim (in which case, the indemnifying party shall not be liable for the fees and expenses of more than one counsel for all sellers of Registrable

Securities, or more than one counsel for the underwriters in connection with any one action or separate but similar or related actions), the indemnifying party will be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified, to the extent that it may wish with counsel reasonably satisfactory to such indemnified party, and



after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof. The indemnifying party shall not, without the consent of the indemnified party, settle or compromise any claim or consent to the entry of any judgment which settlement, compromise or judgment would materially and adversely affect the indemnified party other than as a result of money damages or other money payments; provided, that, if the indemnified party shall fail or refuse to consent to such settlement, compromise or judgment proposed by the indemnifying party and approved by the person asserting such claim, and a judgment thereafter shall be entered or a settlement or compromise thereafter shall be effected on terms less favorable in the aggregate to the indemnified party than the settlement, compromise or judgment so proposed, the indemnifying party shall have no liability with respect to money or other damages in excess of those provided for in the settlement, compromise or judgment so proposed or any costs or expenses related to such claim arising after the date such settlement, compromise or judgment was so proposed.

SECTION 2.6. Contribution.

If the indemnification provided for in Section 2.5 is unavailable to the indemnified party or parties in respect of any losses, claims, damages or liabilities referred to therein, then each such indemnified party and the Company shall contribute to the amount of such losses, claims, damages or liabilities (a) as between the Company and the Holders of Registrable Securities covered by a registration statement, on the one hand, and the underwriters, on the other, in such proportion as is appropriate to reflect the relative benefits received by the Company and such Holders, on the one hand, and the underwriters, on the other, from the offering of the Registrable Securities, or if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits but also the relative fault of the Company and such Holders, on the one hand, and of the underwriters, on the

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other, in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations, and (b) as between the Company, on the one hand, and each Holder of Registrable Securities covered by a registration statement, on the other, in such proportion as is appropriate to reflect the relative fault of the Company and of each such Holder in connection with such statements or omissions, as well as any other relevant equitable considerations. The relative benefits received by the Company and such Holders, on the one hand, and the underwriters, on the other, shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company and such Holders bear to the total underwriting discounts and commissions received by the underwriters. The relative fault of the Company and such Holders, on the one hand, and of the underwriters, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and such Holders or by the underwriters. The relative fault of the Company, on the one hand, and of each such Holder, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact relates to information supplied by such party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Holders of Registrable Securities agree that it would not be just and equitable if contribution pursuant to this Section 2.6 were determined by pro rata allocation (even if the underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in the next preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the next preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably



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incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 2.6, no underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such underwriter has otherwise

paid by reason of such untrue or alleged untrue statement or omission or alleged omission, and no Holder of Registrable Securities shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities of such Holder were offered to the public exceeds the amount of any damages that such Holder has otherwise paid by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. Each Holder's obligation to contribute pursuant to this Section 2.6 is several in the proportion that the proceeds of the offering received by such Holder bears to the total proceeds of the offering received by all Holders and not joint.

SECTION 2.7. Nominees of Beneficial Owners.

In the event that any Registrable Securities are held by a nominee for the beneficial owner thereof, the beneficial owner thereof may, at its election, be treated as the Holder of such Registrable Securities for purposes of any request or other action by any Holder or Holders of Registrable Securities pursuant to this Agreement or any determination of any number or percentage of shares of Registrable Securities held by any Holder or Holders of Registrable Securities contemplated by this Agreement. If the beneficial owner of any Registrable Securities so elects, the Company may require assurances reasonably satisfactory to it of such owner's beneficial ownership of such Registrable Securities.



## ARTICLE III

## Miscellaneous

SECTION 3.1. Termination. This Agreement shall terminate on the fifth anniversary of the execution and delivery hereof.

SECTION 3.2. Representations. Each of the parties hereto represents that this Agreement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3.3. Certain Remedies. Without intending to limit the remedies available to any of the parties hereto, each of the parties hereto agrees that damages at law will be an insufficient remedy in the event such party violates the terms hereof and each of the parties hereto further agrees that each of the other parties hereto may apply for and have injunctive or other equitable relief in any court of competent jurisdiction to restrain the breach or

threatened breach of, or otherwise specifically to enforce, any of such party's agreements set forth herein.

SECTION 3.4. Amendments and Waivers. Any term of this Agreement may be amended and the observance of any such term may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and a majority in interest of the holders of the Registrable Securities. Each Holder shall be bound by any amendment or waiver authorized by this Section 3.4, whether or not such Holder shall have consented thereto.

SECTION 3.5. Notices. All notices and other communications provided for herein shall be in writing and shall be delivered by telecopy, by hand or sent by certified or registered mail, return receipt requested, postage prepaid, addressed, if to any Holder, to such Holder at such address as such Holder shall have specified in writing to the party giving any such notice or sending any such





communication), and, if to the Company, to Multimedia Games, Inc., 7335 South Lewis Avenue, Tulsa, Oklahoma 74136, Attention: Vice President-Finance, (or to such other address as the Company shall have specified in writing to the party giving any such notice or sending any such communication). All such notices shall be conclusively deemed to be received and shall be effective, (i) if sent by hand delivery, upon receipt, (ii) if sent by telecopy, upon dispatch thereof, or (iii) if sent by registered or certified mail, on the third day after the day on which such notice is mailed.

SECTION 3.6. Benefit; Successors and Assigns. Except as otherwise provided herein, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns; provided, however, that this Agreement shall not inure to the benefit of any Permitted Transferee unless such Permitted Transferee shall have executed and delivered to the Company an executed counterpart of this Agreement and shall have agreed to be bound hereunder in the same manner and to the same extent as Graff is bound hereunder. Graff may not assign any of its rights hereunder to any Person other than a Permitted Transferee that has complied with the requirements of the preceding sentence in all respects. Nothing in this Agreement either express or implied is intended to confer on any person other than the parties hereto and their respective successors and permitted assigns, any rights, remedies or obligations under or by reason of this Agreement.

SECTION 3.7 Attorneys' Fees. In any action or proceeding brought to enforce any provision of this Agreement or where any provision hereof is

validly asserted as a defense, the successful party shall be entitled to recover reasonable attorneys' fees and expenses in addition to any other available remedy.

SECTION 3.8. Miscellaneous. This Agreement sets forth the entire agreement and understanding among the parties hereto, and supersedes all prior agreements and understandings, relating to the subject matter hereof. All representations and warranties contained herein shall survive the execution and delivery of this Agreement,





regardless of any investigation made by any party hereto or on such party's behalf. This Agreement shall be construed and enforced in accordance with and governed by the law of the State of Oklahoma without regard to the conflict of laws provisions thereof. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized signatories thereunto duly authorized as of the day and year first above written.

MULTIMEDIA GAMES, INC.

By: ----------

GRAFF PAY-PER-VIEW INC.

By: ----------

EXHIBIT 10.26

# STOCK PURCHASE AGREEMENT

August 5, 1996

Multimedia Games, Inc.
7335 South Lewis Avenue
Suite 204
Tulsa, Oklahoma 74136

Gentlemen:

Each of the persons whose signature appears on the signature page hereof under the caption "Purchasers" (each a "Purchaser" and collectively, the "Purchasers"), desire to subscribe for and purchase the number of shares of Common Stock, $.01 par value, of Multimedia Games, Inc., a Texas corporation (the "Company") set forth opposite the signature of such Purchaser on the signature page to this Agreement at a purchase price of $2.75 per Share. The number of shares so subscribed for are hereinafter called the "Purchased Shares."

The terms and conditions of the purchase and sale of the Purchased Shares are set forth below. These include representations and warranties by the parties which are being relied upon in connection with the transactions contemplated herein, including representations and warranties by the Purchaser necessary to enable the Company to satisfy its obligations under applicable Federal and State securities laws.

NEITHER THIS AGREEMENT AND THE EXHIBITS ANNEXED HERETO (COLLECTIVELY, THE "OFFERING MATERIALS") NOR THE SECURITIES OFFERED HEREBY HAVE BEEN FILED OR REGISTERED WITH OR APPROVED BY THE SEC NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THE OFFERING MATERIALS. NO STATE SECURITIES LAW ADMINISTRATOR HAS PASSED ON OR ENDORSED THE





MERITS OF THIS OFFERING OR THE ACCURACY OR THE ADEQUACY OF THE OFFERING MATERIALS. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

THE OFFERING MATERIALS HAVE NOT BEEN REVIEWED BY THE ATTORNEY GENERAL PRIOR TO ITS ISSUANCE AND USE. THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

THE OFFERING MATERIALS DO NOT CONTAIN AN 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 THEY WERE MADE, NOT MISLEADING. THEY CONTAIN A FAIR SUMMARY OF THE MATERIAL TERMS AND DOCUMENTS PURPORTED TO BE SUMMARIZED HEREIN.

The Purchaser acknowledges having received from the Company the following:

A. The Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1995, attached hereto as Exhibit A.

B. The Company's Quarterly Report on Form 10-QSB for the six months ended March 31, 1996, attached hereto as Exhibit B.

C. The Company's press release dated July 2, 1996, issued in connection with a recent event, attached hereto as Exhibit C.

D. The form of Registration Rights Agreement attached hereto as Exhibit D.

E. The form of Note to be issued by the Purchaser as consideration for the Purchased Shares, attached hereto as Exhibit E.

Considering the foregoing, and in consideration of the mutual covenants and agreements of the parties herein contained, the Purchaser and the Company do hereby agree as follows:





1. Sale and Purchase of Purchased Shares. (a) Subject to the terms and conditions hereof:

(i) the Company will, in reliance upon the representations and warranties of the Purchaser contained herein, issue and sell the Purchased Shares to the Purchaser for an aggregate purchase price (the "Purchase Price") of $2.75 multiplied by the number of Purchased Shares; and

(ii) the Purchaser will, in reliance upon the representations and warranties of the Company contained herein, purchase the Purchased

Shares from the Company for the Purchase Price.

(b) The Purchase Price shall be paid by the Purchaser delivering to the Company the promissory note of the Purchaser in substantially the form attached hereto as Exhibit E (the "Note") in the principal amount equal to the Purchase Price.

2. Closing and Closing Date. The Closing shall be at 10:00 A.M., local New York time, on the third business day following the satisfaction of all of the conditions set forth in Section 5 of this Agreement (unless waived by the party in whose favor the condition runs), or at such other time and date as is mutually agreed upon between the Purchaser and the Company (the "Closing Date"). The Closing hereunder shall take place by facsimile (original execution copies to follow) or by such other means as the parties shall mutually agree. At the Closing on the Closing Date, the Company will deliver to the Purchaser the Purchased Shares against payment of the Purchase Price thereof by delivery of the Note in the principal amount of the Purchase Price. The Purchased Shares to be delivered to the Purchaser at the Closing will be registered in the name of the Purchaser as set forth on the signature page of this Agreement.





3. Representations and Warranties by the Company. The Company represents and warrants to the Purchaser that, except as otherwise set forth in Schedule A hereto:

(a) Organization, Existence, Etc. The Company is a corporation duly organized and validly existing and in good standing under the laws of the State of Texas, and has all requisite corporate power and authority to carry on its business as now conducted, to enter into this Agreement, to issue and sell the Purchased Shares as contemplated herein and to carry out the other terms and conditions of this Agreement. Each subsidiary of the Company is a corporation duly organized and validly existing and in good standing under the laws of the State of Delaware, and each has all requisite corporate power and authority to carry on its business as now conducted. The Company and each subsidiary of the Company is duly qualified to do business and is in good standing in every jurisdiction in which the ownership, leasing, licensing or use of its property and assets or the conduct of its business makes such qualification necessary, except where the failure to be so qualified would not have a material adverse effect on the Company's business. The Company and each subsidiary has all consents, authorizations, approvals, orders, permits, licenses and the like (collectively, the "Permits") from, and has made all filings with, all federal, state, Indian and local authorities, necessary to own, lease, license and use its properties and assets and to conduct its business as presently conducted. All such Permits are in full force and effect and the Company is in compliance

with the terms and conditions thereof and is not in breach or default thereunder.

(b) Financial Statements.

(i) Since September 30, 1995, the Company has filed all forms, reports, statements and other documents required to be filed with the Securities and Exchange Commission (the "SEC"), including, without limitation, all Annual Reports on Form lO-KSB, all Quarterly Reports on Form lO-QSB, all Current Reports on Form 8-K, and all required amendments and supplements thereto





(collectively the "Company Reports"). The Company Reports, including all Company Reports filed after the date hereof and prior to the Closing Date, (A) were or will be prepared in all material respects in accordance with the requirements of applicable Law (including the Act, the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC thereunder applicable to such Company Reports), and (B) did not at the time they were filed, or will not at the time they are filed, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(ii) Each of the consolidated financial statements (including, in each case, any related notes thereto) contained in the Company Reports filed prior to or after the date hereof (A) have been or will be prepared in accordance with the published rules and regulations of the SEC and generally accepted accounting principles applied on a consistent basis throughout the periods involved and (B) fairly present or will fairly present the consolidated financial position of the Company and its subsidiaries, as the case may be, as of the respective dates thereof and the consolidated results of operations, changes in stockholders' equity (deficit) and cash flows for the periods indicated.

(c) No Material Adverse Change. Since the date of the most recent balance sheet contained in the Company's report on Form 10-QSB for the period ended March 31, 1996 (the "March 31 Report"), there has not been any change which has had a material adverse effect on the business or financial condition of the Company.

(d) Litigation. There is no action, suit, or arbitration proceeding pending, or to the knowledge of the officers of the Company threatened, against the Company or its subsidiaries before any court or administrative agency which

is reasonably expected to result in any material adverse change in the business or condition





(financial or other) of the Company or its subsidiaries or which questions the validity of any action taken or to be taken pursuant to or in connection with this Agreement or the Purchased Shares.

(e) Compliance with Instruments, Etc. Neither the Company nor any subsidiary is (A) in default under any indenture or material contract or agreement to which it is a party (and the other contract party or parties are not in breach or default thereunder), (B) in violation of its charter or by-laws, or to its knowledge, of any applicable law, (C) in default with respect to any order, writ, injunction or decree of any court, or (D) in default under any order, license, regulation or demand of any governmental agency, in each case where such default or violation might have consequences which would materially and adversely affect the business or property of the Company and its subsidiaries (taken as a whole).

(f) Authorization of Agreements. The execution, delivery and performance of this Agreement by the Company, and the consummation of the transactions contemplated herein, including the execution, delivery and performance of the Registration Rights Agreement and the issuance of the Shares, have been duly authorized by all necessary corporate action. Each of this Agreement and the Registration Rights Agreement (when executed and delivered) constitutes the valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms. The Shares (when issued and paid for upon delivery of the Note pursuant to the terms of this Agreement), will be duly authorized, validly issued, fully paid and nonassessable.

(g) Use of Proceeds. The Company will use the proceeds of the sale of the Shares for general working capital purposes.

(h) Capitalization; Indebtedness. The authorized capital stock of the Company consists of (A) 10,000,000 shares of Common Stock, of which 2,734,200 shares of Common Stock are issued and outstanding, 1,507,560 shares of Common Stock are reserved for issuance upon the exercise of outstanding rights, options and warrants as described in Part I of Schedule B hereto, and 4,526,366 are reserved for issuance

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pursuant to commitments and expected commitments described in Part II of Schedule B hereto, and (B) 2,000,000 shares of Preferred Stock, $10 par value, of which 134,318 shares of Series A Preferred Stock are issued and outstanding. Except as set forth in Schedule B, there are outstanding no options, warrants or other rights to subscribe for or acquire any capital stock of the Company or its subsidiaries. The Company and its subsidiaries have outstanding no indebtedness for borrowed money other than as set forth in the consolidated balance sheet as at March 31, 1996 referred to in the March 31 Report or incurred since such date in the ordinary course of business ($932,720 outstanding at July 19, 1996). Of such shares of issued and outstanding Common Stock (2,734,200) and shares of Common Stock reserved for issuance upon the exercise of outstanding rights, options and warrants described in Part I of Schedule B (1,507,560), 1,642,557 shares have rights that entitle the holder thereof to include such shares in a Registration Statement filed by the Company under the Act as described in Part III of Schedule B hereto. The Common Stock is properly listed on the small cap market of the NASDAQ Stock Market ("NASDAQ") under the symbol MGAM and the Company has received no notice from NASDAQ that questions the validity of such listing or the eligibility of the Company to maintain such listing.

(i) Governmental Consent, Etc. No consent, approval or authorization of, or registration, declaration or filing with, any federal, state, Indian or local governmental authority is required in connection with the execution and delivery of this Agreement and none shall be required in connection with the offer, issue, sale or delivery to the Purchaser of the Purchased Shares or the carrying out of any other transaction contemplated hereby or thereby.

4. Representations and Warranties by Purchaser. The Purchaser represents and warrants to the Company that:

(a) Authorization. The Purchaser is duly authorized to enter into this Agreement and to carry out the terms and conditions of this Agreement.



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(b) Accredited Investor. The Purchaser is an Accredited Investor.

(c) Purchase Entirely for Own Account. The Shares to be purchased by the Purchaser will be acquired for investment for the Purchaser's own account, not as a nominee or agent, and not with a view to the Purchaser's distribution of any part thereof; and the Purchaser has no present intention of selling, granting any participation in, or otherwise distributing the same. The Purchaser does not have any contract, undertaking, agreement or arrangement

with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Purchased Shares.

(d) Reliance Upon Investors' Representations. The Purchaser understands that the Purchased Shares have not been registered under the Securities Act on the basis that the sale provided for in this Agreement is exempt from registration under the Securities Act pursuant to Section 4(2) thereof and that the Company's reliance on such exemption is predicated on the Purchaser's representations set forth herein.

(e) Receipt of Information. The Purchaser believes it has received all the information it considers necessary or appropriate for deciding whether to purchase the Purchased Shares. The Purchaser further represents that it has had an opportunity to ask questions and receive answers from the Company and its officers regarding the terms and conditions of the offering of the Purchased Shares and the business, properties, prospects, and financial condition of the Company and to obtain additional information necessary to verify the accuracy of any information furnished to the Purchaser or to which the Purchaser otherwise had access. Except as contained in this Agreement and in the information expressly referred to in this Agreement as having been delivered to the Purchaser, no representations or warranties have been made to the Purchaser by the Company or any agent, employee or affiliate of the Company; and in entering into this transaction the Purchaser is not relying on any



information other than that contained in this Agreement, or delivered to the Purchaser pursuant to this Agreement, and the results of the Purchaser's own independent investigation.

(f) Restricted Securities. The Purchaser understands that it must bear the economic risk of an investment in the Shares for an indefinite period of time and that there is a thinly traded public market for the Common Stock. The Purchaser understands that the Shares may not be sold, transferred, or otherwise disposed of without registration under the Securities Act or an exemption therefrom, and that in the absence of an effective registration statement covering the Shares or an available exemption from registration, the Shares must be held indefinitely.

(g) Legends. Each certificate evidencing the Shares shall be endorsed with a legend in substantially the following form, and the Purchaser covenants that, except to the extent waived by the Company, the Purchaser shall not transfer the Shares represented by any such certificate without complying with the restrictions on transfer described in the legend endorsed on such certificate:

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. NO REGISTRATION OF TRANSFER OF SUCH SECURITIES WILL BE MADE ON THE BOOKS OF THE ISSUER UNLESS SUCH TRANSFER IS MADE IN CONNECTION WITH AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT OR SUCH ACT DOES NOT APPLY.

5. Conditions to Closing. (a) The obligation of the Purchaser to purchase and pay for the Purchased Shares at the Closing is subject to the satisfaction of the following conditions:

(i) Representations and Warranties. The representations and warranties of the Company contained in Section 3 shall be true on and as of the Closing Date with the same effect as



though such representations and warranties had been made on and as of such date.

(ii) Performance. The Company shall have performed and complied with all agreements and conditions contained herein required to be performed or complied with by it prior to or at the Closing Date including, without limitation, the issuance and delivery of the Purchased Shares to the Purchaser.

(iii) Proceedings. All corporate proceedings to be taken by the Company in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to the Purchaser and Purchaser shall receive all such counterpart originals or certified or other copies of such documents as Purchaser may reasonably request.

(iv) Registration Rights Agreement. The Company shall have executed and delivered to the Purchaser the Registration Rights Agreement.

(v) Certificate. The Company shall have delivered a certificate signed by its President (or a vice President) and by its Chief Financial Officer (or Vice President of Finance) as to the matters set forth in Sections 5(a)(i) and (ii) hereof.

(vi) Legal Opinion. The Purchaser shall have received an opinion of Hall, Estill, Hardwick, Gable, Golden & Nelson, counsel to the Company, in form and substance satisfactory to such Purchaser, as to the

matters set forth in the first two sentences of Section 3(a) and the matters set forth in Section 3(f) of this Agreement.

(b) The obligation of the Company to issue and sell the Purchased Shares to the Purchaser at the Closing is subject to the satisfaction of the following conditions:





(i) Representations and Warranties. The representations and warranties of the Purchaser contained in Section 4 shall be true on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date.

(ii) Performance. The Purchaser shall have performed and complied with all agreements and conditions contained herein required to be performed or complied with by it prior to or at the Closing Date including, without limitation, the delivery of the Note as payment of the Purchase Price.

6. Acceptance and Rejection of Subscription. The Purchaser acknowledges and agrees that the subscription of the Purchaser contained in this Agreement is not binding on the Company until the Company accepts such subscription, which acceptance is at the sole discretion of the Company and is to be evidenced by the Company's execution of this Agreement where indicated. This Agreement shall be of no force or effect unless and until accepted by the Company.

7. Definitions. The following terms when used in this Agreement or in any other agreement or instrument entered into in connection with this Agreement, shall have the meanings indicated below. Unless the context otherwise requires, all personal pronouns used in this Agreement, whether in the masculine, feminine or neuter gender, shall include all other genders, and the plural form of any noun shall include the singular and the singular shall include the plural.

"Accredited Investor" shall mean as such term is defined in Rule 501 promulgated by the SEC under the Act.

"Common Stock" shall mean the shares of Common Stock, $.01 par value per share, of the Company.

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"Note" shall mean the promissory note of the Purchaser in substantially the form attached hereto as Exhibit E.

"Registration Rights Agreement" shall mean the Registration Rights Agreement in substantially the form attached hereto as Exhibit D.

8. Miscellaneous.

(a) Amendments and Waiver. This Agreement may only be amended or waived in a written instrument signed by the Company and the Purchaser.

(b) Parties in Interest. This Agreement may not be assigned by either the Purchaser or the Company without the prior written consent of the other party hereto. All the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto, whether so expressed or not, and, in particular, shall inure to the benefit of and be enforceable by the holder or holders at any time of any of the Notes.

(c) Law Governing. This Agreement shall be governed by and interpreted under the laws of the State of New York, without regard to the conflict of law rules thereof.

(d) Notices. Any notice or request herein required or permitted to be given by the Company shall be given in writing and shall be sent to the Purchaser at the address set forth on the signature page of this Agreement unless another address is specified in writing by Purchaser in which case notice shall be sent to the last known address of the Purchaser furnished to the Company. Any notice required or permitted to be given to the Company shall be given to the Company at the address set forth on page 1 of this Agreement, or at such other address as the Company may designate by written communication to the Purchaser. All such notices shall be conclusively deemed to be received and shall be effective, (i) if



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sent by hand delivery, upon receipt, (ii) if sent by telecopy, upon dispatch thereof, or (iii) if sent by registered or certified mail, on the third day after the day on which such notice is mailed.

(e) Headings. The headings of the sections and subsections of this Agreement have been inserted for convenience of reference only and shall in no way restrict or modify any of the terms or provisions hereof.

(f) Entire Agreement. This Agreement embodies the entire agreement and understanding between the Purchaser and the Company with respect to the subject matter hereof and supersedes all prior agreements and understandings relating to the subject matter hereof.

(g) Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall he deemed to be an original, but such counterparts together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Purchaser has executed this Agreement this __ day of _____, 1996.

Number of Shares Subscribed for:
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INDIVIDUAL PURCHASER:

---
Signature(s)

---
Print Name(s)

Number of Shares Subscribed for:
---

ENTITY PURCHASER:

---
Print Name of Entity

By:
---

---
Print Name and Title of Person Signing



---
Social Security Number of

Individual or Tax I.D. Number
of Entity

Address:

---

Number and Street

---

City State Zip Code

Address for notices if different:

---

Number and Street

---

City State Zip Code

The foregoing Stock Purchase
Agreement is hereby accepted
and agreed to as of the
date hereof.

MULTIMEDIA GAMES, INC.

By
---

EXHIBITS
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A - Form 10-KSB
B - Form 10-QSB
C - Press Release
D - Registration Rights Agreement
E - Note

SCHEDULES
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A - Company Disclosure

EXHIBIT 10.27

MULTIMEDIA GAMES, INC.

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of August , 1996, by and between MULTIMEDIA GAMES, INC., a Texas corporation (the "Company"), and each Holder (as such term is defined below),

W I T N E S S E T H:

WHEREAS, the Holders are purchasing from the Company 275,000 shares of Common Stock (each a "Share" and collectively the "Shares") pursuant to separate Stock Purchase Agreements entered into of even date herewith or later with reference to this Agreement (each a "Stock Purchase Agreement"; and

WHEREAS, the Company is willing to register the Registerable Securities under the 1933 Act upon the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements herein contained, the parties hereto agree as follows:

ARTICLE I

Certain Definitions

For the purposes of this Agreement, the following terms have the following meanings:

"Affiliate", with respect to any Person, means any other Person directly or indirectly controlling, controlled by or under common control with, such Person. For purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" or "under common control





with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Beneficial owner" or "beneficially own" has the meaning given such term in Rule 13d-3 under the 1934 Act.

"Business Day" means any day, excluding Saturday, Sunday and any other day on which commercial banks in Boston, Massachusetts or New York, New York are authorized or required by law to close.

"Commission" means the Securities and Exchange Commission, and any successor commission or agency having similar powers.

"Common Stock" means the shares of Common Stock, $.01 par value, of the Company.

"Holder" means the Holder, any Permitted Transferee of a Holder (and any subsequent Permitted Transferee) that, in each case, holds Registrable Securities.

"1933 Act" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"1934 Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Permitted Transferee" means any Person that (i) shall be the registered owner of Registerable Securities in accordance with the terms of the Stock Purchase Agreement, and (ii) shall have executed and delivered to the Company an executed counterpart of this Agreement and shall have agreed to be bound hereunder in the same manner and to the same extent as the Holder is bound hereunder.





"Person" means an individual, a partnership, a joint venture, a corporation, an association, a trust, an individual retirement account or any other entity or organization, including a government or any department or agency thereof.

"Registrable Securities" means the Shares. Registrable Securities shall cease to be Registrable Securities when (i) a registration statement (other than a registration statement on Form S-8) with respect to the sale of such securities shall have become effective under the 1933 Act and such securities shall have been disposed of under such registration statement, (ii) they shall have been distributed to the public pursuant to Rule 144, (iii) they shall have been otherwise transferred or disposed of other than to a Permitted Transferee, or (iv)

any transfer or disposition of them to the public shall not require their registration or qualification under the 1933 Act or any similar state law then in force, or (v) they shall have ceased to be outstanding.

"Registration Expenses" means all out-of-pocket expenses incident to the Company's performance of or compliance with Article II of this Agreement, including, without limitation, all registration and filing fees (including filing fees with respect to the National Association of Securities Dealers, Inc.), all fees and expenses of complying with state securities or "blue sky" laws (including reasonable fees and disbursements of underwriters' counsel in connection with any "blue sky" memorandum or survey), all printing expenses, all listing fees, all registrars' and transfer agents' fees, the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits and/or "cold comfort" letters required by or incident to such performance and compliance; provided that, "Registration Expenses" shall not include underwriting discounts and commissions and applicable transfer taxes, if any, and any fees and disbursements of counsel retained by the Holders of Registrable Securities being registered, which shall be borne by





the sellers of the Registrable Securities being registered in all cases.

"Rule 144" means Rule 144 (or any successor provision) under the 1933 Act.

"Rule 144 Transaction" means any Sale of Shares made in reliance upon Rule 144 (as in effect on the date hereof) that complies with paragraphs (e), (f) and (g) thereof (as in effect on the date hereof), regardless of whether at the time of such Sale the seller is entitled to rely upon paragraph (k) of Rule 144 in connection with the Sale of such Shares.

"Share" means the shares of Common Stock purchased pursuant to each Stock Purchase Agreement. Share shall also mean any equity securities received in exchange for or with respect to such Common Stock by way of merger, consolidation, exchange, stock dividend or reorganization or recapitalization involving the Company in which the Company is the surviving or resulting entity.

## ARTICLE II

## Registration Rights

SECTION 2.1 Registration Upon Demand.

(a) At any time after six (6) months from the date of this Agreement, the Holders of a majority in interest of the Registrable Securities held by all Holders then outstanding may at any time make a written demand of the Company for registration with the Commission under and in accordance with the provisions of the 1933 Act of all or part of their Registrable Securities (a "Demand Registration"); provided, however, that the Company need only effect one Demand Registration. Such request shall specify the aggregate number of the Registrable Securities proposed to be sold and shall also specify the intended method of disposition thereof. Within ten (10) days after





receipt of such request, the Company shall give written notice (the "Notice") of such registration request to all other Holders stating that the Company will include in such registration all Registrable Securities as to which the Company has received written requests for inclusion therein within twenty (20) Business Days after the giving of the Notice. Each Notice shall also specify the number of Registrable Securities requested to be registered and the intended method of disposition thereof. Within five (5) Business Days after the expiration of such twenty (20) Business Days, the Company will notify all the Holders to be included in such registration of the other Holders and the number of Registrable Securities requested to be included therein.

(b) Participation by Other Parties. No Person other than a Holder shall be permitted to offer any securities under any Demand Registration unless (x) such Person is entitled to exercise "piggyback" or incidental registration rights pursuant to an existing contractual commitment with the Company and (y) if such contractual commitments permit, the Holders participating in such Demand Registration and their underwriters, if any, in their sole discretion, determine that such Demand Registration can accommodate such additional participation.

(c) Effective Registration and Expenses. The Company shall use its best efforts to cause any registration made pursuant to this Section 2.1 to be declared effective as soon as possible; provided that, the Holders of a majority in interest of the Registrable Securities may, by written notice to the Company prior to such registration being declared effective, withdraw such demand without prejudice to any future demand made by such Holders pursuant to this Section 2.1. A registration will not count as a Demand Registration until it has become effective and until the earlier of (i) one (1) year from the effective date of such registration, or (i) such time as all of the Registrable Securities requested to be included by the Holders in such registration have actually been sold thereunder. The Company shall pay all Registration Expenses

in connection with a registration made pursuant to this Section 2.1, whether or not such





registration becomes effective or Registrable Securities are sold thereunder.

(d) Selection of Underwriters. If any Demand Registration is an underwritten offering, the Holders holding a majority of the Registrable Securities to be registered by the Holders may, at their option, select and obtain the investment banker or bankers and managing underwriter or underwriters that will administer the offering, such investment banker or bankers and managing underwriter or underwriters to be reasonably satisfactory to the Company.

SECTION 2.2. Incidental Registration.

(a) If the Company at any time proposes to register for its own account or for the account of a selling shareholder, securities under the 1933 Act on a form and in a manner that would permit registration of Registrable Securities for sale to the public under the 1933 Act, it will each such time give prompt written notice to all Holders of Registrable Securities of its intention to do so, describing such securities and specifying the form and manner and the other relevant facts involved in such proposed registration (including, without limitation, whether or not such registration will be in connection with an underwritten offering of its Common Stock and, if so, the identity of the managing underwriter and whether such offering will be pursuant to a "best efforts" or "firm commitment" underwriting). Upon the written request of any such Holder of Registrable Securities delivered to the Company within 20 days after such notice shall have been given to such Holder (which request shall specify the Registrable Securities intended to be disposed of by such Holder and the intended method of disposition thereof), the Company will use its best efforts to effect the registration under the 1933 Act, as expeditiously as is reasonable, of all Registrable Securities that the Company has been so requested to register by the Holders of Registrable Securities, to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities so to be registered; provided, however, that:





(i) if, at any time after giving such written notice of its

intention to register any of such securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register such securities, the Company may, at its election, give written notice of such determination to each Holder of Registrable Securities that has requested to register Registrable Securities and thereupon the Company shall be relieved of its obligation to register any Registrable Securities in connection with such registration (but not from its obligation to pay the Registration Expenses in connection therewith to the extent provided in Section 2.1(b));

(ii) if the registration so proposed by the Company involves an underwritten offering of the securities to be registered and the managing underwriter thereof advises the Company that, in its opinion, the number of securities proposed to be included in such offering by the Company and the number of shares of Registrable Securities proposed to be included in such offering by the Holder or Holders thereof should be limited due to market conditions, the Company may require, by written notice to each such Holder, that, to the extent necessary to meet such limitation on the number of shares of Registrable Securities that the Holders are permitted to sell, all Holders of Registrable Securities proposing to sell shares of Registrable Securities in such offering shall share pro rata in the number of shares of Registrable Securities to be excluded from such offering, such sharing to be based on the respective numbers of shares of Registrable Securities as to which registration has been requested by such Holders. To the extent any Registerable Securities are required to be excluded from such underwritten offering (the "Excluded Securities"), such Excluded Securities shall nevertheless be included in such registration for sale to the public (but shall not be a part of the securities sold to the underwriter of such offering) and the Holders shall agree not to offer or sell the Excluded Securities for a period of 90 days following the effective date of any such registration;



(iii) the Company shall not be obligated to effect any registration of Registrable Securities under this Section 2.2 that is incidental to the registration of any of its securities in connection with any merger, acquisition, exchange offer, dividend reinvestment plan or stock option or other employee benefit plan.

(b) The Company will pay all Registration Expenses in connection with each registration of Registrable Securities effected by it pursuant to this Section 2.2.

SECTION 2.3 Registration Procedures.

(a) If and whenever the Company is required to use its best efforts to

effect the registration of any Registrable Securities under the 1933 Act as provided in Section 2.1 and 2.2, the Company will as expeditiously as is reasonable:

(i) subject to the terms and conditions of this Agreement, use its best efforts to cause such registration statement to become effective;

(ii) prepare and file with the Commission such amendments (including post-effective amendments) and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the 1933 Act with respect to the disposition of all Registrable Securities and other securities covered by such registration statement until the earlier of (A) such time as all such Registrable Securities and other securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof set forth in such registration statement and (B) the expiration of 270 days from the date such registration statement first becomes effective;

(iii) furnish to each seller of such Registrable Securities such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each



case including all exhibits), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus and any summary prospectus), in conformity with the requirements of the 1933 Act, such documents incorporated by reference in such registration statement or prospectus, and such other documents, as such seller may reasonably request in order to facilitate the sale or disposition of such Registrable Securities;

(iv) use its best efforts to register or qualify all Registrable Securities and other securities covered by such registration statement under such other securities or "blue sky" laws of such jurisdictions as each seller shall reasonably request, and do any and all other acts and things that may be necessary to enable such seller to consummate the disposition in such jurisdictions of its Registrable Securities covered by such registration statement, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it is not so qualified, or to subject itself to taxation in respect of doing business in any such jurisdiction, or to consent to general service of process in any such jurisdiction;

(v) immediately notify each seller of Registrable Securities covered by such registration statement at any time when a prospectus relating

thereto is required to be delivered under the 1933 Act, of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing or if it is necessary to amend or supplement such prospectus to comply with law, and at the request of any such seller prepare and furnish to such seller a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Securities or securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or





necessary to make the statements therein not misleading in the light of the circumstances then existing and shall otherwise comply in all material respects with law and so that such prospectus, as amended or supplemented, will comply with law;

(vi) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security Holders, as soon as reasonably practicable, an earnings or financial statement which shall satisfy the provisions of Section 11(a) of the 1933 Act;

(vii) use its best efforts to list such securities on NASDAQ and each securities exchange on which shares of Common Stock are then listed, if such securities are not already so listed and if such listing is then permitted under the rules of such exchange, and provide a transfer agent and registrar for such Registrable Securities not later than the effective date of such registration statement; and

(viii) issue to any underwriter to which any Holder of Registrable Securities may sell such Registrable Securities in connection with any such registration (and to any direct or indirect transferee of any such underwriter) certificates evidencing shares of Common Stock without any restrictive legends. The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish the Company with such information regarding such seller and the distribution of such securities as the Company may from time to time reasonably request in writing and as shall be required by law or by the Commission in connection therewith.

(b) If requested by the underwriters for any underwritten offering of Registrable Securities on behalf of a Holder or Holders of Registrable Securities, the Company will enter into an underwriting agreement with such

underwriters for such offering, such agreement to contain such representations and warranties by the Company and such other terms and conditions as are customarily




contained in underwriting agreements with respect to secondary distributions, including, without limitation, indemnities to the effect and to the extent provided in Section 2.5.

(c) If any registration shall be in connection with an underwritten public offering, each Holder of Registrable Securities agrees (whether or not such Holder has registered Shares in such offering), if so required by the managing underwriters, not to effect any public sale or distribution (including any sale pursuant to Rule 144) of Registrable Securities (other than as part of such underwritten public offering) within 7 days prior to the effective date of the registration statement with respect to such underwritten public offering or 120 days after the effective date of such registration statement (which 120-day period shall be extended to 180 days at the request of the managing underwriter selected by the Company).

(d) The Company agrees, if so required by the managing underwriters in connection with an underwritten offering of Registrable Securities, not to effect any public sale or distribution of any of its equity securities or securities convertible into or exchangeable or exercisable for any of such equity securities during the 7 days prior to and the 120 days after the effective date of any registration statement with respect to such underwritten public offering, except as part of such underwritten offering or except in connection with a stock option plan, stock purchase plan, savings or similar plan, or an acquisition, merger or exchange offer.

(e) It is understood that in any underwritten offering of Registrable Securities in addition to the shares (the "initial shares") the underwriters have committed to purchase, the underwriting agreement may grant the underwriters an option to purchase a number of additional shares (the "option shares") equal to up to 15% of the initial shares (or such other maximum amount as the National Association of Securities Dealers, Inc. may then permit), solely to cover over-allotments. Shares proposed to be sold by the Company and the Holders shall be allocated between initial shares and

option shares as agreed or, in the absence of agreement, pro rata in relation to the number of initial shares sold by each.

SECTION 2.4. Preparation; Reasonable Investigation.

In connection with the preparation and filing of each registration statement registering Registrable Securities under the 1933 Act, the Company will give the Holders of Registrable Securities on whose behalf such Registrable Securities are to be so registered and their underwriters, if any, and their respective counsel and accountants, the opportunity to participate in the preparation of such registration statement, each prospectus included therein or filed with the Commission, and each amendment thereof or supplement thereto, and will give each of them such access to its books and records and such opportunities to discuss the business of the Company with its officers and the independent public accountants who have issued a report on its financial statements as shall be necessary, in the opinion of such Holders and such underwriters or their respective counsel, to conduct a reasonable investigation within the meaning of the 1933 Act. Without limiting the foregoing, each registration statement, prospectus, amendment, supplement or any other document filed with respect to a registration under this Agreement shall be subject to review and reasonable approval by the holders registering Registrable Securities in such registration and by their counsel.

SECTION 2.5. Indemnification.

(a) In the event of any registration of any Registerable Securities under the 1933 Act, the Company will, and hereby does, indemnify and hold harmless, the seller of any Registrable Securities covered by such registration statement, its directors and officers, each other Person who participates as an underwriter in the offering or sale of such securities, each officer and director of each such underwriter, and each other Person, if any, who controls such seller or any such underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, against any losses, claims, damages, liabilities and expenses, including legal and other expenses




incurred in investigating and defending any such claim, joint or several, to which such seller or any such director or officer or participating or controlling Person may become subject under the 1933 Act or otherwise, insofar as such losses, claims, damages, liabilities or expenses (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such securities were registered under the 1933 Act, any preliminary prospectus, final prospectus or summary prospectus

included therein, or any amendment or supplement thereto, or any document incorporated by reference therein, (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will reimburse such seller, and each such director, officer, underwriter and controlling Person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, liability, action or proceeding or (iii) any violation of any rule or regulation promulgated under the 1933 Act or any other applicable federal or state securities law and relating to any action or inaction of the Company in connection with such registration; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company for use in the preparation thereof by such seller or underwriter, as the case may be. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such seller or any such director, officer, underwriter or controlling Person and shall survive the transfer of such securities by such seller.

(b) The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant



to this Agreement, that the Company shall have received an undertaking satisfactory to it from (i) the prospective seller of such securities, to indemnify and hold harmless the Company in the same manner and to the same extent as set forth in Section 2.5(a) to the extent that the Company incurs any loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arising out of or based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company for use in the preparation thereof by such prospective seller, except that any such prospective seller shall not in any event be liable to the Company pursuant thereto for an amount in excess of the net proceeds of sale of such prospective seller's Registrable Securities so to be sold) the Company, each such underwriter of such securities, each officer and director of each such underwriter and each other Person, if any, who controls the Company or any such underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, and (ii) each such underwriter of such securities, to indemnify and hold harmless (in the same manner and to

the same extent as set forth in Section 2.6(a)) the Company, each officer and director of the Company, each prospective seller, each officer and director of each prospective seller (and, if such prospective seller is a portfolio or investment fund, its investment advisors and the directors and officers thereof) and each other Person, if any, who controls the Company or any such prospective seller within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, with respect to any statement in or omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus included therein, or any amendment or supplement thereto, if such statement or omission was made in reliance upon and in conformity with written information furnished by such prospective seller or such underwriter, as the case may be, to the Company for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Such indemnity shall remain in full force and effect regardless of any





investigation made by or on behalf of the Company or any such director, officer or controlling Person and shall survive the transfer of such securities by such seller.

(c) Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding (including any governmental investigation) involving a claim referred to in Section 2.5(a) or (b), such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action; provided, however, that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under the preceding provisions of this Section 2.5, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action is brought against an indemnified party, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim (in which case, the indemnifying party shall not be liable for the fees and expenses of more than one counsel for all sellers of Registrable Securities, or more than one counsel for the underwriters in connection with any one action or separate but similar or related actions), the indemnifying party will be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified, to the extent that it may wish with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof. The indemnifying party shall not, without the consent of the indemnified party,

settle or compromise any claim or consent to the entry of any judgment which settlement, compromise or judgment would materially and adversely affect the indemnified party other than as a result of money damages or other money payments; provided, that, if the indemnified party shall fail or refuse to consent to such settlement, compromise or judgment proposed by the



indemnifying party and approved by the person asserting such claim, and a judgment thereafter shall be entered or a settlement or compromise thereafter shall be effected on terms less favorable in the aggregate to the indemnified party than the settlement, compromise or judgment so proposed, the indemnifying party shall have no liability with respect to money or other damages in excess of those provided for in the settlement, compromise or judgment so proposed or any costs or expenses related to such claim arising after the date such settlement, compromise or judgment was so proposed.

SECTION 2.6. Contribution.

If the indemnification provided for in Section 2.5 is unavailable to the indemnified party or parties in respect of any losses, claims, damages or liabilities referred to therein, then each such indemnified party and the Company shall contribute to the amount of such losses, claims, damages or liabilities (a) as between the Company and the Holders of Registrable Securities covered by a registration statement, on the one hand, and the underwriters, on the other, in such proportion as is appropriate to reflect the relative benefits received by the Company and such Holders, on the one hand, and the underwriters, on the other, from the offering of the Registrable Securities, or if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits but also the relative fault of the Company and such Holders, on the one hand, and of the underwriters, on the other, in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations, and (b) as between the Company, on the one hand, and each Holder of Registrable Securities covered by a registration statement, on the other, in such proportion as is appropriate to reflect the relative fault of the Company and of each such Holder in connection with such statements or omissions, as well as any other relevant equitable considerations. The relative benefits received by the Company and such Holders, on the one hand, and the underwriters, on the other, shall be deemed to be in the same proportion as the total proceeds from the offering (net of

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underwriting discounts and commissions but before deducting expenses) received by the Company and such Holders bear to the total underwriting discounts and commissions received by the underwriters. The relative fault of the Company and such Holders, on the one hand, and of the underwriters, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and such Holders or by the underwriters. The relative fault of the Company, on the one hand, and of each such Holder, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact relates to information supplied by such party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Holders of Registrable Securities agree that it would not be just and equitable if contribution pursuant to this Section 2.6 were determined by pro rata allocation (even if the underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in the next preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the next preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 2.6, no underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such underwriter has otherwise paid by reason of such untrue or alleged untrue statement or omission or alleged omission, and no Holder of Registrable Securities shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities of such Holder



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were offered to the public exceeds the amount of any damages that such Holder has otherwise paid by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. Each Holder's obligation to contribute pursuant to this Section 2.5 is several in the proportion that the proceeds of the offering

received by such Holder bears to the total proceeds of the offering received by all Holders and not joint.

SECTION 2.7 Nominees of Beneficial Owners.

In the event that any Registrable Securities are held by a nominee for the beneficial owner thereof, the beneficial owner thereof may, at its election, be treated as the Holder of such Registrable Securities for purposes of any request or other action by any Holder or Holders of Registrable Securities pursuant to this Agreement or any determination of any number or percentage of shares of Registrable Securities held by any Holder or Holders of Registrable Securities contemplated by this Agreement. If the beneficial owner of any Registrable Securities so elects, the Company may require assurances reasonably satisfactory to it of such owner's beneficial ownership of such Registrable Securities.

## ARTICLE III

## Miscellaneous

SECTION 3.1. Termination. This Agreement shall terminate on the fifth anniversary of the execution and delivery hereof.

SECTION 3.2. Representations. Each of the parties hereto represents that this Agreement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.



SECTION 3.3. Certain Remedies. Without intending to limit the remedies available to any of the parties hereto, each of the parties hereto agrees that damages at law will be an insufficient remedy in the event such party violates the terms hereof and each of the parties hereto further agrees that each of the other parties hereto may apply for and have injunctive or other equitable relief in any court of competent jurisdiction to restrain the breach or threatened breach of, or otherwise specifically to enforce, any of such party's agreements set forth herein.

SECTION 3.4. Amendments and Waivers. Any term of this Agreement may be amended and the observance of any such term may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and a majority in interest of the holders of the Registrable Securities. Each Holder shall be bound by any amendment or waiver authorized by this Section 3.4, whether or not such Holder shall have consented thereto.

SECTION 3.5. Notices. All notices and other communications provided for herein shall be in writing and shall be delivered by telecopy, by hand or sent by certified or registered mail, return receipt requested, postage prepaid, addressed, if to any Holder, to such Holder at such address as such Holder shall have specified in writing to the party giving any such notice or sending any such communication), and, if to the Company, to Multimedia Games, Inc., 7335 South Lewis Avenue, Tulsa, Oklahoma 74136, Attention: Vice President-Finance, (or to such other address as the Company shall have specified in writing to the party giving any such notice or sending any such communication). All such notices shall be conclusively deemed to be received and shall be effective, (i) if sent by hand delivery, upon receipt, (ii) if sent by telecopy, upon dispatch thereof, or (iii) if sent by registered or certified mail, on the third day after the day on which such notice is mailed.

SECTION 3.6. Benefit; Successors and Assigns. Except as otherwise provided herein, this Agreement shall be binding upon and



shall inure to the benefit of the parties hereto and their respective successors and permitted assigns; provided, however, that this Agreement shall not inure to the benefit of any Permitted Transferee unless such Permitted Transferee shall have executed and delivered to the Company an executed counterpart of this Agreement and shall have agreed to be bound hereunder in the same manner and to the same extent as Holder is bound hereunder. Holder may not assign any of its rights hereunder to any Person other than a Permitted Transferee that has complied with the requirements of the preceding sentence in all respects. Nothing in this Agreement either express or implied is intended to confer on any person other than the parties hereto and their respective successors and permitted assigns, any rights, remedies or obligations under or by reason of this Agreement.

SECTION 3.7 Attorneys' Fees. In any action or proceeding brought to enforce any provision of this Agreement or where any provision hereof is validly asserted as a defense, the successful party shall be entitled to recover reasonable attorneys' fees and expenses in addition to any other available remedy.

SECTION 3.8. Miscellaneous. This Agreement sets forth the entire agreement and understanding among the parties hereto, and supersedes all prior agreements and understandings, relating to the subject matter hereof. All representations and warranties contained herein shall survive the execution and delivery of this Agreement, regardless of any investigation made by any party hereto or on such party's behalf. This Agreement shall be construed and enforced in accordance with and governed by the law of the State of Oklahoma

without regard to the conflict of laws provisions thereof. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized signatories thereunto duly authorized as of the day and year first above written.

MULTIMEDIA GAMES, INC.

By: ----------

HOLDER

By: ----------

Address:

EXHIBIT 10.28

# MULTIMEDIA GAMES, INC.

## PLACEMENT AGENCY AGREEMENT

July 24, 1996

Walsh, Manning Securities, Inc.
90 Broad Street
New York, New York 10004

Gentlemen:

Multimedia Games, Inc, a Texas corporation (the "Company"), proposes to offer for sale (the "Offering") in a private offering pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Act"), and/or Rule 506 of Regulation D promulgated thereunder, up to 70 units (the "Units"), each Unit consisting of (i) 16,667 shares of Common Stock, $.01 par value (the "Common Stock") and (ii) warrants to purchase 16,667 shares of Common Stock (the "Warrants"). The Units will be offered at a purchase price of $50,000 each. The Offering will be made on a "best efforts, all or none" basis as to 50 Units (the "Minimum Offering") and on a "best efforts" basis as to an additional 20 Units (the "Maximum Offering"). Unless the Minimum Offering is sold, no Units will be sold and all subscriptions will be returned to subscribers without interest or deductions. The Company also proposes to offer for sale (the "Bridge Offering") on a "best efforts, all or none" basis 16 Units at $50,000 per Unit (the "Bridge Units"). Each Bridge Unit will be comprised of a one (1) year 10 1/2% $50,000 promissory note (the "Bridge Note") and a warrant to purchase 22,500 shares of Common Stock (the "Bridge Warrant") The terms of the Bridge Offering are set forth in Section "2" hereof. This letter agreement shall confirm our agreement that Walsh, Manning Securities, Inc. will act as our exclusive placement agent in connection with the Bridge Offering and Offering.





The Company shall prepare and deliver to the Placement Agent copies of a disclosure statement with respect to the Offering (the "Disclosure Statement") and a disclosure statement with respect to the Bridge Offering (the "Bridge Disclosure Statement"). The Disclosure Statement and Bridge Disclosure

Statement shall relate to, among other things, the Company, the Units, the Bridge Units and the terms of sale thereof. The Disclosure Statement and Bridge Disclosure Statement shall include exhibits and supplements or amendments in accordance with this Agreement.

1. Appointment of Placement Agent.

On the basis of the representations and warranties contained herein, and subject to the terms and conditions set forth herein, the Company hereby appoints Walsh, Manning Securities, Inc. as its placement agent (the "Placement Agent") and grants to you the exclusive right to offer, as its agent, the Units and Bridge Units which are the subject of the Offering and Bridge Offering pursuant to the terms of this Agreement. On the basis of such representations and warranties, and subject to such conditions, you hereby accept such appointment and agree to use your reasonable best efforts to secure subscriptions to purchase the Units and Bridge Units which are subject to the Offering and Bridge Offering. The agency created hereby is not terminable by the Company except in accordance with the terms of this Agreement or upon breach of this Agreement by the Placement Agent.

2. Bridge Offering.

The Placement Agent shall assist the Company in arranging interim financing prior to the Offering through the sale of 16 Units in the Bridge Offering in the aggregate principal amount of $800,000 to "Accredited Investors" as defined under Regulation D of the Act. The sale of Bridge Units shall be on a "best efforts, all or none" basis and shall be sold in reliance upon an exemption from registration pursuant to Section 4(2) of the Act and/or Rule 506 of Regulation D. The Bridge Offering shall



commence on the date hereof and continue for a 15-day period and may be extended for an additional 15-day period by the Placement Agent. All funds received in the Bridge Offering shall be held in escrow at a bank located in New York City pending the sale of all of the Bridge Units being offered in the Bridge Offering. The Bridge Units will be offered at $50,000 each. Each Bridge Unit will consist of one (1) Bridge Note and a five (5) year Bridge Warrant exercisable at $8.00 per share to purchase 22,500 shares of Common Stock. The Bridge Units, Bridge Notes and Bridge Warrants will conform to the description thereof, in form and substance, as set forth in the Bridge Disclosure Statement.

The Placement Agent shall receive a commission of 5% of the gross proceeds from the sale of the Bridge Units in the Bridge Offering for its services as Placement Agent. The Placement Agent shall also be entitled to a

non-accountable expense allowance equal to 12 of the gross proceeds from the sale of the Bride Units in the Bridge Offering. Concurrent with, and as a condition precedent to the closing of the Bridge Offering, the Company will sell to the Placement Agent (or its designated affiliates) warrants ("Bridge Placement Warrants") to purchase 173,310 shares of the Company's Common Stock exercisable at $8.00 per share subject to adjustment. The Bridge Placement Warrants will be substantially the same with respect to the terms and conditions thereof as the Bridge Warrants.

The Bridge Offering shall be conducted substantially on the same terms as the Offering including, without limitation, preparation and delivery of the Bridge Disclosure Statement, representations, warranties and covenants of the Company, closing conditions, closing documents, and compliance with federal and state securities laws. The Company shall also be responsible for all fees and expenses of the Bridge Offering including "blue sky" filing and legal fees, duplicating, mailing and other expenses, excluding fees of the Placement Agent's legal counsel. The term "Disclosure Statement" as hereinafter set forth in this Agreement,





where applicable with respect to the Bridge Offering, shall also be deemed to mean the "Bridge Disclosure Statement".

3. The Offering.

(a) The Offering shall consist of up to 70 Units at a purchase price of $50,000 per Unit. The Offering shall be made on a "best efforts, all or none" basis as to 50 Units (as previously defined, the "Minimum offering") and on a "best efforts" basis as to an additional 20 Units (as previously defined, "Maximum Offering"). The Warrants contained in the Units will conform to the description thereof , in form and substance, as set forth in the Disclosure Statement. Unless the Minimum Offering is sold, no Units will be sold and all subscriptions will be returned to subscribers without interest or deduction.

(b) The Offering shall commence upon the delivery to the Placement Agent of definitive copies of the Disclosure Statement. The delivery of the Disclosure Statement shall occur not later than 30 days after the closing of the Bridge Offering, and shall expire at 5:00 p.m., New York time, on a date which is 60 days after delivery of the Disclosure Statement. The Offering may be extended for an additional 30 days by the Placement Agent. Such period, as same may be so

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extended, shall hereinafter be referred to as the "Offering Period."

(c) Each prospective investor ("Prospective Investor") who desires to purchase Units shall deliver to the Placement Agent two copies of a subscription agreement (a "Subscription Agreement"), in the form annexed to the Disclosure Statement, two copies of an investor questionnaire (the "Investor Questionnaire"), and immediately available funds in the amount necessary to purchase the number of Units such Prospective Investor desires to purchase. The Placement Agent shall not have any obligation to independently verify the accuracy or completeness of any information contained in any Subscription Agreement or the authenticity, sufficiency, or validity of any check delivered by any Prospective Investor in payment for the Units.

(d) The Placement Agent and the Company shall establish an escrow account (the "Escrow Account") with an independent bank (the "Escrow Agent") in New York City. The Placement Agent shall deliver each check received from a Prospective Investor to the Escrow Agent for deposit in the Escrow Account and shall deliver an executed copy of the Subscription Agreement and Investor Questionnaire received from



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such Prospective Investor to the Company. The Company shall notify the Placement Agent promptly of the acceptance or rejection of any subscription to purchase Units.

(e) If subscriptions for the Minimum Offering are not received from Prospective Investors prior to the expiration of the offering Period and accepted by the Company, the Offering shall be canceled, all funds received and held in the Escrow Account shall be refunded in full without interest or deduction and this Agreement and the agency created hereby shall be terminated without any further obligation on the part of either party, except as provided in Section 16 hereof.

(f) The Placement Agent may engage other broker/dealers selected by the Placement Agent to assist it in the Offering (each such broker/dealer being hereinafter referred to as a "Selling Group Member") and you may allow such Selling Group Member such part of the compensation and payment of expenses payable to you under Section 6 hereof as you shall determine. Any such Selling Group Member shall be a member in good standing of the National Association of Securities

Dealers, Inc. (the "NASD"). Each Selling Group Member shall be required to agree in writing



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to comply with the provisions of this Section 3. The Company hereby agrees to make such representations and warranties to, and covenants and agreements with, any Selling Group Member (including an agreement to indemnify such Selling Group Member on terms substantially similar to Section 15 hereof) as provided herein.

4. Interim Closings/Final Closing.

(a) Subject to consummation of the conditions set forth in Section 10 hereof, if subscriptions for the Minimum Offering have been received in escrow prior to the expiration of the Offering Period and accepted by the Company, a closing under this Agreement (the "Initial Closing") shall be held at the offices of the Placement Agent, or such other place in New York City as the parties may agree, as soon as practicable (but not later than five (5) business days) following the date upon which the Placement Agent and the Company confirm in writing to each other that subscriptions for the Minimum Offering have been accepted or at such other place, time, or date as the Company and you shall agree upon. The date upon which the Initial Closing is held shall hereinafter be referred to as the "Initial Closing Date.



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(b) At any time prior to the expiration of the Offering Period following the Initial Closing and after receipt in escrow and acceptance by the Company of subscriptions for the sale of additional Units ("Interim Closing Amount") up to the Maximum Offering, one or more closings (each an "Interim Closing") shall take place in the manner herein set forth with respect to the Initial Closing with respect to increments of $200,000. In the event that the Offering Period expires prior to receipt in escrow and acceptance by the Company of an Interim Closing Amount, a final closing shall be held at such time regardless of the amount then held in escrow. The final Interim Closing to be held in accordance herewith shall be deemed the "Final Closing" and the date thereof shall be the "Final Closing Date". References herein to a "Closing" shall mean the Initial Closing, any Interim

Closing or the Final Closing, as the context requires, and the date thereof shall be referred to as a "Closing Date."

5. Representations and Warranties of the Placement Agent.

The Placement Agent represents and warrants to the Company as follows:

(a) The Placement Agent is duly organized and validly existing and in





good standing under the laws of its State of formation.

(b) The Placement Agent is, and at the time of each Closing will be, a member in good standing of the NASD.

(c) Sales of the Bridge Units and Units in the Bridge Offering and offering respectively by the Placement Agent will only be made in such jurisdictions in which the Placement Agent or a Selling Group Member is a registered broker-dealer or where an applicable exemption from such registration exists.

(d) Offers and sales of the Bridge Units and Units in the Bridge Offering and Offering by the Placement Agent will be made only in accordance with this Placement Agreement and in compliance with the provisions of Rule 506 of Regulation D (it being understood and agreed that the Placement Agent shall be entitled to rely upon the information and statements provided by the Prospective Investor in the Subscription Agreement and Investor Questionnaires), and the Placement Agent will furnish to each Prospective Investor a copy of the Bridge Disclosure Statement and/or the Disclosure Statement, as the case may be, prior to accepting any subscription for the Bridge Units and Units.





6. Compensation.

The Company shall pay to the Placement Agent the following compensation in connection with the Offering:

(a) If subscriptions for the Minimum offering are received in

escrow prior to the expiration of the Offering Period and accepted by the Company, you shall be entitled, on each Closing Date, as compensation for your services rendered in the Offering as Placement Agent under this Agreement, to selling commissions equal to 10% of the gross proceeds received by the Company from the sale of the Units effected at each Closing and 3% of the gross proceeds from the sale of the Units effected at each Closing in payment for a non-accountable expense allowance. Such amounts shall be paid directly to you by the Escrow Agent from the Escrow Account.

(b) In addition to the compensation payable to the Placement Agent set forth in (a) above, the Company shall sell to the Placement Agent, for nominal consideration, at the Initial Closing of the Minimum Offering, five (5) year warrants ("Offering Placement Warrants") to purchase 350,000 shares of its Common Stock at an initial exercise price of $8.00 per share. The Offering Placement Warrants will conform to the description thereof, in



form and substance, as set forth in the Disclosure Statement.

7. Representations and Warranties of the Company.

(a) The Company represents and warrants to, and agrees with, the Placement Agent that:

(i) Assuming the accuracy of the representations and warranties of the Prospective Investors set forth in the Subscription Agreement and Investor Questionnaire and the representations and warranties of the Placement Agent set forth herein, the Bridge Disclosure Statement and Disclosure Statement (from the date of the Disclosure Statement) (a) shall contain, and at all times during the period from the date hereof to the Final Closing Date, will contain all information required to be contained therein, pursuant to Rules 502 and 506 of Regulation D and all applicable federal and/or state securities and "blue sky" laws, and (b) do not, and during such period will not, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein in light of the circumstances made therein not misleading. Each contract, agreement, instrument, lease, license, or other document required to be described in the Bridge Disclosure Statement and Disclosure Statement shall be, and have been, accurately described therein.

(ii) The Bridge Disclosure Statement and the Disclosure Statement or information provided by the Company to Prospective Investors shall not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the



statements therein in light of circumstances made therein not misleading.

(iii) The Company has not, directly or indirectly, solicited any offer to sell or buy any Bridge Units or Units or any other securities of the Company during the 12 month period ending on the date hereof except as may be indicated in Schedule A hereto and has no present intention to solicit any offer to sell or buy any Bridge Units or Units or any other securities of the Company other than pursuant to this Agreement.

(iv) The Company (the term "Company" includes all subsidiary corporations as used in this Section "7") is, and at all times during the period from the date hereof to the Final Closing Date will be, a corporation duly organized, validly existing, and in good standing under the laws of its respective state of incorporation, with full corporate power and authority, and all necessary consents, authorizations, approvals, orders, licenses, certificates,, and permits and declarations of and from, and has made filings with, all federal, state, Indian and local authorities, to own, lease, license, and use its properties and assets and to conduct its business as presently conducted as described in the Bridge Disclosure Statement and Disclosure Statement. As of the date hereof, the Company is, and at all times during the period from the date hereof to and including the Final Closing Date, duly qualified to do business and is in good standing in every jurisdiction in which its ownership, leasing, licensing, or use of property and assets or the conduct of its business makes such qualification necessary except where the failure to be so qualified would not have a material adverse effect on the Company's business.

(v) The Company has, as of the date hereof, and shall have at each Closing (except as effected by the

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transactions contemplated hereby and except as disclosed in the Bridge Disclosure Statement) an authorized capitalization consisting of 10,000,000 shares of Common Stock, $.Ol par value, of which 2,734,200 shares are issued and outstanding. Each issued and outstanding share of Common Stock is duly authorized, validly issued, fully paid, and non-assessable, without any personal liability attaching to the ownership thereof solely by being such a holder, and has not been issued and is not owned or held in violation of any preemptive rights of stockholders. There is no commitment, plan, or arrangement to issue, and no outstanding option, warrant, or other right calling for the issuance of, any share of capital stock of the Company or any security or other instrument which by its terms is convertible into, exercisable for, or exchangeable for capital stock of the Company, except as indicated in the Bridge Disclosure Statement and Disclosure Statement. There is outstanding no other security or other instrument which by its terms is convertible into or exchangeable for any class of capital stock of the Company, except as may be properly described in the Bridge Disclosure Statement and Disclosure Statement.

(vi) The audited financial statements for the fiscal year ended September 30, 1995 and all other financial statements (the "Financial Statements") of the Company included in the Bridge Disclosure Statement, and to be included in the Disclosure Statement, fairly and accurately (and will fairly and accurately with respect to the Disclosure Statement) present in accordance with generally accepted accounting principles the financial position, the results of operations, and other information with respect to the Company purported to be shown therein at the respective dates and for the respective periods to which they apply. The Financial Statements have been prepared (and will be prepared with respect to the Disclosure Statement) in accordance with generally accepted



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accounting principles consistently applied throughout the periods involved, are correct and complete, and are in accordance with the books and records of the Company. There has at no time been a material adverse change in the financial condition, results of operations, business, properties, assets, liabilities, or future prospects of the Company from the latest information set forth in

the Bridge Disclosure Statement and Disclosure Statement, (which Disclosure Statement will contain the Company's Balance Sheet and Profit and Loss Statement as at and for a period not earlier than June 30, 1996), except as may be properly described in the Bridge Disclosure Statement and the Disclosure Statement as having occurred or as may occur.

(vii) As of the date hereof there is no, and as of each Closing Date there shall not be any, litigation, arbitration, claim, governmental or other proceeding (formal or informal), or investigation pending or to the Company's knowledge threatened, with respect to the company, or its respective operations, businesses, properties, or assets, except as properly described in the Bridge Disclosure Statement or Disclosure Statement or such as individually or in the aggregate do not now have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company. The Company is not, nor as of each Closing Date shall be, in violation of, or in default with respect to, any law, rule, regulation, order, judgment, or decree, except as properly described in the Bridge Disclosure Statement or Disclosure Statement or such as individually or in the aggregate do not have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company; nor is the Company required to take any action in order to avoid any such violation or default.





(viii) As of the date hereof, the Company has, and at all times during the period from the date hereof to and including the Final Closing Date, shall have, good and marketable title in fee simple absolute to all real properties and good title to all other properties and assets which the Bridge Disclosure Statement and Disclosure Statement indicates are owned by it, free and clear of all liens, charges, pledges, mortgages, security interests, and encumbrances (collectively, the "Liens"), except as may be described in the Bridge Disclosure Statement and Disclosure Statement and which Liens, individually or in the aggregate, do not have and will not in the future have a material adverse effect upon the operations, business, properties or assets of the Company.

(ix) As of the date hereof, the Company is not, and at all times during the period from the date hereof to and including the Final Closing Date, shall not be, in violation or breach of,

or in default with respect to complying with any material provision of any contract, agreement, instrument, lease, license, permit, consent, law, rule, regulation, arrangement, and each such contract, agreement, consent, instrument, lease, license, arrangement, and understanding is in full force and effect and is a legal, valid, and binding obligation of the parties thereto enforceable as to them in accordance with its terms. The Company enjoys peaceful and undisturbed possession under all leases, permits and licenses under which it is operating as of the date hereof. As of the date hereof, the Company is not a party to or bound by any contract, agreement, instrument, lease, license, permit, consent, arrangement, or understanding, or subject to any charter or other restriction, which has had or may in the future have a material adverse effect on the financial condition, results of operations, business, properties, assets, liabilities, or future prospects of the Company. The Company is not in violation or breach of, or in default





with respect to, any term of its Certificate of Incorporation as amended or its By-Laws.

(x) To its best knowledge, the Company has not infringed, is not infringing, nor has received notice of infringement with respect to the Intangibles of others. The term "Intangibles" shall mean any patent, trademark, tradename service mark, copyright, franchise, or application therefor or other intangible property or asset. To the best knowledge of the Company, none of the Intangibles presently owned or held by the Company, materially infringe upon any right of any other person or entity. The Company (i) owns or has the right to use, free and clear of all liens, charges, claims, encumbrances, pledges, security interests, defects or other restrictions of any kind whatsoever, sufficient patents, trademarks, service marks, trade names, copyrights, licenses and rights with respect to the foregoing, to conduct its business as presently conducted except as set forth in the Bridge Disclosure Statement and Disclosure Statement, and (ii) except as set forth in the Bridge Disclosure Statement and Disclosure Statement, is not obligated or under any material liability whatsoever to make any payments by way of royalties, fees or otherwise to any owner or licensee of, or other claimant to, any patent, trademark, service mark, trade name, copyright, know-how, technology or other intangible asset, with respect to the use thereof or in connection with the conduct of its business as now conducted or otherwise.

(xi) The Company has all requisite corporate power and authority to execute, deliver, and perform this Agreement and to consummate the transactions contemplated hereby. All necessary corporate proceedings of the Company have been duly taken to authorize the execution, delivery, and performance by the Company of this Agreement and the consummation of the transactions contemplated hereby. This



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Agreement has been duly authorized, executed, and delivered by the Company, is a legal, valid, and binding obligation of the Company, and is enforceable as to the Company in accordance with its terms. Assuming the accuracy of the representations and warranties of the Prospective Investors set forth in the Subscription Agreements and Purchaser Questionnaires and the representations and warranties of the Placement Agent set forth herein, no consent, authorization, approval, order, license, certificate, or permit of or from, or registration, qualification, declaration, or filing with, any federal, state, local, foreign, or other governmental authority or any court or other tribunal is required by the Company for the execution, delivery, or performance by the Company of this Agreement, the consummation of the transactions contemplated hereby and thereby, except the filing of a Notice of Sales of Securities on Form D pursuant to Regulation D, and such consents, authorizations, approvals, registrations, and qualifications as may be required under all applicable federal and/or securities or "blue sky" laws in connection with the issuance., sale, and delivery of the Units pursuant to this Agreement. No consent of any party to any material contract, agreement, obligation, note, indenture, instrument, lease, license, arrangement, or understanding to which the Company is a party, or to which any of its properties or assets are subject, is required for the execution, delivery, or performance of this Agreement, and the consummation of the transactions contemplated hereby and thereby, and such execution, delivery and performance will not violate, result in a breach of, conflict with, or (with or without the giving of notice or the passage of time or both) entitle any party to terminate or call a default under any such contract, obligation, note, indenture, agreement, instrument, lease, license, arrangement, or understanding, violate or result in a breach of any term of the certificate of incorporation or by-laws of the Company, or assuming the accuracy of the

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representations and warranties of the Prospective Investors set forth in the Subscription Agreements and Investor Questionnaires and the representations and warranties of the Placement Agent set forth herein, violate, result in a breach of, or conflict with any law, rule, regulation, order, judgment, or decree binding on the Company or to which any of its operations, businesses, properties, or assets are subject.

(xii) All of the securities to be issued by the Company in the Bridge Offering and Offering to the Prospective Investors and the Placement Agent shall conform to all statements relating thereto as contained in the Bridge Disclosure Statement and Disclosure Statement. The securities, when issued and delivered to the Prospective Investors pursuant to the terms of this Agreement shall be duly authorized, validly issued, fully paid and nonassessable, without any personal liability attaching to the ownership thereof solely by being such holder and shall not have been issued in violation of any preemptive rights of stockholders.

(xiii) Except and to the extent described in or referred to in Schedule B to the Bridge Disclosure Statement (i) no holders of any securities of the Company or of any options, warrants or other convertible securities of the Company have the right to include or demand any securities issued by the Company be included in any registration statement to be filed by the Company or to require the Company to file a registration statement under the Act., and (ii) no person or entity holds any anti-dilution rights with respect to any securities of the Company.

(xiv) Neither the Company nor any of its officers, directors,, or affiliates, has engaged or will engage, directly or indirectly, in any act or activity that may



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jeopardize the status of the offering and sale of the Bridge Units or Units as an exempt transaction under the Act or under all applicable federal and/or state securities or "blue sky" laws

of any jurisdiction in which the Units may be offered or sold.

8. Covenants of the Company.

The Company covenants that it will:

(a) Notify you immediately, and confirm such notice in writing, (i) when any event shall have occurred during the period commencing on the date hereof and ending on the Final Closing Date, as a result of which the Bridge Disclosure Statement or Disclosure Statement would include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (ii) of the receipt of any notification with respect to the modification, rescission, withdrawal, or suspension of the qualification or registration of the Bridge Units or Units, or of an exemption from such registration or qualification, in any jurisdiction. The Company will use its best efforts to prevent the issuance of any such modification, rescission,, withdrawal, or suspension and if you so request, to obtain the lifting thereof as promptly as possible.

(b) Not make any supplement or amendment to the Bridge Disclosure Statement or Disclosure Statement unless such supplement or amendment complies with the requirements of the Act and Regulation D and the applicable federal and/or state securities and "blue sky" laws and unless you shall have approved of such supplement or amendment in writing. If, at any time during the period commencing on the date hereof and ending on the Final Closing Date, any event shall have occurred as a result of which the Bridge Disclosure Statement or Disclosure





Statement contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or if, in the opinion of counsel to the Company or counsel to the Placement Agent, it is necessary at any time to supplement or amend the Bridge Disclosure Statement or Disclosure Statement to comply with the Act, Regulation D, or any applicable securities or "blue sky" laws, the Company will promptly prepare an appropriate supplement or amendment (in form and substance satisfactory to you) which will correct such statement or omission or which will effect such compliance.

(c) Deliver without charge to the Placement Agent such number of copies of the Bridge Disclosure Statement or Disclosure Statement and

any supplement or amendment thereto as may reasonably be requested by the Placement Agent.

(d) Not, directly or indirectly, solicit any offer to buy from, or offer to sell to any person any Bridge Units or Units, except through the Placement Agent.

(e) Use its best efforts to qualify or register the Bridge Units and Units for offering and sale under, or establish an exemption from such qualification or registration under, the securities or "blue sky" laws of such jurisdictions as you may reasonably request; provided, however, that the Company will not be obligated to qualify to do business as a dealer in securities in any jurisdiction in which it is not so qualified. The Company will not consummate any sale of the Bridge Units and Units in any jurisdiction or in any manner in which such sale may not be lawfully made; in this regard the Company shall be entitled to rely on the Placement Agent's representations herein, and the representations of Prospective Investors in the Subscription Agreement and Purchaser Questionnaire and on the Blue Sky qualifications effected by the Placement Agent's counsel.





(f) At all times during the period commencing on the date hereof and ending on the Final Closing Date, provide to each Prospective Investor or his Purchaser Representative (as defined in Regulation D), if any, on request, such information (in addition to that contained in the Bridge Disclosure Statement or Disclosure Statement) concerning the Bridge Offering and Offering, the Company and any other relevant matters, as it possesses or can acquire without unreasonable effort or expense, and to extend to each Prospective Investor or his Purchaser Representative, if any, the opportunity to ask questions of, and receive answers from an officer of the Company concerning the terms and conditions of the Bridge Offering and Offering and the business of the Company and to obtain any other additional information, to the extent it possesses the same or can acquire it without unreasonable effort or expense, as such Prospective Investor or Purchaser Representative may consider necessary in making an informed investment decision or in order to verify the accuracy of the information furnished to such Prospective Investor or Purchaser Representative, as the case may be.

(g) Provide to each Prospective Investor or his Purchaser Representative any information required to be delivered by Rule 502(b) of Regulation D.

(h) Disclose to each Prospective Investor, in writing, any

material relationship between such Prospective Investor's Purchaser Representative, if any, or its affiliates, on the one hand, and the Company or its affiliates, on the other hand, which, to the knowledge of the Company, then exists or is understood to be contemplated or has existed at any time during the previous two years and any compensation received or to be received as a result of such relationship.

(i) Before accepting any subscription to purchase Bridge Units or Units from, or making any sale to, any Prospective Investor, have reasonable grounds to believe and will believe (after making reasonable inquiry as required under the





Subscription Agreements and Investor Questionnaires) that (A) such Prospective Investor meets the suitability requirements for investing in the Bridge Units or Units as set forth respectively in the Bridge Disclosure Statement or Disclosure Statement, and (B) such Prospective Investor is an Accredited Investor (as defined in Regulation D).

(j) Notify you promptly of the acceptance or rejection of any subscription. The Company shall not (i) accept subscriptions from, or make sales of the Bridge Units or Units to, any Prospective Investors who are not, to the Company's knowledge, accredited investors, or (ii) unreasonably reject any subscription for the Bridge Units or Units.

(k) File five copies of a Notice of Sales of Securities on Form D with the Securities and Exchange Commission (the "Commission") no later than 15 days after the first sale of the Bridge Units or Units and file a final notice on Form D with the Commission no later than 30 days after the last sale of the Bridge Units or Units. The Company shall file promptly such amendments to such Notice on Form D as shall become necessary and, as requested by you, shall also comply with any filing requirement imposed by the laws of any state or jurisdiction in which offers and sales are made. The Company shall furnish you with copies of all such filings.

(l) Not, directly or indirectly, engage in any act or activity which may jeopardize the status of the Offering and sale of the Bridge Units or Units as exempt transactions under the Act or under the securities or "blue sky" laws of any jurisdiction in which the Bridge Offering or Offering may be made. Without limiting the generality of the foregoing, and notwithstanding anything contained herein to the contrary, the Company shall not, directly or indirectly, engage in any offering of securities which, if integrated with the Offering in the manner prescribed by Rule 502(a) of Regulation D and applicable releases

of the Commission, may jeopardize the status





of the offering and sale of the Units as exempt transactions under Regulation D.

(m) Apply the net proceeds from the sale of the Bridge Units and Units as set forth in the Bridge Disclosure Statement or Disclosure Statement.

(n) Not, during the period commencing on the date hereof and ending on the Final Closing Date, issue any press release or other communication, or hold any press conference with respect to the Company, its financial condition, results of operations, business, properties, assets, or liabilities, Bridge Offering or the Offering, without your prior written consent, except as required by applicable securities laws.

(o) During the period commencing on the date hereof and ending on the Final Closing Date, the Company shall not, without prior notice to and consent of the Placement Agent subject to Schedule B of the Disclosure Statement: (A) issue any securities or incur any liability or obligation, for borrowed money; (B) enter into any transaction not in the ordinary course of business; or (C) declare or pay any dividend on its capital stock except for the regular quarterly dividend on its outstanding preferred stock.

(p) Not, under any Stock Option Plan now or hereafter in effect, grant options for the issuance by the Company in any one year, on an aggregate basis, to purchase more than (i) 200,000 shares of the Company's Common Stock during the one (1) year period commencing from the date hereof and (ii) 100,000 shares of the Company's Common Stock for each of the next three (3) years thereafter.

(q) Not during the 12-month period following the Final Closing Date, except with respect to outstanding warrants or options or warrants issued in connection with the Bridge Offering or Offering, offer for sale or sell any shares of its





Common Stock or any securities convertible into or exchangeable for

shares of its Common Stock without the prior written consent of the Placement Agent; provided, however, that the Company may offer for sale, sell or grant options, rights or warrants in connection with its shares of Common Stock at a price in excess of $8.00. Further, in connection with any future issuance of its Common Stock, during the aforesaid 12-month period, the Company shall not grant registration rights to any party which requires the Company to file a Registration Statement with the Commission, which Registration Statement shall include therein more than 25% of the shares of the Company's Common Stock issued by the Company in any one transaction; except, however, for 70,000 shares of the Company's Common Stock which is disclosed in Part II of Schedule B to the Bridge Disclosure Statement.

9. Payment of Expenses.

The Company hereby agrees to pay all fees, charges, and expenses incident to the performance by the Company and the Placement Agent of its obligations hereunder, including, without limitation, all fees, charges, and expenses in connection with: (i) the preparation, printing, filing, distribution, and mailing of the Bridge Disclosure Statement. Disclosure Statement, the Subscription Agreements, the Investor Questionnaire, and all other documents relating to the Bridge, the Offering, the purchase, sale, and delivery of the Bridge Units and Units, and any supplements or amendments thereto, including the cost of all copies thereof; (ii) the preparation and reproduction of this Agreement; (iii) the issuance, sale, and delivery of the Bridge Units and Units and securities contained therein, including any issuance taxes payable thereon and the fees of any transfer agent or registrar; (iv) the registration or qualification of the Bridge Units and Units or the securing of an exemption therefrom under state or foreign "blue sky" or securities laws, including without limitation, filing fees payable in the jurisdictions in which such registration or qualification or exemption therefrom is sought, disbursements in connection therewith, the costs of preparing preliminary, supplemental, and final "Blue Sky Surveys" relating to



the offer and sale of the Units, and the "Blue Sky" fees of counsel for the Placement Agent in connection therewith in an amount equal to $5000 in connection with the Bridge Offering and $5000 in connection with the Offering, all of which shall be paid prior to commencement of each of the Bridge Offering and Offering; and (v) filing fees payable to governmental agencies, if any; (vi) the retention of the Escrow Agent, including the fees and expenses of the Escrow Agent for serving as such and the fees and expenses of its counsel, if any. Notwithstanding the foregoing, the parties agree that the Company shall not be responsible for payment of the non-"Blue Sky" legal fees of counsel to the Placement Agent.

10. Conditions of Placement Agent's Obligations.

The obligations of the Placement Agent pursuant to this Agreement shall be subject, at its option, to the continuing accuracy of the representations and warranties of the Company contained herein and in each certificate and document contemplated under this Agreement to be delivered to the Placement Agent, as of the date hereof and as of each Closing Date of the Bridge Offering and Offering, with respect to the performance by the Company of its obligations hereunder, and to the following conditions:

(a) At each Closing, the Placement Agent shall have received the favorable opinion of Hall, Estill, Hardwick, Gable, Golden & Nelson, legal counsel for the Company, dated each Closing Date, addressed to the Placement Agent, and in form and substance satisfactory to legal counsel for the Placement Agent to the effect that:

(i) the Company and each of its subsidiary corporations are duly organized, validly existing, and in good standing under the laws of the respective states of incorporation, with full corporate power and authority to own, lease, license, and use its properties and assets and to conduct its business in the manner described in the Bridge Disclosure Statement and Disclosure Statement and is



duly qualified to do business and is in good standing as a foreign corporation (where such certificate of foreign qualification is on file with the appropriate state agency) in every jurisdiction in which its ownership, leasing, licensing, or use of property and assets or the conduct of its business makes such qualification necessary (except where the failure to so qualify would not have a material adverse effect upon the Company or its business);

(ii) the Company has, as of the date hereof, an authorized capitalization as set forth in the Bridge Disclosure Statement and Disclosure Statement. Each issued and outstanding share of Common Stock and Preferred Stock is duly authorized, validly issued, fully paid, and nonassessable, with no personal liability attaching to the ownership thereof solely by being such a holder and has not been issued and is not owned or held in violation of any preemptive right of stockholders. To Counsel's knowledge there is no commitment, plan, or arrangement to issue, and no outstanding option, warrant, security, or other right

calling for the issuance of, any share of capital stock of the Company or any security or other instrument which by its terms is convertible into, exercisable for, or exchangeable for capital stock of the Company, except as may be properly described in the Bridge Disclosure Statement, the Disclosure Statement or in this Agreement. To Counsel's knowledge there is outstanding no security or other instrument which by its terms is convertible into or exchangeable for capital stock of the Company, except as may be properly described in the Bridge Disclosure Statement and Disclosure Statement or in a schedule hereto;

(iii) To Counsel's knowledge there is no litigation, arbitration, claim, governmental or other proceeding (formal or informal), or investigation pending or threatened with respect to the Company or any of its operations, businesses, properties, or assets except as may





be properly described in the Bridge Disclosure Statement or Disclosure Statement, in this Agreement or in a schedule hereto;

(iv) counsel has not received written or oral notice that the Company is in violation or breach of, or in default with respect to, complying with any provision of any contract, agreement, instrument, lease, license, permit, law, regulation, arrangement, or understanding;

(v) the Company has all requisite corporate power and authority to execute, deliver, and perform this Agreement, and to consummate the transactions contemplated hereby. All necessary corporate proceedings of the Company have been taken to authorize the execution, delivery, and performance by the Company of this Agreement, and the consummation of the transactions contemplated hereby. This Agreement has been duly authorized, executed, and delivered by the Company, is the legal, valid, and binding obligation of the Company, and is enforceable against the Company in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application now or hereafter in effect relating to or affecting the enforcement of creditors' right generally and the application of general equitable principles in any action, legal or equitable and then except, as to those provisions relating to indemnity or contribution, such opinion shall be limited as effected by any Federal or state securities laws regarding indemnity and/or contribution;

(vi) the Bridge Units and Units conform to all statements relating thereto contained in the Bridge Disclosure Statement and Disclosure Statement. The Bridge Units and Units and the securities contained therein, are duly authorized, validly issued, fully paid (including all





shares issued upon warrants described therein when paid for), and nonassessable, with no personal liability attaching to the ownership or any of the components thereof (other than the contractual obligations of such holders contained in the Notes and Warrants) and to such counsel's knowledge shall not have been issued in violation of any preemptive rights of stockholders;

(vii) the Bridge Disclosure Statement and Disclosure Statement (except that no opinion need be expressed as to the financial statements, related schedules, or other financial data contained therein) comply as to form in all material respects with requirements of the Act and the regulations thereunder applicable to offerings made pursuant to Rule 506 of Regulation D and to the best knowledge of such counsel, any contract, agreement, instrument, lease, license, or document described in the Bridge Disclosure Statement and Disclosure Statement has been accurately described therein;

(viii) such counsel's opinion shall also include a statement to the effect that it has participated in conferences with officers and other representatives of the Company and representatives of the independent public accountants of the Company at which the contents of the Bridge Disclosure Statement and Disclosure Statement were discussed and, on the basis of the foregoing, nothing has come to such counsel's attention that causes it to believe that the Bridge Offering and Offering as supplemented or amended at all times up to and including the date of such opinion, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of circumstances under which they were made, not misleading (it being understood that such counsel expresses no opinion or belief with respect to the financial

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information included in the Bridge Disclosure Statement or Disclosure Statement);

(ix) assuming that (i) a proper Form D is filed in accordance with Rule 503 of Regulation D, (ii) that the offer and the sale of the Bridge Units by the Placement Agent was made in compliance with Rule 506 of Regulation D and that the Placement Agent's representations and warranties set forth herein are true and correct, and (iii) that the representations of the Prospective Investors in the Subscription Agreements and Investors Questionnaire signed by them are true and correct (which facts will not be independently verified by such counsel), the sale of the Bridge Units in the Bridge Offering and sale of the Units in the Offering is exempt from registration under the Securities Act of 1933 and is in compliance with Rule 506 of Regulation D;

(x) neither the execution and delivery of this Agreement, the Bridge Notes and Bridge Warrants contained in the Bridge Units and the Common Stock and Warrants contained in the Units, nor compliance with the terms hereof or thereof will (i) conflict with, result in a breach of, or constitute a default under the Certificate of Incorporation or By-Laws of the Company, or, to the best of such counsel's knowledge, any material contract, instrument, obligation, agreement or document to which the Company is a party, or by which the assets or properties of the Company are bound; or (ii) to the best knowledge of such counsel, have any material adverse effect on any permit, certification, registration, approval, consent, license or franchise necessary for the Company to own or lease and operate any of its properties and to conduct its business or the ability of the Company to make use thereof as described in the Bridge Disclosure Statement or Disclosure Statement;



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(xi) counsel has not been advised in writing or otherwise that there are any licenses, permits, certificates, registrations, approvals or consents of any governmental agency, commission, board, instrumentality or department that are required to be obtained by the Company in order to conduct its business as conducted at the date hereof which have not been so obtained and where the failure to so obtain would have a material

adverse effect on the Company's business or the business of any subsidiary;

(xii) To the knowledge of counsel the issuance of the Bridge Units in the Bridge Offering or the Units in the Offering will not give any holder of any of the Company's outstanding Common Stock, options, warrants, convertible securities or rights to purchase shares of the Company's Common Stock or Preferred Stock, the right to purchase any additional shares of Common Stock.

In rendering such opinion, counsel for the Company may rely (A) as to matters of fact, to the extent they deem proper, on certificates of officers of the Company; and (B) to the extent they deem proper, upon written statements or certificates of officers of departments of various jurisdictions having custody of documents respecting the corporate existence or good standing of the Company, provided that copies of any such statements or certificates shall be delivered to counsel for the Placement Agent.

(b) on or prior to the Closing of the Bridge offering and Initial Closing of the Offering the Placement Agent shall have been furnished such information, documents, certificates, and opinions as it may reasonably require for the purpose of enabling it to review the matters referred to in Section 7, and in order to evidence the accuracy, completeness, or satisfaction of any of the representations, warranties, covenants,





agreements, or conditions herein contained, or as it may otherwise reasonably request.

(c) Upon Closing of the Bridge Offering and each Closing Date of the Offering, the Placement Agent shall have received a certificate of the chief executive officer and of the chief financial officer of the Company, dated the applicable Closing Date to the effect that, as of the date of this Agreement and as each Closing Date the representations and warranties of the Company contained herein and therein were and are accurate, and that as of each Closing Date the obligations to be performed by the Company hereunder on or prior thereto have been fully performed.

(d) All proceedings taken in connection with the issuance, sale, and delivery of the Bridge Units and Units shall be satisfactory in form

and substance to you and your counsel.

(e) There shall not have occurred after the date hereof, at any time prior to each Closing Date: (A) any domestic or international event, act, or occurrence which has materially disrupted, or in your opinion will in the immediate future materially disrupt the securities markets; (B) a general suspension of, or a general limitation on prices for, trading in securities on the Nasdaq SmallCap Market or the over-the-counter market; (C) any banking moratorium declared by a state or federal authority; (D) any material interruption in the mail service or other means of communication within the United States; (E) any adverse change in the business, properties, assets, results of operations, or financial condition of the Company; or (F) any change in the market for securities in general or in political, financial, or economic conditions which, in your judgment, makes it inadvisable to proceed with the offering, sale, and delivery of the Units.

Any certificate or other document signed by any officer of the Company and delivered to you or to your counsel at the





Closing of the Bridge Offering or each Closing Date of the Offering shall be deemed a representation and warranty by the Company hereunder as to the statements made therein. If any condition to your obligations hereunder has not been fulfilled as and when required to be so fulfilled, you may terminate this Agreement or, if you so elect, in writing waive any such conditions which have not been fulfilled or extend the time for their fulfillment. In the event that you elect to terminate this Agreement, you shall notify the Company of such election in writing. Upon such termination, neither party shall have any further liability or obligation to the other except as provided in Section 11 hereof.

(f) At the Closing of the Bridge Offering and each Closing of the Offering, the Placement Agent shall have received the favorable opinion of counsel satisfactory to counsel to the Placement Agent as to the compliance by the Company with all federal, state, Indian and local laws, rules and regulations, or any license, permit, certification, approval or consent, in each case relating to the Company's services as described in the Bridge Disclosure Statement and Disclosure Statement.

(g) On or before the Closing of the Bridge Offering, the Company shall provide the Placement Agent with enforceable agreements (the "Lock-Up Agreements") from each of the Company's officers, directors, and shareholders owning 1% or more of the Company's outstanding Common

Stock and all holders of the Company's outstanding warrants, options and other convertible securities requiring the issuance of more than 1% of the Company's outstanding Common Stock, as of the date hereof, which Lock-Up Agreements shall provide that the party executing the Lock-Up Agreements shall not, for a period of 12 months from the later of (i) Closing of the Bridge Offering or (ii) Final Closing of the Offering, (and except where a different period is provided for therein with the permission of the Placement Agent), directly or indirectly, issue, offer to sell, grant an option for the sale of, assign, transfer, pledge, hypothecate or





otherwise encumber or dispose of any shares of the Company's Common Stock or securities convertible into, exercisable or exchangeable for or evidencing any right to purchase or subscribe for any shares of Common Stock (either pursuant to Rule 144 of the Rules and Regulations or otherwise) or dispose of any beneficial interest therein without the written consent of the Placement Agent. The Lock-Up Agreements shall terminate if the Minimum Offering is not consummated and such failure to consummate the Minimum Offering was not caused by the act or omission of the Company. Notwithstanding the foregoing, a Lock-Up Agreement shall not be required from those parties indicated on Schedule B to this Agreement.

(h) The Company shall execute and deliver a Registration Rights Agreement, in form acceptable to the Placement Agent, with respect to the Bridge Warrants; shares of Common Stock underlying the Bridge Warrants; securities issuable upon conversion of Bridge Notes; Warrants and the shares of Common Stock underlying the Warrants; Bridge Placement Warrants and the shares of common stock underlying the Bridge Placement Warrants; and Offering Placement Warrants and the shares of Common Stock underlying the Offering Placement Warrants.

(i) The Placement Agent shall have received from the Company a modification to a certain placement agent agreement dated January 29, 1996 by and between the Company and G-V Capital Corp., in the form as set forth on Schedule C annexed hereto.

11. Conditions of Company's Obligations.

The obligations of the Company pursuant to this Agreement shall be subject, in its discretion, to the performance by the Placement Agent in all material respects of its obligations hereunder.

12. Break-Up Fee.

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The Company agrees that if the Bridge Offering or Offering contemplated hereunder is not consummated because of a breach by the Company of any covenant, representation or warranty contained in the Placement Agreement then, in that event, the Company shall be liable for the Placement Agent's expenses, including counsel fees, and, in addition, shall pay to the Placement Agent as liquidated damages an amount equal to $50,000 with respect to the Bridge offering and $100,000 with respect to the Offering.

13. Right of First Refusal.

Upon the Closing of the Bridge Offering, the Company will deliver an agreement to the effect that the Placement Agent shall thereafter have an irrevocable right of first refusal for a period of two (2) years from such Closing to purchase for its account or to sell for the account of the Company, or any subsidiary of or successor to the Company, or any of its stockholders owning at least one (1%) percent or more of the Common Stock of the Company or a party holding the Company's convertible securities which require the issuance by the Company of at least 1% or more of the Common Stock of the Company on the date hereof (the "Principal Stockholders") any securities of the Company or any such subsidiary or successor of the Company, that the Company or any such subsidiary or successor or any of its Principal Stockholders may seek to sell through an underwriter, placement agent or broker/dealer whether pursuant to registration under the Act or otherwise. The Company, any such subsidiary or successor and its Principal Stockholders will consult with the Placement Agent with regard to any such offering and will offer the Placement Agent the opportunity to purchase or sell any such securities on terms not less favorable to the Company, any such subsidiary or successor or its Principal Stockholders than it or they can secure elsewhere. If the Placement Agent fails to accept such offer within 15 business days after the mailing of a notice containing such offer by registered mail addressed to the Placement Agent (three (3) business days in the event the offer covers a sale under Rule 144 or Rule 144(k)), then the Placement Agent shall have no further claim or right with respect to the financing or stock sale



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proposal contained in such notice. If, however, the terms of such proposal are subsequently modified in any material respect, the preferential right referred to herein shall apply to such modified proposal as if the original proposal had

not been made. The Placement Agent's failure to exercise its preferential right with respect to any particular proposal shall not affect its preferential rights relative to future proposals. The Company represents and warrants that there are presently no other rights of first refusal for future financing now outstanding. The agreement to be furnished to the Placement Agent under this Section shall terminate if the Minimum Offering is not consummated.

14. Warrant Solicitation Fee.

Commencing on the date hereof, upon the exercise of any Bridge Warrant or Warrant, the exercise of which was solicited by the Placement Agent in accordance with the applicable rules and regulations of the NASD prevailing at the time of such solicitation, the Company shall pay to the Placement Agent a fee of 4% of the aggregate exercise price of such Bridge Warrant or Warrant within five (5) business days of such exercise. The Company further agrees that it will not solicit the exercise of any Bridge Warrant or Warrant other than through the Placement Agent, unless the Placement Agent cannot legally solicit the exercise of the Bridge Warrants or Warrants at the time of such solicitation.

15. Solicitation Prohibition.

The Company agrees that, for a period of two (2) years from the date hereof, it shall not solicit any offer to buy from or offer to sell to any person introduced to the Company by the Placement Agent in connection with the Offering, directly or indirectly, any securities of the Company or of any other entity, or provide the name of any such person to any other securities broker or dealer or selling agent. In the event that the Company or any of its affiliates, directly or indirectly, solicits, offers to buy from or offers to sell to any such person any such securities, or provides



the name of any such person to any other securities broker or dealer or selling agent, and such person purchases such securities or purchases securities from any other securities broker or dealer or selling agent, the Company shall pay to the Placement Agent an amount equal to 10% of the aggregate purchase price of the securities so purchased by such person.

16. Indemnification and Contribution.

(a) The Company agrees to indemnify and hold harmless the Placement Agent, its officers, directors, partners, employees, agents, and counsel, and each person, if any, who controls the Placement Agent within the meaning of Section 15 of the Act or Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"),

against any and all loss, liability, claim, damage, and expense whatsoever (which shall include, for all purposes of this Section 15, but not be limited to, attorneys' fees and any and all expense whatsoever incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever and any and all amounts paid in settlement of any claim or litigation) as and when incurred arising out of, based upon, or in connection with (i) any untrue statement or alleged untrue statement of a material fact contained in the Disclosure Statement or in any document delivered or written statement made pursuant to Section 8 (g) , or (B) in any application or other document or communication (it being understood that neither the Company nor any officer, director or employee shall provide any information to any Prospective Investor which is not contained in the Disclosure Statement) (in this Section 15 collectively called an "application") executed by or on behalf of the Company or based upon written information furnished by or on behalf of the Company filed in any jurisdiction in order to register or qualify the Units under the "blue sky" or securities laws thereof or in order to secure an exemption from such registration or qualification or filed with the Commission; or any omission or alleged omission to state a material fact



required to be stated therein or necessary to make the statements therein not misleading, unless such statement or omission was made in reliance upon and in conformity with written information furnished to the Company as stated in Section 15(b) with respect to the Placement Agent expressly for inclusion in the Bridge Disclosure Statement or Disclosure Statement or in any application, as the case may be; or (ii) any breach of any representation, warranty, covenant, or agreement of the Company contained in this Agreement. The foregoing agreement to indemnify shall be in addition to any liability the Company may otherwise have, including liabilities arising under this Agreement.

If any action is brought against the Placement Agent or any of its officers, directors, partners, employees, agent, or counsel, or any controlling persons of the Placement Agent (an "indemnified party"), in respect of which indemnify may be sought against the Company pursuant to the foregoing paragraph, such indemnified party or parties shall promptly notify the Company (the "indemnifying party") in writing of the institution of such action (but the failure so to notify shall not relieve the indemnifying party from any liability it may have other than pursuant to this Section 15(a)) and the indemnifying party shall promptly assume the defense of such action, including the employment of counsel (reasonably satisfactory to such indemnified party or parties) and payment of expenses. Such indemnified party shall have the right to

employ its own counsel in any such case, but the fees and expense of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been authorized in writing by the indemnifying party in connection with the defense of such action or the indemnifying party shall not have promptly employed counsel satisfactory to such indemnified party or parties to have charge of the defense of such action or such indemnified party or parties shall have reasonably concluded that there may be one or more legal defenses available to it or them or to other indemnified parties which are different from or





additional to those available to one or more of the indemnifying parties, in any of which events such fees and expenses of one such counsel shall be borne by the indemnifying party and the indemnifying party shall not have the right to direct the defense of such action on behalf of the indemnified party or parties. Anything in this paragraph to the contrary notwithstanding, the indemnifying party shall not be liable for any settlement of any such claim or action effected without its written consent. The Company agrees promptly to notify the Placement Agent of the commencement of any litigation or proceedings against the Company or any of its officers or directors in connection with the sale of the Units, the Disclosure Statement, or any application.

(b) The Placement Agent agrees to indemnify and hold harmless the Company, its officers, directors, employees, agents, and counsel, and each other person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, to the same extent as the foregoing indemnity from the Company to the Placement Agent in Section 15(a), with respect to any and all loss, liability, claim, damage, and expense whatsoever (which shall include, for all purposes of this Section 15, but not be limited to, attorneys' fees and any and all expense whatsoever incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever and any and all amounts paid in settlement of any claim or litigation) as and when incurred arising out of, based upon, or in connection with (i) statements or omissions, if any, made in the Bridge Disclosure Statement or Disclosure Statement in reliance upon and in conformity with written information furnished to the Company as stated in this Section 15(b) with respect to the Placement Agent expressly for inclusion in the Bridge Disclosure Statement or Disclosure Statement, and (ii) the failure of the Placement Agent to comply with the provisions of section 2(c) hereof or with the "blue sky" or securities laws of the jurisdictions in which the Placement Agent

solicits offers to



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buy or offers to sell any Units or any breach of any representation, warranty, covenant or agreement of the Placement Agent contained in this Agreement. The foregoing agreement to indemnify shall be in addition to any liability the Placement Agent may otherwise have, including liabilities arising under this Agreement. If any action shall be brought against the Company or any other person so indemnified based on the Bridge Disclosure Statement or Disclosure Statement and in respect of which indemnity may be sought against the Placement Agent pursuant to this Section 15(b), the Placement Agent shall have the rights and duties given to the indemnifying party, and the Company and each other person so indemnified shall have the rights and duties given to the indemnified parties, by the provisions of Section 15(a).

(c) To provide for just and equitable contribution, if (i) an indemnified party makes a claim for indemnification pursuant to Sections 15(a) and 15(b) but it is found in a final judicial determination, not subject to further appeal, that such indemnification may not be enforced in such case, even though this Agreement expressly provides for indemnification in such case, or (ii) any indemnified or indemnifying party seeks contribution under the Act, the Exchange Act, or otherwise, then the Company (including for this purpose any contribution made by or on behalf of any officer, director, employee, agent, or counsel of the Company, or any controlling person of the Company), on the one hand, and the Placement Agent (including for this purpose any contribution by or on behalf of an indemnified party), on the other hand, shall contribute to the losses, liabilities, claims, damages, and expenses whatsoever to which any of them may be subject, in such proportions as are appropriate to reflect the relative benefits received by the Company, on the one hand, and the Placement Agent, on the other hand; provided, however, that if applicable law does not permit such allocation, then other relevant equitable considerations such as the relative fault of the Company and the Placement Agent in connection with the facts which resulted in such



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losses, liabilities, claims, damages, and expenses shall also be considered. The relative benefits received by the Company, on the one

hand, and the Placement Agent, on the other hand, shall be deemed to be in the same proportion as (x) the total proceeds from the Bridge Offering or Offering, as the case may be, (net of compensation payable to the Placement Agent pursuant to Section 2 or Section 6, as the case may be, hereof but before deducting expenses) received by the Company, and (y) the compensation received by the Placement Agent pursuant to Section 2 or Section 6 hereof.

The relative fault, in the case of an untrue statement, alleged untrue statement, omission, or alleged omission, shall be determined by, among other things, whether such statement, alleged statement, omission, or alleged omission relates to information supplied by the Company or by the Placement Agent, and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement, alleged statement, omission, or alleged omission. The Company and the Placement Agent agree that it would be unjust and inequitable if the respective obligations of the Company and the Placement Agent for contribution were determined by pro rata or per capita allocation of the aggregate losses, liabilities, claims, damages, and expenses or by any other method of allocation that does not reflect the equitable considerations referred to in this Section 18(c). In no case shall the Placement Agent by responsible for a portion of the contribution obligation in excess of the compensation received by it pursuant to Section 2 with respect to the Bridge offering and Section 6 with respect to the offering. No person guilty of a fraudulent misrepresentation shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. For purposes of this Section 18(c), each person, if any, who controls the Placement Agent within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act and each officer, director, partners, employee, agent, and counsel of the Placement Agent, shall have the same



rights to contribution as the Placement Agent, and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act and each officer, director, employee, agent, and counsel of the Company, shall have the same rights to contribution as the Company, subject in each case to the provisions of this Section 15 (c). Anything in this Section 15(c) to the contrary notwithstanding, no party shall be liable for contribution with respect to the settlement of any claim or action effected without its written consent. This Section 15(c) is intended to supersede any right to contribution under the Act, the Exchange Act, or otherwise.

17. Representations and Agreements to Survive Delivery.

All representations, warranties, covenants, and agreements contained in this Agreement shall be deemed to be representations, warranties, covenants, and agreements as of the date hereof and at each Closing Date of the Bridge Offering and the Offering and, such representations, warranties, covenants,, and agreements, including the indemnification and contribution agreements contained in this Agreement, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Placement Agent or any indemnified person, or by or on behalf of the Company or any person or entity which is entitled to be indemnified under Section 15, and shall survive termination of this Agreement and the issuance, sale, and delivery of the Bridge Units or Units. In addition, notwithstanding any election hereunder or any termination of this Agreement, and whether or not the terms of this Agreement are otherwise carried out, the provisions of Sections 9, 12, 14, 15 and 16 shall survive termination of this Agreement and shall not be affected in any way by such election or termination or failure to carry out the terms of this Agreement or any part thereof.

18. Notices.

All communications hereunder, except as may be otherwise specifically provided herein, shall be in writing and, if sent to the





Placement Agent, shall be mailed, delivered, or telexed and confirmed by letter, to Walsh, Manning Securities, Inc., 90 Broad Street, New York, New York 10004, attention Theodore J. Burns, with a copy to Goldstein & DiGioia LLP, 369 Lexington Avenue, New York, New York 10017, Attention: Stanley R. Goldstein, Esq.; or if sent to the Company, shall be mailed, delivered or telexed and confirmed by letter, to Multimedia Games, Inc., 7335 South Lewis Avenue, Tulsa, Oklahoma 74136, Attention: President, with a copy to Hall, Estill, Hardwick, Gable, Golden & Nelson, 320 South Boston Avenue, Suite 400, Tulsa, Oklahoma 74103, Attention: Larry W. Sandel, Esq. All notices hereunder shall be effective upon receipt by the party to which it is addressed.

The parties hereto acknowledge and agree that the Placement Agent shall have the right and option to act as agent for the holders of any Units, Bridge Unit Warrants or the securities contained therein in providing any notice to the Company, including without limitation, any notice required to exercise any registration rights granted herein.

19. Parties.

This Agreement shall inure solely to the benefit of, and shall be binding upon, the Placement Agent and the Company and the persons and entities

referred to in Section 15 who are entitled to indemnification or contribution, and their respective successors, legal representatives, and assigns (which shall not include any purchaser, as such, of Units), and no other person shall have or be construed to have any legal or equitable right remedy, or claim under or in respect of or by virtue of this Agreement or any provision herein contained.

20. Construction.

This Agreement shall be construed in accordance with the laws of the State of New York, without giving effect to conflict of laws. Any action at law or equity under this Agreement shall be brought in





federal or state courts located within the State of New York, except that any action in equity may be brought by any of the parties hereto in any court having the appropriate in personam jurisdiction in the matter.

21. Counterparts.

This Agreement may be executed in counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one agreement.

If the foregoing correctly sets forth the understanding between us, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among us.

Very truly yours,

MULTIMEDIA GAMES, INC.

By: ----------

Name: ----------

Title: ----------

Accepted as of the date
first above written:

WALSH, MANNING SECURITIES, INC.

By:
---

Name:
---

Title:
---



SCHEDULE A

Securities Sold Within Last 12 Months

<TABLE>
<CAPTION>

| Name | Event | Date | Number of Shares |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Gordon & Cynthia Graves | Exercise Warrants | Jun-95 | 66,000 |
| Marvin Burke | Exercise Warrants | Jun-95 | 6,667 |
| Jonathan Goodson | Private Placement | Aug-95 | 27,273 |
| I.M. Tassos | Consulting | Aug-95 | 1,000 |
| Graff Pay-Per-View | Exercise Warrant | Jun-95 | 175,000 |
| Graff Pay-Per-View | Private Placement | Jun-95 | 100,000 |
| First Capital Financial | Exercise Warrants | Aug-95 | 13,000 |
| Gro-Vest Offering | Private Placement | Feb-96 | 589,375 |
| Gordon Graves | Exercise Warrant | Feb-96 | 291,545 |
| Various | Exercise Warrant | Mar-96 | 13,332 |
| | | | --- |
| Total Issue Since 6-1-95 | | | 1,283,192 |
| Outstanding Prior to 6-1-95 | | | 1,451,008 |
| Total Outstanding Currently | | | 2,734,200 |

</TABLE>

* All scheduled parties are Accredited Investors as such term is defined under Rule 506 of Regulation D of the Securities Act of 1933.

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(Initials) (Initials)



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SCHEDULE B

Individuals Not Under Lock-Up

<TABLE>
<CAPTION>

| Name | Number Shares |
|---|---|
| <S> | <C> |
| Cede & Co. (1) | 546,961 |
| GLM, Inc. | 45,000 |
| SCA Promotions | 108,497 |
| Frank T. Nickell | 108,497 |
| Krugman Chapnick | 29,205 |
| Jonathan Goodson (2) | 83,523 |
| American Gaming | 62,500 |
| Communities Foundation of Texas, Inc. | 37,900 |
| Officers & Directors (3) | |

</TABLE>

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(1) Nominee for shares publicly held.

(2) Shares issuable upon exercise of outstanding warrants.

(3) Six (6) months from the final closing date of the Offering, officers and directors of the Company may each sell up to 10,000 shares of the Company's Common Stock or an aggregate of 90,000 shares.



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SCHEDULE C

Modification to Placement Agent Agreement
dated January 29, 1996 by and between Multimedia

Games, Inc. and G-V Capital Corp.

July 24, 1996

Multimedia Games, Inc.
7335 South Lewis Avenue
Tulsa, Oklahoma 74136

Gentlemen:

We have been advised that Multimedia Games, Inc. (the "Company") has entered into a Placement Agency Agreement (the "WM Agreement") with Walsh, Manning Securities, Inc. ("WM") on the date hereof pursuant to which WM will act as Placement Agent with respect to the sale of certain securities offerings contemplated in the WM Agreement and for other good and valuable consideration, the receipt whereof is hereby acknowledged by the Company and the undersigned, the parties hereto agree that:

1. Section 3(y) of a certain placement agent agreement dated January 29, 1996 between the Company and the undersigned (the "G-V Agreement") is herewith deleted and of no further force or effect.

2. The undersigned agrees that it will not release the restrictions contained in Section 3(z) of the G-V Agreement without the consent of WM.

3. This agreement amends the G-V Agreement and shall become effective upon consummation of a certain "Bridge Offering" contemplated in the WM Agreement.

4. Upon the G-V Agreement being amended as described herein, such amendments may not be further amended or modified without the consent of WM.

5. WM may bring any action at law or in equity to enforce this agreement.

Very truly yours,

G-V Capital Corp.

By:
---

AGREED AND CONSENTED TO:

Multimedia Games, Inc.

By:
---

EXHIBIT 10.29

# PLACEMENT AGENT AGREEMENT

This Placement Agent Agreement is made this ___ day of January, 1996, by and between Multimedia Games, inc. (The "Company") and G-V capital corp. ("G.V.").

## RECITALS

WHEREAS, the Company intends to offer and sell (the "Offering") up to 550,000 shares of its Common Stock, par value $.01 per share (the "Shares"), to accredited investors (as (as such term is defined in Rule 501(a) of Regulation D. Promulgation under the Securities Act of 1933, as amended (the "Securities Act"), and has prepared certain offering materials in connection therewith (the "Offering Materials").

WHEREAS, the Offering Materials consist of (i) the Company's Form 10-KSB for the fiscal year ended September 30, 1995 as filed with the Securities and Exchange Commission (the "SEC"), (ii) the Company's Executive Summary dated January 26, 1996, (iii) the Company's Summary of Risk Factors dated January 26, 1996, and (iv) the Company's Summary of Offering dated January 26, 1996;

WHEREAS, the Company desires that G-V act as the exclusive placement agent for the Offering and, in connection therewith, the Company has agreed to pay G-V certain commissions and expenses and to issue G-V certain shares of Common Stock;

WHEREAS, G-V desires to act as placement agent for the Offering, subject to the terms and conditions set forth herein; and

WHEREAS, the parties desire to establish an escrow in connection with the Offering;

## AGREEMENTS

NOW, THEREFORE, for the mutual promises set forth herein and other good and valuable consideration, the parties hereto agree as follows:

1. Placement Agent.

(a) G-V shall act as placement agent in connection with the Offering and use its commercially reasonable efforts, subject to the Securities Act, the Securities Exchange Act of 1934, as amended, and all applicable state securities laws, to solicit prospective investors for the Offering.

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(b) As consideration for G-V's agreement to act as placement agent in connection with the Offering, the Company agrees to pay to G-V (i) a seven and one-half (7-1/2%) commission ($.15 per Share) for each Share (the "Commission") and (ii) a two and one-half percent (2-1/2%) non-accountable expense allowance ($.05 per Share) for each Share (the "Expense Allowance"). The Commission and the Expense Allowance will be payable on all Shares sold or otherwise issued in the Offering.

(c) In addition to the consideration set forth in Section 1(b) above, as closing, the Company shall issue to G-V a number of shares of Common Stock equal to seven and one-half percent (7-1/2%) of the number of Shares sold or otherwise issued in the Offering.

2. ESCROW.

(a) All subscription proceeds for Shares subscribed to be purchased in the Offering (the "Funds") shall be held by G-V in a segregated interest-bearing account at NorthFork Bank, Long Island, New York (or such other bank selected by G-V). The Funds will not be released until all of the conditions listed in Section 2)c) below have occurred or are otherwise waived in writing by G-V.

(b) Provided that the conditions listed in Section 2(c) below have occurred or are otherwise waived and provided further that G-V has received (and the Company has accepted) subscription documents and Funds relating to the sale of at least 150,000 Shares, the company and G-V will proceed with an initial closing of the Offering. The date on which such initial closing occurs shall be the "First Closing Date." On the First closing Date, G-V shall wire transfer to the company's account, pursuant to wiring instruction provided in writing by the Company to G-V, the Funds relating to the subscriptions accepted by the Company as of the First Closing Date. The Company shall promptly thereafter issue, or cause to be issued, to such subscribers certificates representing the requisite Shares subscribed for. Subsequent closings of the Offering shall occur on the same basis when and as the Company and G-V mutually agree and provided that the conditions listed in Section 2(c) below have occurred or are otherwise waived. Each date on which a closing occurs shall be a "Closing Date."

(c) Listed below are the conditions to each closing, including, without limitation, the initial closing to occur on the First Closing Date:

(ii) The Company shall have accepted the subscriptions held in escrow. Such acceptance to be evidenced by the Company's execution of the subscription documents.

(ii) There shall have been furnished to G-V a certificate, dated the applicable Closing Date (as described below) and addressed to G-

V, signed by Gordon T. Graves, Chairman of



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the Board and Chief Executive Officer of the company, and by Frederick E. Roll, Vice President, Treasurer and Secretary of the Company to the effect that: (i) The representations and warranties of the Company contained in this Agreement are true and correct, as if made at and as of such Closing Date, and the Company has complied with all the agreements and satisfied all the conditions on its part to be complied with or satisfied at or prior to such Closing date; and (ii) the signer of said certificate have carefully examined the Offering Materials and any amendments or supplements thereto, and such documents do not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

(iii) Since the date hereof, the Company shall not have sustained any loss or interference with its business from fire, explosion, accident, malfunction, flood or other calamity, or shall have become a party to or the subject of any litigation, which in each case is materially adverse to the Company, nor, except as accurately described in the Offering Materials (exclusive of any amendment or supplement thereto), shall there have been any material adverse change, or any development involving a prospective material adverse change in or affecting the condition (financial or other), business prospects, net worth or results of operations of the Company taken as a whole, whether or not arising in the ordinary course of business.

(iv) On or prior to the First Closing Date (as defined below), G-V shall receive from each person or entity referred to in Section 3(z) hereof the letters contemplated by Section 3(z) hereof.

(v) The Company shall have furnished G-V with such additional documents and certificates as G-V or counsel to G-V may reasonably request.

All such certificates, letters and documents shall be in compliance with the provisions hereof only if they are satisfactory in form and substance to G-V and its counsel. If any of the conditions specified in this Section 2(c) shall not have been fulfilled when and as required by this agreement, G-V shall have no obligation to transfer any Funds to the Company and may, in its sole discretion, return such Funds to subscribers in the Offering. Any such return of Funds to subscribers shall be without liability of G-V to the Company or to any stockholder, officer, director, employee or creditor of the Company.

Notice of such return of Funds to subscribers shall be given to the Company in writing, or by telephone and confirmed in writing.





3. Representations, Warranties and Agreements of the Company. The Company represents and warrants to, and agrees with, G-V that:

(a) The Offering Materials do not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

(b) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Texas with full corporate power and authority to own or lease its properties and conduct its business as described in the Offering Materials and is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which the character of the business conducted by it or the properties owned or leased by it make such qualification necessary, except where the failure to be so qualified will not, individually or int he aggregate, have a material adverse effect on the condition (financial or other), business prospects, net worth or results or operations of the Company taken as a whole.

(c) All of the outstanding shares of capital stock of the Company have been duly authorized and validly issued, fully paid and nonassessable, with no personal liability attaching to the ownership thereof. Excepts as described in the Offering Materials (including the notes to the financial statements included therein), there are (i) no outstanding warrants or options issued or granted by the Company to purchase any shares of the capital stock of the Company, (ii)no preemptive rights or other rights to subscribe for or to purchase, or, any restriction upon the voting or transfer of, any shares of Common Stock pursuant to the certificate of incorporation, by-laws or other governing documents of the Company or any agreement or other instrument to which the Company is a party or by which any of them may be bound, and (iii) no person has any rights for or relating to the registration of any shares of Common Stock or other securities of the Company. The capitalization of the Company as of January 26, 1996, after giving effect to the offering of the Shares, is as set forth in the Offering Materials and the Shares conform to the description thereof contained in the Offering Materials. The Company has not direct or indirect subsidiaries.

(d) The Shares have been duly authorized and, when issued and delivered, the Shares will be duly authorized, validly issued, fully paid and non-assessable and free of preemptive rights and no personal liability will attach to the ownership thereof.

(e) The Shares which may be issuable pursuant to Section 3(cc) hereof

have been reserved for issuance and, when issued in accordance with the terms of Section 3(cc) hereof, will be duly





authorized, validly issued, fully paid and non-assessable and free of preemptive rights and no personal liability will attach to the ownership thereof.

(f) The Company has all necessary corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder; and such agreements have been duly authorized, executed and delivered by the Company and constitute the valid and binding agreements of the Company enforceable against the Company in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally.

(g) Neither the execution, delivery or performance of this Agreement by the Company nor the consummation by the Company of the transactions contemplated hereby will conflict with, or constitute a breach or violation of, or a default under, the certificate of incorporation, by-laws or other governing documents of the Company, or any material agreement, indenture, mortgage, deed of trust or other instrument to which the Company is a party o by which it si bound, or to which any of its properties or assets is subject, or any statute, law, governmental or administrative rule or regulation, order or decree of any court or any governmental agency or body having jurisdiction over the Company or any of its properties, or result in the creation or imposition of any lien, charge, claim, encumbrance, security interest or restriction whatsoever upon any right, property or asset of the Company. Except for (i) permits and similar authorizations required to be obtained by the Company under applicable state securities or "Blue Sky" laws and (ii) such permits, consents and authorizations which have been obtained, no consent, approval, authorizations or order of any court, governmental agency or body or financial institution is required in connection with the consummation by the Company of the transactions contemplated by this Agreement. The Offering complies with an exemption from the registration requirements of the Securities Act.

(h) The Company has not sustained, since the date of the latest audited financial statements included int he Offering Materials, any loss, interruption or interference with its business or its principal assets from fire, explosion, flood, accident, malfunction or other calamity, whether or not covered by insurance, or from any court or governmental action, order or decree (by its terms applicable to the Company), which loss or interference would be material with respect to the Company; and, since the respective dates as of which information is given in the Offering Materials, (i) the Company has not incurred any material liability or obligation, direct or contingent, or entered

into any material transaction not in the ordinary course of business, (ii) the Company has not purchased any of its capital stock, or declared, paid or otherwise made any dividend or distribution of any kind on its capital stock, or declared, paid or otherwise made any dividend or distribution of any kind on its capital stock, and (iii) there has not been any change in the capital stock of the Company or any material change in the short-



term or long-term debt of the Company or any other material adverse change, or any development involving a prospective material adverse change, in or affecting the condition (financial or other), business prospects, net worth or results or operations of the Company taken as a whole, except in each case as described in the Offering Materials.

(i) The financial statements included as a part of the Offering Materials present fairly, in all material respects, the financial conditions and results of operations of the Company, at the dates and for the periods indicated and, except as noted therein, have been prepared in the conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved.

(j) The Company has good and marketable title to all real property owned by it and owns or has valid rights to use all personal property (which is material to its businesses), free and clear of all liens, encumbrances and defects except as described in the Offering Materials and except such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company; and any property or equipment, real, personal or mixed, and buildings held under lease by the Company are held under valid, subsisting and enforceable leases with such exceptions as are OT material and do not interfere with the use made and proposed to be made of such property and buildings by the Company.

(k) The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged; the Company has not been refused any insurance coverage sought or applied for; and the Company has no reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not materially and adversely affect the condition (financial or other), business prospects, net worth or results of operations of the Company taken as a whole.

(l) The Company owns or possesses adequate rights to use all patents, trademarks, service marks, trade names, copyrightable works and licenses (and any authorizations or permits) necessary, in each case, for the conduct of its

business. The Company has no reason to believe that the conduct of its business will conflict with, nor has any knowledge of any claim that will conflict with, the rights of others in respect thereof.

(m) Except as described in the Offering Materials, there are no legal or governmental proceedings pending to which the Company is a party or of which any property of the Company is the subject with may reasonably be expected to, individually or in the aggregate, have a material adverse effect on the condition (financial or other), business prospects, net worth or results of operations of the



Company taken as a whole; and to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by any other party, except in each case as described in the Offering Materials.

(n) To the best of the Company's knowledge, no labor dispute with the employees of the Company exists or is threatened or imminent that could result in a material adverse change in the condition (financial or other), business prospects, net worth or results of operations of the Company taken as a whole.

(o) No relationship, direct or indirect, exists between or among the Company on the one hand and the directors, officers, shareholders, customers or suppliers of the Company on the other hand, except as described in the Offering Materials.

(p) The Company is in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations and published interpretations thereunder, and no "reportable event" (as defined in ERISA and the regulations and published interpretations thereunder) has occurred with respect to any "employee benefit plan" (as defined in ERISA and the regulations and published interpretations thereunder) of the Company, and the Company has not incurred or expects to incur liability under Title IV of ERISA.

(q) The Company has filed, or has obtained currently effective extensions with respect to, all federal, state and local tax returns required to be filed through the date hereof and all such returns are true, correct and complete in all material respects. The Company has paid, or has obtained currently effective extensions with respect to, all taxes due with respect to all such federal, state and local tax returns, and no tax deficiency has been, nor does the Company have any knowledge of any tax deficiency which, if determined adversely to the Company, is reasonably likely, individually or in the aggregate, to have a material adverse effect on the condition (financial or other), business prospects, net worth or results of operations of the Company

taken as a whole. To the best of the Company's knowledge, there is no pending or threatened action, audit, investigation or other proceeding regarding the assessment against, or collection from, the Company of any taxes.

(r) The Company (i) makes and keeps accurate books and records and (ii) maintains internal accounting controls which provide reasonable assurance that (A) transactions are executed in accordance with managements authorization, (B) transactions are recorded as necessary to permit preparation of its financial statements in accordance with generally accepted accounting principles and to maintain accountability for its assets, (C) access to its accounts and financial assets is permitted only





in accordance with management's authorization and (D) the reported accountability for its assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(s) The Company is not (i) in violation of its certificate of incorporation, by-laws or other governing documents, (ii) in default in any respect, and no event has occurred which, with notice or lapse of time or both, would constitute such default, in the due performance or observance of any term, covenant or condition contained in any agreement, indenture, mortgage, deed of trust or other instrument to which it is a party or by which is bound, or to which any of its property or assets is subject, or (iii) in violation in any respect of any federal or state law or regulation, or any other statute, law, governmental or administrative rule or regulation, order or decree of any court or governmental agency or body to which it or its property is subject, except for any such violation or default referred to in (ii) and (iii) above which would not, individually or in the aggregate, have material adverse effect on the condition (financial or other), business prospects, net worth or results of operations of the Company taken as a whole.

(t) Except as described in the Offering Materials, the Company possesses all material certificates, authorizations and permits issued by the appropriate federal or state regulatory authorities necessary to conduct its businesses, and the Company has not received any notice of proceedings relating to the suspension, revocation or modification of any such certificate, authorization or permit or the imposition of any fine or penalty with respect to such certificate, authorization or permit, which individually or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a material adverse change in the operations of the Company or its condition (financial or other), business prospects, net worth or results of operations taken as a whole.

(u) The Company has not taken and will not take, directly or indirectly, any action designed to cause or result in, or which might

reasonably be expected to constitute, the stabilization or manipulation of the price of its securities to facilitate the sale or resale thereof.

(v) The Company shall furnish promptly to G-V and to G-V's counsel such number of copies of the Offering Materials in such quantities as G-V may from time to time reasonably request.

(w) If, prior to the final closing of the Offering, any event occurs as a result of which the Offering Materials as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances then existing, not misleading, the Company shall promptly notify G-V and shall





prepare and furnish without charge to G-V as many copies as necessary of an amended Offering Materials or a supplement to the Offering Materials which will correct such statement or omission.

(x) The Company shall use its best efforts to take or cause to be taken all necessary action and furnish to whomever G-V may reasonably direct such information as may be required in qualifying the Shares for sale under the laws of such jurisdictions within the United States as G-V shall designate, and shall continue such qualifications in effect for as long as may be necessary for completion of the distribution of the Shares in accordance with the terms hereof; except that in no event shall the Company be obligated in connection therewith to qualify to do business in any jurisdiction where it is not now so qualified nor to take any action that will subject it to general service of process in any jurisdiction where it is not now so subject.

(y) The Company shall not, during the twelve (12) month period following the Effective Date (as defined below), except with respect to issuance of a maximum of 817,682 shares of Common Stock relating to options previously granted, offer for sale, sell, grant any option, right or warrant with respect to, or otherwise dispose of, any Shares or shares of Common Stock or any other securities convertible into, or exchangeable or exercisable for, shares of Common Stock (or announce its intention to undertake any of the foregoing), otherwise than in accordance with the Offering Materials, or in connection with Section 3(cc) hereof) or with the prior written consent of G-V, which consent shall not be unreasonably withheld; provided, however, that, subject to the following sentence, the Company may offer for sale, sell, or grant options, rights or warrants with respect to, shares of Common Stock at a per share price in excess of $2.00, without the prior written consent of G-V. Notwithstanding anything to the contrary contained in this Section 3(y), the Company shall not file any registration statement on Form S-3, For S-4 or Form S-8 or make any sales of the Company's securities pursuant to Regulation S,

without the prior written consent of G-V, which consent shall not be unreasonably withheld.

(z) The Company shall cause each director and officer of the Company, and shall use its best efforts to cause each current shareholder known to the Company who beneficially holds 5% or more of the Common Stock of the Company, to furnish to G-V, on or prior to the First Closing Date, a letter or letters, in form and substance satisfactory to counsel for G-V, pursuant to which each such person or entity shall agree not to offer for sale, sell, grant any option, right or warrant with respect to, or otherwise dispose of, any shares of Common Stock or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock (including, without limitation, Shares) (or announce its intention to undertake any of the foregoing), from the date hereof until the date eighteen (18) months after the Effective Date, except with the prior written consent of G-V.





(aa) There are no statutes, regulations, contracts, indentures, mortgages, loan agreements, notes, leases, instruments or other documents which are material to the business of the Company, other than those described or referred to in the Offering Materials.

(bb) There are not contracts, agreements or arrangements (written or oral) which are material to the business of the Company, other than those described or referred to in the Offering Materials.

(cc) The Company shall prepare and file with the SEC a registration statement ("Registration Statement") with respect to the Shares not later than 90 days from the First Closing Date (the "Filing Deadline"). The Company shall prepare and file such amendments and supplements to the Registration Statement as may be necessary to keep the Registration Statement effective until all the Shares have been sold pursuant thereto or until the Shares are no longer, by reason of Rule 144(k) under the Securities Act or any other rule of similar effect, required to be registered for the resale thereof. The Company shall use its best efforts to cause the Registration Statement to become effective and shall diligently pursue such effectiveness. The date on which the Registration Statement is declared effective by the SEC shall be referred to as the "Effective Date." The Company shall provide, at the Company's sole cost and expense, G-V and its counsel, with copies of all filings, correspondence, and other non-privileged documents, relating to the Registration Statement and its amendments. The Company shall not enter into any registration rights, underwriting or private placement arrangement which will conflict with the Company's obligations under this Section 3(cc). In the event that the Company fails to file the Registration Statement with the SEC by the Filing Deadline, the Company shall issue to each of the purchasers of Shares in the Offering

one-tenth of a share of Common Stock for each Share purchased in the Offering for no additional consideration. In the event that the Company fails to file the Registration Statement with the SEC within 90 days after the Filing Deadline, the Company shall issue to the purchasers of Shares in the Offering an additional one-tenth of a share of Common Stock for each Share purchased in the Offering for no additional consideration. In the event that the Company fails to file the Registration Statement with the SEC within 180 days after the Filing Deadline, the Company shall issue to the purchasers of Shares in the Offering an additional one-tenth of a share of Common Stock for each Share purchased in the Offering for no additional consideration and the Company shall be obligated to issue to the purchasers of Shares in the Offering an additional one-tenth of a share of Common Stock for each subsequent 90-day period which passes without the Registration Statement being filed with the SEC.

4. Expenses. The Company shall pay or cause to be paid (a) all expenses (including stock transfer taxes) incurred in connection with the delivery to investors in the Offering of the Shares; (b) all fees and expenses (including, without limitation, fees and expenses of the Company's accountants and counsel,



but excluding fees and expenses of counsel for G-V, except as provided below) in connection with the preparation, printing, and delivery of the Offering Materials and any amendments or supplements thereto and "blue Sky" clearance of the foregoing: (c) any applicable "Blue Sky" listing or other fees; (d) the cost of printing certificates representing the Shares; (e) the cost and charges of any transfer agent or registrar; (f) the cost of the escrow contemplated by Section 2 above; and (g) all other costs and expenses incident to the performance of the obligations of the Company hereunder for which provision is not otherwise made in this Section. It is understood, however, that, except as expressly provided in this Agreement, G-V shall pay all of its own costs and expenses, including the fees of its counsel, and any expenses incurred in connection with G-V's performance hereunder. In the event that G-V's counsel is required or requested to perform legal services on behalf of the Company or legal services normally the responsibility of Company counsel, then the Company will be responsible for the payment of G-V counsel's reasonable legal fees and expenses relating to such legal services performed on the Company's behalf.

5. Indemnification.

(a) The Company shall indemnify and hold harmless G-V from and against any loss, claim, damage or liability (or any action in respect thereof), joint or several, to which G-V may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage or liability (or action in respect thereof) arises out of or ins based upon (i) failure to comply with the registration requirements of the Securities Act, (ii) any untrue statement or

alleged untrue statement of a material fact contained in the Offering Materials, or any amendment or supplement thereto, or in any blue sky application or other document executed by the Company or based upon written information furnished by the Company filed in any state or other jurisdiction in order to qualify any or all of the Shares under the securities laws thereof (any such application, document or information being hereinafter referred to as a "Blue Sky Application"), (iii) the omission or alleged omission to state in the Offering Materials, or any amendment or supplement thereto, or in any Blue Sky Application, a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iv) any action or inaction by the Company in connection with the transactions contemplated by this Agreement which is in violation of, or non-compliance with, the Securities Act or the securities acts of any state or jurisdiction (regardless of whether a Blue Sky Application in such state or jurisdiction was filed), and shall reimburse G-V promptly upon demand for any legal or other expenses as reasonably incurred by G-V in connection with investigating, preparing to defend or defending against or appearing as a third party witness in connection with any such loss, claim, damage, liability or action, notwithstanding the possibility that payments for such expenses might later be held to be improper, in which case such payments shall be promptly refunded.



(b) The obligations of the Company under this Section 5 shall be in addition to any liability which the Company may otherwise have, and shall extend, upon the same terms and conditions, to each person, if any, who controls G-V within the meaning of the Securities Act or any officer, director, stockholder or partner or any authorized agent of G-V (including, without limitation, G-V's legal counsel); and the obligations of G-V under this Section 5 shall be in addition to any liability that G-V may otherwise have, and shall extend, upon the same terms and conditions, to each officer and director of the Company.

(c) Promptly after receipt by any indemnified party under subsection (a) or (b) above of notice of any claim or the commencement of any action, the indemnified party shall notify the Company in writing of the claim or the commencement of that action; provided, however, that the failure to so notify the Company shall not relieve it from any liability which it may have under this Section 5 except to the extent it has been prejudiced in any material respect by such failure or from any liability which it may have to an indemnified party otherwise than under this Section 5. If any such claim or action shall be brought against any indemnified party, and such indemnified party, and such indemnified party shall notify the Company thereof, the Company shall be entitled to participate therein and, to the extent that it wishes to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. After notice from the Company to the indemnified party of

its election to assume the defense of such claim or action, the Company shall not be liable to the indemnified party under this Section 5 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; except that G-V shall have the right to employ counsel to represent it and other indemnified party in connection with the defense thereof other than reasonable costs of investigation; except that G-V shall have the right to employ counsel to represent it and other indemnified parties who may be subject to liability arising out of any claim in respect of which indemnity may be sought by them against the Company under this Section 5 if, in G-V's reasonable judgment, it is advisable for them to be represented by separate counsel, and in that event the reasonable fees and expenses of such separate counsel shall be paid by the Company.

6. Breaches and Remedies. In the event that the Company, its officers or directors breach any of the covenants or agreements contained in this Agreement, and G-V shall prevail in an action to enforce this Agreement, whether by specific performance or for damages relating to such breach or otherwise, then the Company hereby agrees that it shall be responsible for the payment or reimbursement of all reasonable legal fees and disbursements of counsel in connection with the investigation, prosecution and litigation relating to the enforcement of any provisions of this Agreement, and all other related expenses of G-V in connection therewith.



7. Survival of Certain Provisions. The agreements contained in Sections 1,4, 5 and 6 hereof, and the representations, warranties and agreements of the Company contained in Section 3 hereof, shall survive the sale of Shares to investors in the Offering and the closing of escrow hereunder and shall remain in full force and effect, regardless of any investigation made by or on behalf of any indemnified party.

8. Notices. Except as otherwise provided in this Agreement, all statements, requests, notices and agreements hereunder shall be in writing, and (a) if to the Company, shall be delivered or sent by mail, telex or facsimile transmission to 7335 South Lewis Avenue, Tulsa, Oklahoma 74136, Attn: Frederick E. Roll; and (b) if to G-V, shall be delivered or sent by mail, telex or facsimile transmission to 150 Vanderbilt Motor Parkway, Suite 311, Hauppague, New York 11788, Attention: Lawrence Kaplan.

9. Parties. This Agreement shall inure to the benefit of and be binding upon the Company and G-V and their respective successors and assigns. This Agreement and the terms and provisions hereof are for the sole benefit of only those persons, except as set forth in Section 5(b). Nothing in this Agreement shall be construed to give any person, other than the persons referred to in

Section 5(b), any legal or equitable right, remedy or claim under or in respect of this Agreement, shall not include any purchaser of Shares in the Offering merely by reason of such purchase; provided, however, that purchasers of Shares in the Offering shall benefit from the terms of Section 3(cc) and shall have the right to enforce such terms against the Company.

10. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

11. Counterparts. This Agreement may be signed in one or more counterparts, each of which shall constitute an original and all of which together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement of the date first set forth above.

MULTIMEDIA GAMES, INC..

By: ----------

Its: ----------

G-V CAPITAL CORP.

By: ----------

Its: ----------

Exhibit 11.1

# Earnings Per Share Statement

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<CAPTION>

| | Primary & Fully Diluted |
|---|---|
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| Net income | $ 40,000 |
| Preferred dividends | (149,000) |
| Net (loss) attributable to common shareholders | $ (109,000) |
| Weighted average shares outstanding | 2,460,258 |
| Dilutive effect of common stock equivalents | -- |
| Contingent share issuances | 412,000 |
| Total weighted shares outstanding | 2,872,258 |
| Earnings (loss) per share | $ (.04) |

</TABLE>

EXHIBIT 21.1

# SUBSIDIARIES OF REGISTRANT

TV Games, Inc., a Delaware corporation

MegaBingo, Inc., a Delaware corporation

Multimedia Creative Services, Inc., a Delaware corporation

EXHIBIT 23.1

Consent of Coopers & Lybrand

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of Multimedia Games, Inc., on Form S-3 (File No. 333-16729) of our report dated December 18, 1996, on our audits of the consolidated financial statements of Multimedia Games, Inc. and Subsidiaries as of September 30, 1996 and for each of the two years in the period ended September 30, 1996, which report is included in this Annual Report on Form 10-KSB.

COOPERS & LYBRAND L.L.P.

Tulsa, Oklahoma
December 18, 1996

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS INCLUDED IN THIS ANNUAL REPORT ON FORM 10-KSB AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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